LIBOR Transition FAQs

Under the guidance of FHFA, Fannie Mae and Freddie Mac are providing jointly prepared answers to frequently asked questions related to the GSEs' respective transitions away from LIBOR-indexed products to SOFR-indexed products. The Enterprise section answers high-level questions applicable to all products followed by Q&A sections specific to Single-Family adjustable-rate mortgages and PCs/MBS, Credit Risk Transfer transactions, Multifamily adjustable-rate mortgages and securities and Collateralized Mortgage Obligations.*

Please be aware that the federal Adjustable Interest Rate (LIBOR) Act became law on March 15, 2022. The LIBOR Act requires the Board of Governors of the Federal Reserve System (Federal Reserve Board) to publish regulations identifying a Board-selected benchmark replacement based on SOFR. The timing and content of the regulations published by the Federal Reserve Board may have a significant impact on any and all steps that the GSEs may take in connection with the transition from LIBOR-indexed products to SOFR-indexed products. The answers provided by Fannie Mae and Freddie Mac in this document may not reflect potential impacts of the LIBOR Act or the forthcoming implementing regulations of the Federal Reserve Board.

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Summary of Changes

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

Section	Summary of change
June 2022	
Enterprise	Added a Disclaimer below the Contents section. Q2. Updated to reflect that 1-week and 2-month USD LIBOR ceased being published after December 31, 2021. Q3, Q4, Q5 (from prior publication). Deleted since they were outdated. Q10. Updated to reflect that Fannie Mae issued its first SOFR-based Single-Family CRT in October 2021. Updated to incorporate information from the resecuritization announcement on May 12, 2022. Q11. Updated to incorporate Adjustable Interest Rate (LIBOR) Act update. Q12. Question added to explain impact of Adjustable Interest Rate (LIBOR) Act and Consolidated Appropriations Act on the GSEs. Q17. Question added regarding spread adjustment decision for consumer cash products and derivatives.
Single Family ARMs	Q15 (from prior publication). Deleted, as the question is now outdated. Q19. Updated to incorporate Adjustable Interest Rate (LIBOR) Act update. Q20: Question added to reference Servicer Note Review
Single-Family CRT	Q2. Updated to reflect that Fannie Mae moved its SF CRT program to SOFR-based issuance in October 2021. Q3. Updated to incorporate that the GSEs will have to determine the administrative feasibility of Term SOFR. Q5. Updated to reflect that Fannie Mae moved its SF CRT program to SOFR-based issuance in October 2021.
Collateral Mortgage Obligations (CMOs)	Q1. Updated to incorporate information from the resecuritization announcement on May 12, 2022.
Fannie Mae Multifamily ARMs	No significant changes.
Fannie Mae Multifamily CRT	No significant changes.
Freddie Mac Multifamily	Q14 (from prior publication). Deleted, as the question is now outdated.

Floating Rate Loans & Securities	
Freddie Mac Multifamily Credit Risk Transfer	No significant changes.

Enterprise

Q1. Why is there a need for an alternative to LIBOR?

LIBOR is an average rate derived from global banks submitting estimates of what it would cost them to secure funding on an unsecured basis for a number of tenors (periods) ranging from overnight to one year. Over the past decade, inter-bank lending has shifted from unsecured to secured lending and the activities that underpin LIBOR have declined significantly. That has reduced LIBOR's robustness and representativeness and made LIBOR a less reliable indicator of economic activity.

In 2017, Andrew Bailey, the Chief Executive of the United Kingdom's Financial Conduct Authority (FCA), stated that the FCA would no longer require banks to submit quoted rates for the calculation of LIBOR after December 31, 2021. The continued existence of LIBOR has depended on banks voluntarily choosing to submit such information. see Qs 2 and 3 below for further details on when LIBOR is expected to cease).

While the precise volume of transactions in markets underlying the calculation of LIBOR is unknown, as of 2019, estimates showed that on a typical day, the volume of three-month wholesale funding transactions by major global banks was only about $500 million.

