# LIBOR Transition Playbook

## Collateralized Mortgage Obligations (CMO)

**October 2021**

## Changes Summary

The table below details the list of changes since the April 2021 version of the playbook published on the Fannie Mae and Freddie Mac websites.

| Section | Summary of changes |
| --- | --- |
| 4. Collateralized Mortgage Obligations ("CMOs") | ▪ 4.2 Overview: Updated information related to Term SOFR; added language about the determination of the administrative feasibility of Term SOFR<br>▪ 4.7 Approach for transition legacy CMOs: Added language about the determination of the administrative feasibility of Term SOFR |

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# 4. Collateralized Mortgage Obligations (“CMOs”)

## 4.1 Introduction

The ARRC endorsed SOFR as its recommended alternative rate to LIBOR in anticipation of the potential cessation of LIBOR.

To prepare for a potential cessation of LIBOR, the GSEs adopted a slightly modified version of the ARRC securitization waterfall for new-issue LIBOR-indexed CMOs. This waterfall language generally provides for the use of Term SOFR as the first alternative rate. If Term SOFR is not available, the next alternative rate is 30-day Average SOFR.

The GSEs started offering SOFR-indexed CMOs for settlement in July 2020. Additionally, under the guidance of FHFA, Freddie Mac and Fannie Mae ceased offering new LIBOR-indexed CMOs for issuance. This cessation does not apply to (i) RCR/MACR exchanges, or (ii) resecuritizations of previously issued LIBOR-indexed certificates (whether CMO or ARM certificates) as long as such resecuritizations do not increase the exposure of LIBOR-indexed certificates

## 4.2 Overview

The GSEs have structured new-issue Delay and Non-Delay SOFR-indexed CMOs so that they:

- Initially use 30-day Average SOFR published by the NY Fed as the reference rate, with a Determination Date of 2 Business Days (2BD) prior to the beginning of the accrual period for 45-day, 55-day, and 75-day Delay and Non-Delay securities (same as current LIBOR-indexed CMOs)
    - If the appropriate regulatory authority (for this purpose, “appropriate regulatory authority” generally refers to the Federal Reserve, the NY Fed or applicable official committee (e.g., the ARRC)) approves such a rate, endorses a one-month Term SOFR rate for this type of product and if Term SOFR is administratively and operationally feasible, the index will subsequently transition to using an IOSCO compliant one-month Term SOFR
    - Any such transition would make use of the same Determination Date conventions mentioned for 30-day Average SOFR above
    - Any such transition could occur prior to the time LIBOR ceases or is declared to be non-representative
- Utilize at-issuance disclosure and operative documents that provide that the CMO securities accrue interest in accordance with the bullets above

In determining administrative feasibility of Term SOFR, the GSEs will take into account, among other things, technical and operational issues as well as any regulatory requirements, directives or pronouncements affecting their actions. It is possible that Term SOFR will be determined not to be administratively feasible even if it becomes technically or operationally available in the future. Furthermore, the ARRC recently published benchmark replacement recommendations under which compounded, rather than Term, SOFR is recommended for most securitization transactions. These and future ARRC recommendations, in conjunction with other future events or regulatory requirements, directives or pronouncements, could lead to a determination that Term SOFR is not administratively feasible.

## 4.3 Eligible collateral

For new-issue SOFR-indexed CMOs, the GSEs will accept all collateral that is currently acceptable for LIBOR-indexed structures at each respective entity. For more information on how collateral may be affected by the transition, refer to "Securitization of SOFR ARMs" in section 2.4 Preparation for SF SOFR ARMs.

## 4.4 Issuance

### ❖ Delay and Non-Delay (30-day Average SOFR)

The Determination Date for 45-day, 55-day, and 75-day Delay and Non-Delay securities based on 30-day Average SOFR is 2BD prior to the beginning of the accrual period. This is the same as the practice that was used for LIBOR-indexed securities.