LIBOR has served as the principal reference rate for a wide variety of financial products, and has been tied to USD $200 trillion of financial transactions in the U.S. and USD $300 trillion worldwide. Cessation of LIBOR without an alternative reference rate would leave the market without an underlying rate. Given the large number of transactions and dollar volumes that are underpinned by LIBOR, this would cause significant market disruption.

Q2. When is LIBOR going away?

1-week and 2-month USD LIBOR ceased being published after December 31, 2021. All other USD LIBOR tenors either will cease to be published or will be deemed no longer representative after June 30, 2023 (per the FCA).

The FCA does not expect that any USD LIBOR setting will become unrepresentative before June 30, 2023. The spread adjustments for USD LIBOR fallback rates for derivatives and non-consumer cash products were set as of March 5, 2021.

Nonetheless, on October 20, 2021, U.S. regulators including the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency issued a statement that urged market participants to "transition away from U.S. dollar (USD) LIBOR as soon as practicable and in any event by December 31, 2021."

Q3. What is SOFR?

The Secured Overnight Financing Rate (SOFR), is based on actual transactions in the U.S. Treasury repurchase (repo) market, one of the largest markets in the world. This is the market where borrowers can sell their U.S. Treasury bond assets to investors with a promise to repurchase them the following day, thus effectively creating an overnight loan where the collateral is U.S. Treasury bond assets.

SOFR is the preferred alternate reference rate for USD-denominated LIBOR contracts, as selected by the Alternative Reference Rates Committee (ARRC) (see Q.6 below for a description of the ARRC), because SOFR is based on actual transactions in a market where extensive trading happens every day. In contrast, LIBOR is based on estimates of interbank borrowing rates in the London market provided by global banks that agree to serve as LIBOR panel banks.

The Federal Reserve Bank of New York (New York Fed) began publishing SOFR in April 2018 as part of an effort to replace LIBOR. SOFR complies with the governance standards of the International Organization of Securities Commissions (IOSCO).

For information on SOFR and how the SOFR daily benchmark rate is determined and published by the New York Fed click here.

Q4. How is SOFR different than LIBOR?

The transaction volumes underlying SOFR are far larger than the transactions in any other U.S. money market and significantly exceed the volumes underlying LIBOR. SOFR is a representation of general funding conditions in the overnight U.S. Treasury repo market. As such, SOFR reflects the economic cost of lending and borrowing relevant to the wide array of market participants active in the U.S. Treasury repo market.

The ARRC believes that SOFR is the most appropriate reference rate for wide-spread and long-term adoption because, among other reasons, it:

- Is IOSCO compliant;
- Is fully transaction-based;
- Encompasses a robust underlying repo market with more than $1 trillion in daily transactions;
- Is an overnight, nearly risk-free reference rate that correlates closely with other money market rates; and
- Covers multiple repo market segments allowing for future market evolution.

Q5. Where is SOFR published?

The New York Fed, as administrator of SOFR and in cooperation with the Treasury Department's Office of Financial Research publishes the 30-, 90-, and 180-day SOFR compound averages ("30-day Average SOFR", "90-day Average SOFR", "180-day Average SOFR") as well as an overnight SOFR index. These indices are available here.

Potential users of the SOFR Averages and Index can subscribe here to receive alerts and updates from the New York Fed.

Q6. What is the ARRC?

The ARRC is a group of private-market participants convened by the Federal Reserve Board and the New York Fed to help ensure a successful transition from USD LIBOR to a more robust reference rate, its recommended alternative, SOFR. The ARRC is comprised of a diverse set of private-sector entities, including trade associations, each with an important presence in markets affected by USD LIBOR, and a wide array of official-sector entities, including banking and financial sector regulators, as non-voting ex-officio members. Both Fannie Mae and Freddie Mac are members of the ARRC and participate in many of its working groups. FHFA, the conservator and regulator of Fannie Mae and Freddie Mac, is a non-voting ex-officio member of the ARRC.

For more information on the ARRC, visit their website here.

Q7. How are the GSEs preparing for the LIBOR transition internally?

Both GSEs have program offices focused solely on the LIBOR transition that coordinate across all products, business areas and functions within the Enterprises as well as with customers and vendors. There are also individual workstreams responsible for implementing LIBOR transition across the various products.

The GSEs are also both members of the ARRC and participate in many of its working groups.

Q8. What GSE products are affected?

Any floating-rate product currently referencing LIBOR is affected, including: Single-Family ARMs and PCs/MBS, Multifamily ARMs and Securities, Single-Family CAS (for Fannie Mae) and Single-Family STACR (for Freddie Mac), Multifamily CRT (for Fannie Mae), Collateralized Mortgage Obligations (CMOs), early funding, Structured Transactions, floating-rate debt and derivatives. We are evaluating each product independently and are making decisions that are appropriate for that product to enable the transition from LIBOR.

Q9. What is a legacy LIBOR product?

Legacy LIBOR products are any outstanding adjustable rate mortgages and adjustable rate products that currently reference LIBOR, but do not include ARRC-recommended fallback language. These mortgages, transactions, securities, etc. will also be transitioned to a new index in response to the cessation of LIBOR.

Q10. Have the GSEs selected SOFR as the replacement index for *new* floating rate products?

We support the ARRC's recommendation to replace LIBOR with a new index based on SOFR and have already issued several new floating rate products indexed to SOFR. Please see the Fannie Mae and Freddie Mac LIBOR Transition websites for all announcements that have been made, including additional details on each product's launch. Please see below for a summary of the GSEs' existing and future plans regarding SOFR-indexed products.

- Corporate debt securities:
  - Both GSEs have issued SOFR-linked debt offerings.
  - Fannie Mae issued the market's first ever SOFR debt issuance in July 2018. Freddie Mac has issued corporate SOFR debt since November 2018.
- Single-Family and Multifamily Adjustable-Rate Mortgages (ARMs):
  - Fannie Mae issued the market's first-ever Single-Family and Multifamily MBS backed by SOFR ARMs, with trade dates on October 23rd and September 10th in 2020, respectively. Fannie Mae began accepting deliveries of Single-Family ARM loans indexed to SOFR beginning August 3, 2020. Fannie Mae began pricing Multifamily SOFR ARM products on September 1, 2020 and began accepting delivery of Multifamily SOFR ARMs on October 1, 2020.
  - Freddie Mac began accepting deliveries of Single-Family ARM loans indexed to SOFR as of November 9, 2020 under the cash and securitization executions.
  - Freddie Mac began issuing quotes for Multifamily SOFR-indexed floating rate loans to all of its Optigo Lenders on September 1, 2020 and purchased its first SOFR indexed-loan at the end of September 2020.
  - The GSEs no longer purchase Single-Family or Multifamily ARMs indexed to LIBOR as of December 31, 2020.
  - The GSEs will cease, effective June 30, 2022, resecuritizing existing LIBOR-indexed

MBSs/PCs and Megas/Giants.

- Single-Family and Multifamily Credit Risk Transfer (CRT):
  - Fannie Mae issued its first SOFR-based Single-Family CRT in October 2021; Fannie Mae is operationally ready and plans to issue its first SOFR-indexed Multifamily CRT in the third quarter of 2022, or later, depending on market and/or business needs.
  - Freddie Mac issued the first SOFR-based STACR in October 2020 and ceased issuing LIBOR-based STACR at the same time. Freddie Mac issued the first Multifamily SOFR-based MF CRT, MSCR 2021-MN1, on January 26, 2021.
  - Fannie Mae ceased issuing LIBOR-indexed Single-Family and Multifamily CRT products as of the end of the fourth quarter of 2020. Freddie Mac does not intend to issue any LIBOR-indexed Multifamily CRT products.
- Collateralized Mortgage Obligations (CMOs) (i.e., REMICs and Strips):
  - The GSEs began offering SOFR-indexed CMOs beginning in July 2020.
  - The GSEs have ceased issuing new LIBOR-indexed CMOs.
  - The GSEs will cease, effective June 30, 2022, resecuritizing existing LIBOR-indexed CMOs.
- Freddie Mac Multifamily K-Deals
  - As of December 2020, Freddie Mac began issuing Multifamily K-Deals with SOFR-indexed bonds collateralized by SOFR-based loans.

Q11. Have the GSEs chosen SOFR as the replacement index for *legacy* LIBOR products?