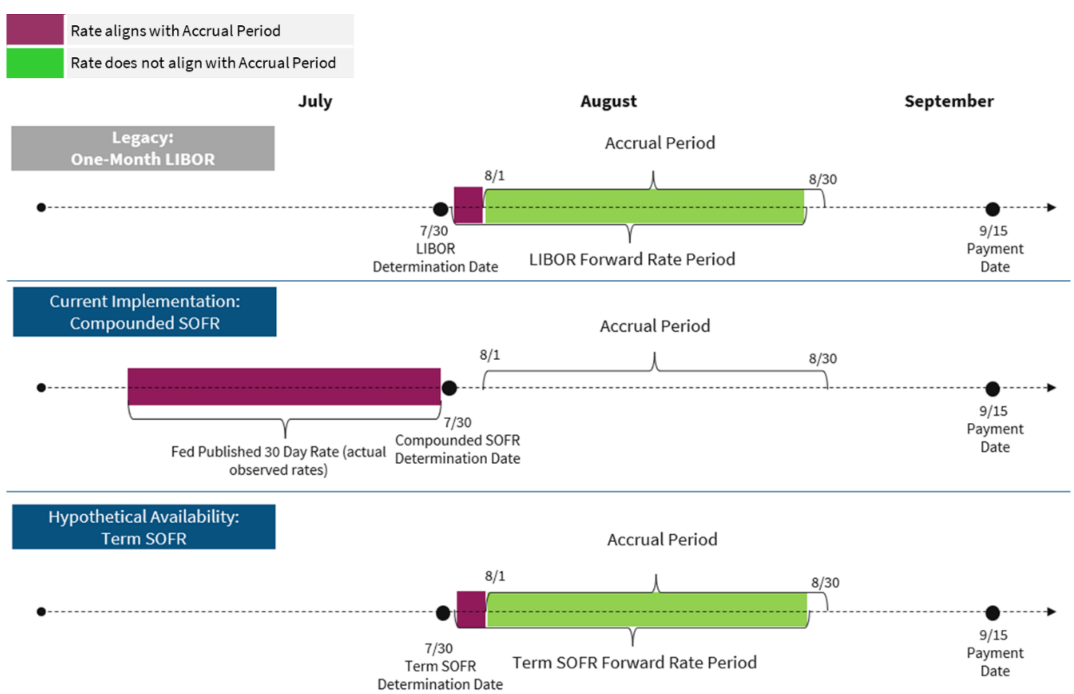
If the GSEs transition the Delay and Non-Delay securities from 30-day Average SOFR to Term SOFR, there will be no change to the Determination Date. The Determination Date will continue to be 2BD prior to the beginning of the accrual period.