The recently-enacted Adjustable Interest Rate (LIBOR) Act provides that a default alternative benchmark selected by the Federal Reserve Board based on SOFR will apply for any contract that does not contain a fallback provision for LIBOR and provides a safe harbor from liability if a contract authorizes a determining person to select an alternative benchmark and that person selects the Federal Reserve Board's default alternative benchmark. The LIBOR Act also requires that the Federal Reserve Board promulgate rules that specify any conforming changes that should be made to effectuate the change from LIBOR to the Federal Reserve Board-selected benchmark replacement.

We have not yet determined the replacement index for any legacy products in anticipation of LIBOR cessation on June 30, 2023. Addressing what happens to legacy products is one of the largest remaining issues for market participants. The GSEs will continue to follow any applicable regulatory guidance or requirements, particularly from the Federal Reserve Board regarding implementation of the LIBOR Act, the Consumer Finance Protection Bureau (CFPB), and FHFA. The GSEs will seek fair outcomes in an effort to minimize the potential economic impact on both borrowers and investors to the fairest extent possible.

We will continue to work with the ARRC, FHFA, and other industry partners on the transition of legacy LIBOR products and will communicate details pertaining to legacy LIBOR products in advance to facilitate any legacy product transition.

Q12. What does the Federal LIBOR legislation signed into law in March 2022 mean for the GSEs?

The recently-enacted Adjustable Interest Rate (LIBOR) Act requires the Federal Reserve Board to publish regulations identifying a Board-selected benchmark replacement based on SOFR. The LIBOR Act and the Board's implementing regulations will establish a clear and uniform process, on a nationwide basis, for replacing LIBOR in existing contracts the terms of which do not provide for the use of a clearly defined or practicable replacement benchmark rate or which authorize a determining person to select a benchmark and that person selects the Federal Reserve Board-selected benchmark replacement. Under the LIBOR Act, the Federal Reserve Board-selected replacement benchmark for consumer loans will incorporate the spread adjustment gradually over a one-year period. This phased-in transition is meant to avoid abrupt changes in interest rates for consumers.

The Adjustable Interest Rate (LIBOR) Act is found in Division U of the Consolidated Appropriations Act, 2022 (see pp 777-786).

Q13. What is term SOFR?

Term SOFR is a forward-looking rate derived from swaps and futures transactions in commodity markets where speculators and hedgers buy and sell contracts based on their forward-looking expectations of future interest rate movements based on various terms or tenors (*i.e.*, 1-month, 3-month, 6-month or 12-month).

Q14. Are the GSEs planning to continue the use of SOFR averages in their contracts or possibly move to SOFR term rates?

The Alternative Reference Rate Committee (ARRC) published in August 2021 its recommended best practices for the use of term SOFR in contracts, including the ARRC's recommendation for continued use of overnight SOFR and SOFR averages in markets where there has been successful adoption of those rates, such as floating rate notes, adjustable-rate mortgages, and most securitizations. Our SOFR products, all based on SOFR averages, have been well received by the market and we will continue to use the more robust SOFR averages in line with the ARRC's recommendations for these products. For those products that allow a move to term SOFR, we expect to remain consistent with ARRC recommendations and any other applicable regulations or guidance. We will continue to evaluate the operational feasibility of a potential move to term SOFR for those products and we will provide further guidance if a move is warranted.

Q15. **What is fallback language?**

Fallback language provides for the selection of a replacement index if certain events occur with respect to the currently utilized index. The ARRC's recommended fallback language is meant to provide greater clarity to parties involved in financial transactions on when and how a replacement index will be chosen.

Q16. What are the GSEs doing regarding fallback language?

In many cases, the legal documents specify that the respective GSE choose a comparable alternative rate should the prevailing reference rate cease to exist. We understand that even with such language, the choice of an alternative reference rate is a complex topic.

The ARRC has recommended and each GSE has implemented new fallback language to provide enhanced clarity regarding the circumstances when a reference rate will be changed, and the replacement rate and spread adjustment that will be applied to that replacement rate to minimize the expected value transfer when moving to the new rate. The ARRC recommended fallback language is intended to provide greater clarity concerning when and how a replacement index for newly originated instruments will be chosen in the event the current index is no longer available or representative.