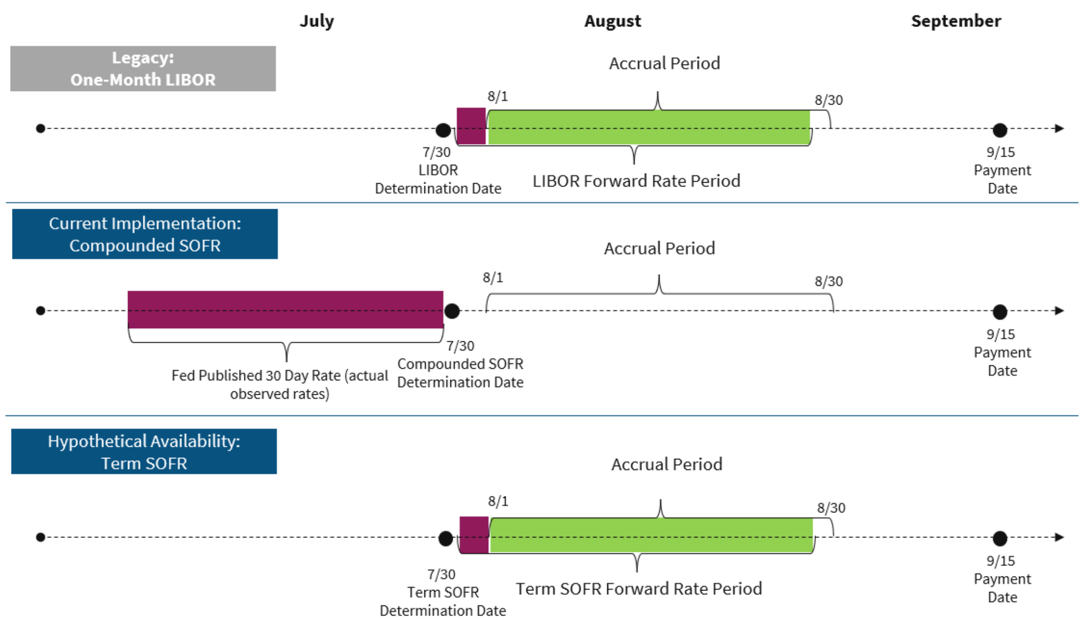
## 4.5 Administration

### ❖ Key updates for 45-day, 55-day and 75-day Delay CMOs

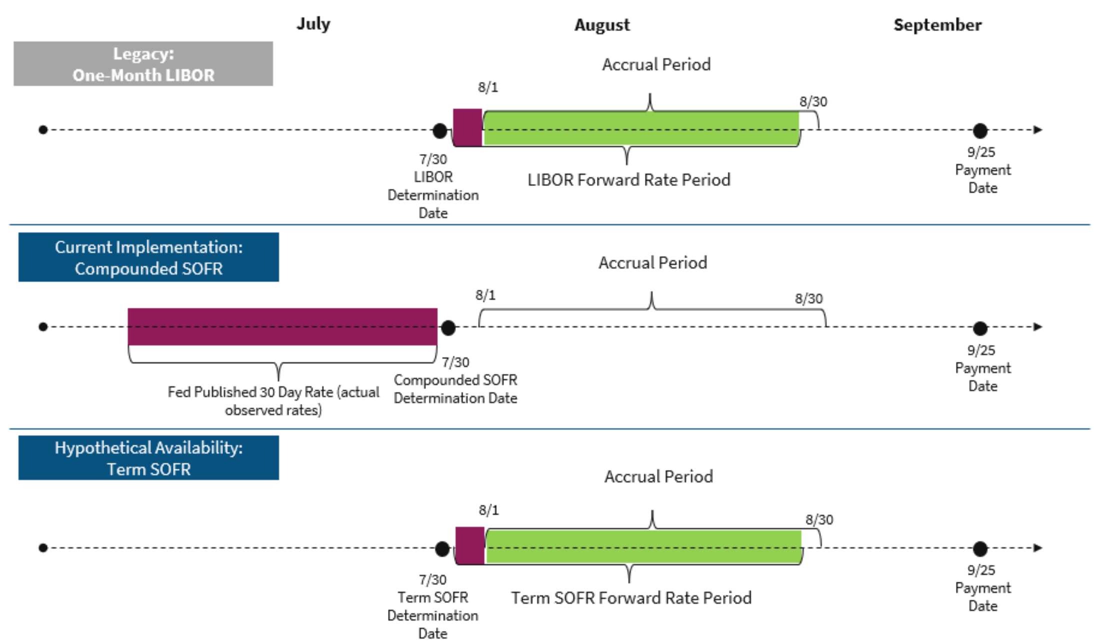
For 45-day, 55-day and 75-day Delay CMOs based on 30-day Average SOFR (or "Compounded SOFR" per the subsequent timelines), the Determination Date will be 2BD prior to the beginning of the accrual period. This is the same as for LIBOR-indexed CMOs, which also have a Determination Date of 2BD prior to the accrual period (prior month). The graphics on the subsequent pages display the timing.

*Figure 4-1: 45-day Delay CMOs*

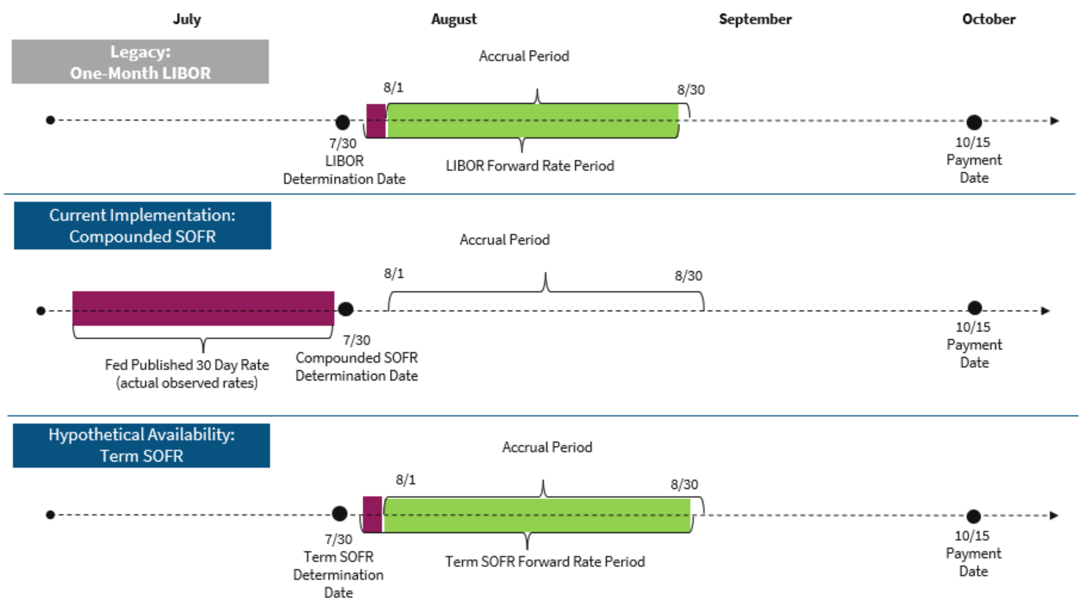





## *Figure 4-2: 55-day Delay CMOs*




## *Figure 4-3: 75-day Delay CMOs*




### ❖ Key updates for 45-day, 55-day and 75-day Non-Delay CMOs

For 45-day, 55-day and 75-day Non-Delay CMOs based on 30-day Average SOFR, the Determination Date will be 2BD prior to the beginning of the accrual period. This is the same as for LIBOR-indexed CMOs, which have a Determination Date of 2BD prior to their respective accrual periods (the 13th for 45-day, or the 23rd for 55-day) of the month preceding payment, or the 13th (75-day) of the second month preceding payment. The graphics on the subsequent pages display the timing.