- **Single-Family ARMs:**
  - In November 2019, the GSEs announced their support for using the ARRC's recommended Fallback Language for all Single-Family ARM security instruments. (Fannie Mae Announcement) (Freddie Mac Announcement).
  - On February 5, 2020, the GSEs incorporated the ARRC's fallback language in all existing

standard ARM notes and riders (for LIBOR and CMT), which Sellers must use for ARMs with note dates of June 1, 2020 or later. (Fannie Mae Lender Letter LL-2020-01) (Freddie Mac Bulletin 2020-1):

- **Credit Risk Transfer:** The GSEs adopted ARRC recommended fallback language in their CRT deals beginning with Fannie Mae's CAS 2020-SBT1 and Freddie Mac's CRT deals beginning with STACR 2020-HQA2, both issued in March 2020.
- **Collateralized Mortgage Obligations:** Fannie Mae and Freddie Mac included a slightly modified version of the ARRC fallback language for all new CMOs beginning in June 2019 and October 2019, respectively. Their waterfall language provides for the use of Term SOFR as the first alternative index, but if Term SOFR is determined by the applicable GSE in its sole judgment to be not administratively feasible, or is not endorsed by the ARRC, the next alternative index is Compounded SOFR.
  - On 5/28/2020, the GSEs posted supplement/amendments to the governing legal documents of certain of their legacy LIBOR-indexed CMOs with new provisions modelled on language endorsed by the ARRC (Fannie Mae's supplement posting) (Freddie Mac's amendment postings).

Q17. Has a spread adjustment been decided for consumer cash products or derivatives?

On March 17, 2021, the ARRC announced that it selected Refinitiv to publish its recommended spread-adjusted SOFR-based rates for consumer cash products that transition away from USD LIBOR.

ISDA specified that the fallback to the adjusted risk-free rate plus spread will occur for derivatives contracts after June 30, 2023 for outstanding derivatives referenced to all USD LIBOR settings.

Under the Adjustable Interest Rate (LIBOR) Act, Congress specified spread adjustments to be applied to adjust the Federal Reserve Board's selected benchmark replacement. Additional information will become available when the Federal Reserve Board publishes its final regulations under the Adjustable Interest Rate (LIBOR) Act.

Single-Family Adjustable-Rate Mortgages (ARMs)

Q1. Is there an impact to Uniform Mortgage-Backed Securities (UMBS)?

No. UMBS are backed only by fixed-rate loans.

Q2. Can lenders still sell LIBOR-indexed Single-Family ARMs to the GSEs?

No. Effective January 1, 2021, the GSEs no longer purchase LIBOR ARMs.

Q3. What are the Single-Family SOFR ARM subtypes and prefixes?

The Single-Family SOFR ARM prefixes were communicated in Fannie Mae Lender Letter LL-2020-01[2] and Freddie Mac Bulletin 2020-9. In addition, the Fannie Mae Prefix Glossary, the Fannie Mae ARM MBS Subtypes, and the Freddie Mac Prefix Library (for Freddie Mac 75-day prefixes) have been updated. Please see the subtypes and prefixes on p.19 of the SF Chapter in the Enterprise LIBOR Transition Playbook (Playbook)

Q4. What SOFR rate is being used and where is the rate available for Single-Family SOFR-indexed ARMs?

The GSEs currently are using the 30-day Compound Average SOFR, which the New York Fed began publishing on March 2, 2020 on its website.

Q5. Why are the reset periods pegged at six months instead of traditional one-year reset?

With the shift to using a 30-day Compound Average SOFR in our new products, the ARRC white paper discusses how a 6-month reset would help mitigate the potential mismatch between the loan rate set in advance based on historical averages of SOFR relative to future changes in market interest rates.

Historical data indicates that an average of the overnight rate with a 6-month reset period is more comparable to subsequent movements in interest rates than LIBOR with an annual reset period.

Q6. Since the periodic reset period is six months, does this imply that there will be a 6-month term SOFR?

For the new SOFR-indexed ARM product, the index is the 30-day Average SOFR and the rate reset period is six months. The six-month rate reset period is unrelated to whether a Single-Family ARM product indexed to term SOFR will eventually be developed. See Enterprise FAQ #12.