*Figure 4-4: 45-day Non-Delay CMOs*

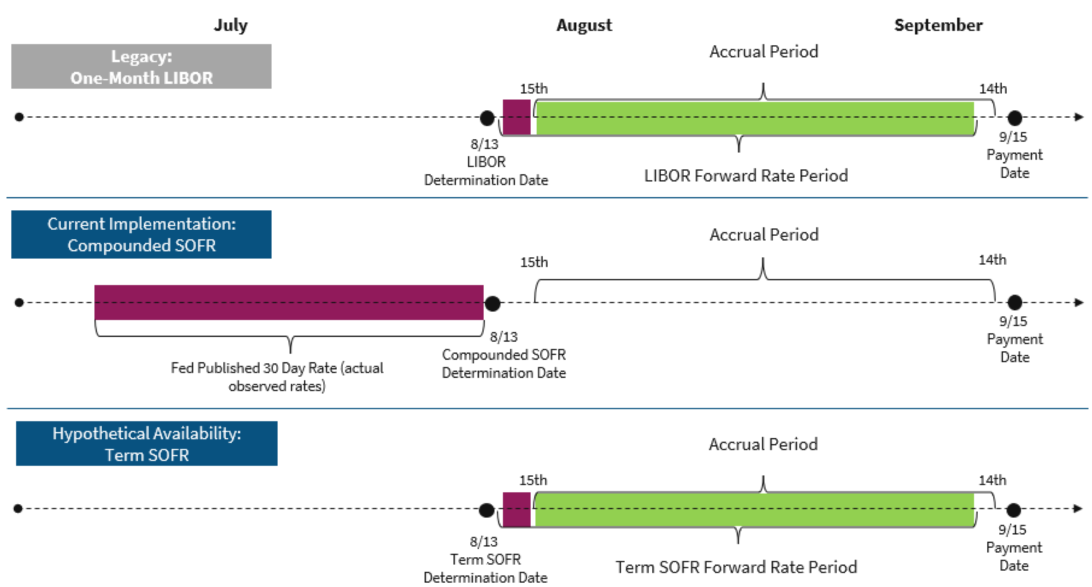



*Figure 4-5: 55-day Non-Delay CMOs*

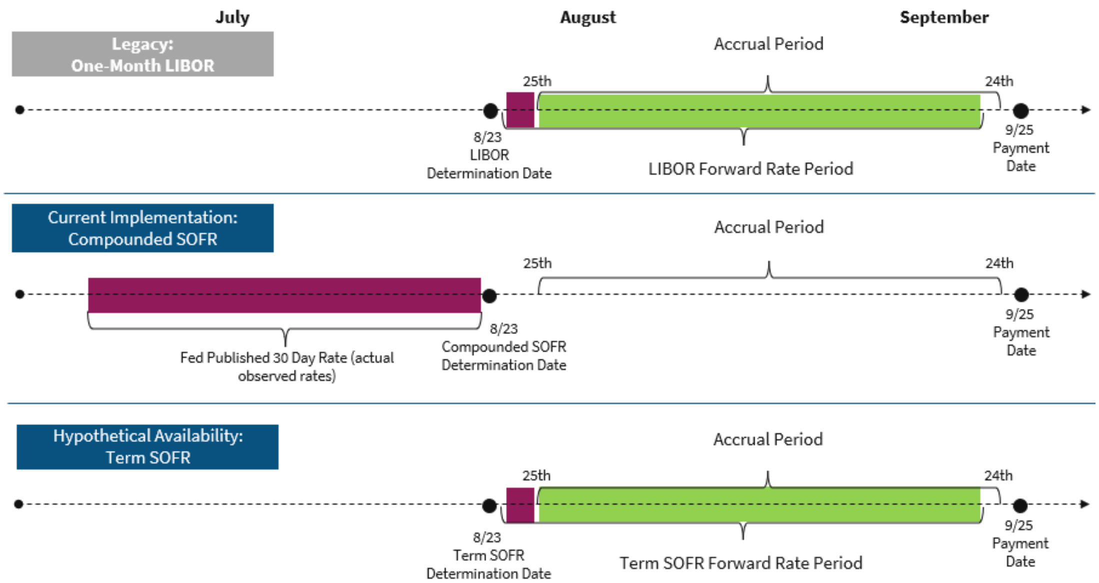
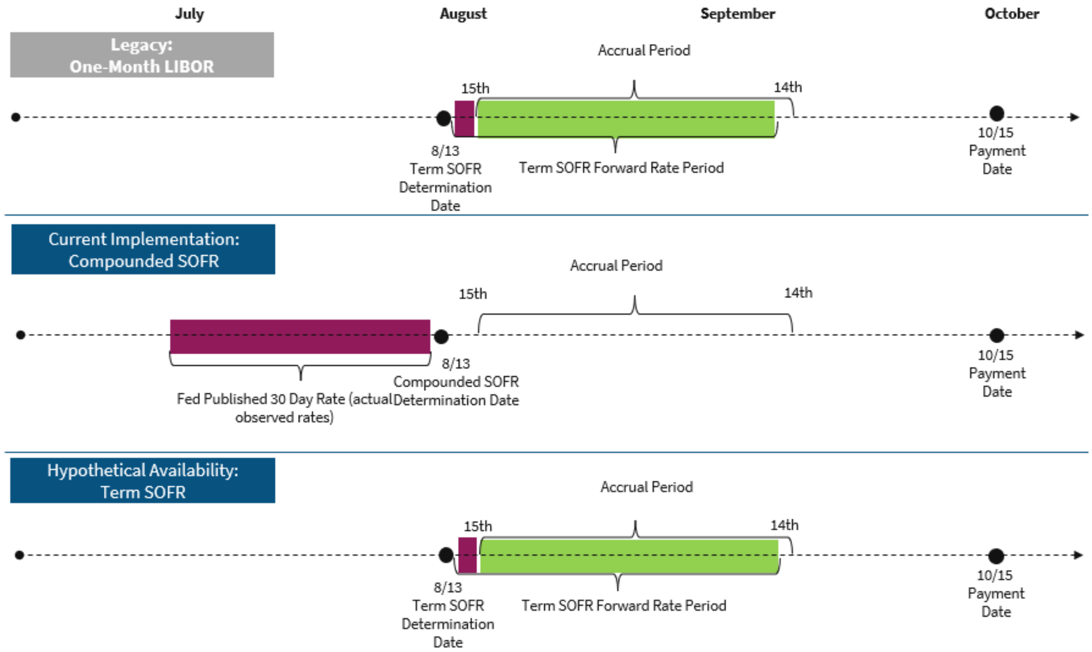