Q7. How are the SOFR and the 30-Day Compound Average SOFR rates calculated?

Please visit the New York Fed's website for detailed information about how the SOFR Rate is calculated. For information on how the 30-day Compound Average SOFR is calculated, click here.

Q8. Why is the periodic reset cap one percentage point?

The change of the reset period from a 12-month periodic reset to a 6-month periodic reset created the need to lower the periodic reset cap. This safeguards against unexpected payment increases and remains consistent with current market practices. As a result, even in a period of rapidly rising interest rates, a borrower's payment would not change by more than two percentage points a year – which is the prevailing market convention.

Q9. How is the lifetime floor determined since this is a field in the note that the Seller needs to populate?

Fannie Mae's *Selling Guide* and Freddie Mac's *Single-Family Seller/Servicer Guide* each dictate that the lifetime floor must equal the initial mortgage margin, which must be populated in the applicable fields in the note. Once set at origination, the lifetime floor will not change over the life of the loan.

Q10. What is the mortgage margin for new SOFR-indexed ARM offerings?

The new SOFR-indexed ARM products have a maximum mortgage margin of 3.00%. The ARRC recommends a mortgage margin between 2.75% and 3.00%.

Q11. Where can consumers find more information on SOFR-indexed ARMs and program disclosures?

The Consumer Financial Protection Bureau (CFPB) website contains up to date information on program disclosures as well as information on ARMs. It can be accessed here.

Q12. Do the GSEs use a 45-day lookback period for SOFR-indexed hybrid ARMs to determine the 30-day Average SOFR rate?

Yes, we use a 45-day lookback period.

Q13. Do the GSEs offer an assumability option for the SOFR-indexed ARM offerings?

Yes. SOFR-indexed ARM Notes and Riders that provide for assumption during the adjustable-rate period following the fixed rate period of the ARM are currently available.

Q14. When will the GSEs' respective systems be updated to reflect SOFR-indexed ARMs?

All systems have been updated to support new SOFR-indexed ARMs. As of August 3, 2020, Fannie Mae provided lenders with the ability to sell and/or securitize Single-Family SOFR-indexed ARMs. As of November 9, 2020, Freddie Mac provided lenders with the ability to sell and/or securitize Single-Family SOFR-indexed ARMs.

Q15. Did the GSEs make additional changes under the Uniform Mortgage Data Program (UMDP)?

The GSEs made updates to account for SOFR-indexed ARMs in the applicable UMDP datasets. See the joint announcement (Fannie Mae: UMDP announcement) (Freddie Mac: UMDP announcement) where the changes to the UMDP datasets were communicated.

Q16. Are SOFR-indexed ARMs available for cash and guarantor execution?

Yes. Sellers can deliver SOFR-indexed ARMs through cash or guarantor executions.

Q17. Why were the Single-Family LIBOR ARM Notes and Riders updated on February 5, 2020?

The GSEs updated the Single-Family LIBOR ARM Notes and Riders to reflect the fallback language that the ARRC recommended in preparation for the potential cessation of LIBOR.

While legacy Single-Family ARM contract language allows the GSEs and other noteholders to replace the LIBOR index, it does not provide specific guidance on how to make such a replacement. The ARRC's recommended fallback language is more robust because it clearly specifies what borrowers and investors should expect regarding when and how a replacement index will be chosen.

Q18. Were only the LIBOR Single-Family ARM Notes and Riders updated in February 2020 to include the ARRC recommended fallback language?

No. All GSE Single-Family ARM Notes and Riders were updated in February, not just LIBOR-indexed ARM Notes and Riders. In addition, on April 1, 2020, the GSEs published SOFR-indexed Single-Family ARM Notes and Riders that include the ARRC recommended fallback language. Currently, the only ARMs that the GSEs purchase are SOFR-indexed Single-Family ARMs.

Q19. Have you chosen a replacement index for Single-Family *legacy* LIBOR-indexed ARMs?

We have not chosen a replacement index for any of our *legacy* LIBOR-indexed ARMs. The GSEs are working together at the guidance of our regulator to address the replacement index.