July
August
September
Legacy:
One-Month LIBOR
Accrual Period
25th
24th
8/23
LIBOR
Determination Date
LIBOR Forward Rate Period
9/25
Payment
Date
Current Implementation:
Compounded SOFR
Accrual Period
25th
24th
Fed Published 30 Day Rate (actual observed rates)
8/23
Compounded SOFR
Determination Date
9/25
Payment
Date
Hypothetical Availability:
Term SOFR
Accrual Period
25th
24th
8/23
Term SOFR
Determination Date
Term SOFR Forward Rate Period
9/25
Payment
Date

*Figure 4-6: 75-day Non-Delay CMOs*




## 4.6 Disclosure changes

### ❖ Key updates

Index rate disclosure files now contain a new column titled "Current Month Payment Indicator" which contains a "Y" if the rate applies to the current month's payment factor calculation and an "N" if it does not.

CSS will publish index rate files on BD1 (for all Delay securities), on the 15th of the month minus two business days (for Non-Delay 45-day and 75-day securities), and the 25th of the month minus two business days (for Non-Delay 55-day securities) at 6:30 p.m. ET; the previous schedule had the posting of files at 4:30 p.m. ET for Freddie Mac.

### ❖ Actions to consider

Discuss changes to disclosures with your disclosure vendor to ensure that your system can correctly apply the new "Current Month Payment Indicator" value.

## 4.7 Approach for transitioning legacy CMOs

The GSEs are continuing to work on defining the timing and strategy for transitioning legacy LIBOR-based CMOs to an ARR. The GSEs are coordinating closely with FHFA on this important matter. The Enterprises each announced that they intend for certain of their respective legacy LIBOR-indexed CMOs that were supplemented with ARRC-recommended fallback language to be treated the same as their new-issue LIBOR-indexed CMOs in the event LIBOR ceases to be published or is declared to no longer be representative, in that the legacy LIBOR-indexed CMOs that were supplemented would transition to Term SOFR (if approved by the appropriate regulatory authority, if such rate is operationally, administratively and technically feasible as determined by, and at the discretion of, the GSEs, and if the ARRC recommends that the use of such rate is appropriate for securities such as CMOs) or, if such conditions are not met, to 30-day Average SOFR. If legacy LIBOR-indexed CMOs transition to 30-day Average SOFR and Term SOFR becomes available in the future, subject to operational, administrative and technical feasibility as determined by the GSEs in their discretion, SOFR-indexed CMOs accruing interest based on 30-day Average SOFR will transition to accruing interest based on Term SOFR. For more information, see the announcements made by Fannie Mae and Freddie Mac.

# 9. Summary of Prior Changes

| Section | Summary of changes |
|---|---|
| **June 2020** | |
| 4. Collateralized Mortgage Obligations ("CMOs") | Updated the date of the first SOFR-indexed CMO issuance from June 2020 to July 2020<br>Changed the "Determination Date" to 2 Business Days (2BD) prior to the beginning of the accrual period<br>Updated graphics to reflect a Determination Date of 2 BD prior to the beginning of the accrual period for 45-day, 55-day and 75-day delay and Non-Delay Compounded SOFR-indexed securities (per investor deck) |
| **August 2020** | |
| 4. CMOs | Updated language to reflect that Fannie Mae and Freddie Mac are now issuing SOFR-indexed CMOs |
| **September 2020** | |
| 4. CMOs | Updated to indicate that the cessation will not apply to RCR/MACR exchange or resecuritizations of previously issued Libor-indexed certificates (whether CMO or ARM certificates) as long as such resecuritizations do not increase the exposure of Libor-indexed certificates |
| **October 2020** | |
| 4. CMOs | Updated language to indicate that Freddie Mac and Fannie Mae have ceased offering new LIBOR-indexed CMOs for issuance<br>Updated the graphs in the administration section to indicate that LIBOR is no longer the current state and Compounded SOFR is no longer a hypothetical implementation |
| 4.7 Approach for transitioning legacy CMOs | Updated language to reflect next steps for legacy LIBOR-indexed CMOs |
| **November 2020** | |
| 4. CMOs | Added language on SOFR-indexed CMOs, transitioning from 30-day Average SOFR to Term SOFR, when Term SOFR becomes available |