Addressing what happens to legacy LIBOR-indexed ARMs is one of the largest remaining issues. Following the enactment of the LIBOR Act in March 2022, the Federal Reserve Board is required to publish regulations identifying a Board-selected benchmark replacement based on SOFR. The GSEs will continue to follow any applicable regulatory guidance or requirements, particularly from the Federal Reserve Board regarding implementation of the LIBOR Act, the CFPB and FHFA. We also are working with the ARRC, which includes the Consumer Products working group focused on the transition of Single-Family legacy LIBOR-indexed ARMs and other non-GSE consumer LIBOR-indexed products. We will provide guidance as work on these issues progresses and will communicate details pertaining to legacy LIBOR products in advance to facilitate any legacy product transition.

Q20. What if I have LIBOR ARM Notes that have different index replacement language than the Fannie Mae/Freddie Mac Uniform Adjustable-Rate Notes?

Most Single-Family (consumer) LIBOR ARM Notes contain standard index replacement language stating that "If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information." Some servicers may be servicing legacy LIBOR loans that were closed on documents with different language relating to replacing the index. The GSEs are requiring their LIBOR ARM servicers to identify loans closed on such documents (non-standard documents) that provide for variations in selecting a replacement index or have no replacement index language, and to bring those loan provisions to the applicable GSE's attention as soon as possible. This requirement includes loans that require other Servicing data changes, such as changes to the Margin, upon transition to the replacement index . There may be operational or other impacts based on the criteria prescribed in these non-standard documents. Servicers should work with their designated point(s) of contact at either GSE to work through next steps on how to resolve identified non-standard notes.

Q21. Could Single-Family LIBOR-indexed ARMs become fixed rate?

When LIBOR is no longer available/published, the GSEs (as noteholders) have the obligation to choose a successor index based on comparable information. The replacement index will be chosen by the GSEs in consultation with FHFA, taking into consideration the Federal Reserve Board-selected benchmark replacement. While we have not yet chosen a replacement index for legacy LIBOR products, a fixed rate is not something we view as being comparable to LIBOR.

Q22. What does the *legacy* Single-Family ARM fallback language say?

In many cases for loans owned by the GSEs, Fannie Mae's and Freddie Mac's legal documents allow for the applicable noteholder to choose a comparable alternative rate should the prevailing reference rate cease to exist. At the loan-level, the contract language determines the key decision-maker concerning the replacement index. Our uniform instrument (the Single-Family ARM note) contains a provision that, if an index becomes unavailable, we (as noteholder) have the authority and obligation to choose a successor index. The language is also described in the Fannie Mae Single-Family MBS Prospectus and Freddie Mac PC Offering Circular under ARM Indices.

The GSEs published updates to joint Fannie Mae/Freddie Mac uniform ARM notes and riders to incorporate the ARRC's recommended fallback language for newly originated ARMs. In our respective April 1, 2020 announcements, the SOFR-indexed ARM uniform notes with the ARRC fallback language were made available.

Q23. Why was term SOFR not used for the new ARM product? When there is a term SOFR, what will happen to this offering?

The GSEs were tasked with creating a SOFR-indexed ARM offering using available rates. Accordingly, we designed the ARM offering using the existing 30-day Average SOFR, as published by the New York Fed. The availability of term SOFR rates will not impact the 30-day Average SOFR ARM product.

Q24. Why did you retire the CMT ARM offerings – it appears the CMT index will continue to be published?

Under the guidance of FHFA, we retired the CMT ARM products in 2021. Our regulator prefers that we only use robust, IOSCO-compliant rates in current product offerings. In Fannie Mae Lender Letter LL-2021-05 and Freddie Mac Bulletin 2021-4, we announced that the GSEs will no longer purchase any CMT-indexed ARM that has an Application Received Date of July 1, 2021 or later. In addition, the GSEs will no longer purchase CMT-indexed ARMs on and after October 1, 2021, regardless of the Application Received Date or Note Date.

Q25. What are the options for individual borrowers with LIBOR ARMs?

To date, nothing has changed for borrowers with existing ARM mortgages. As always, individual borrowers can choose to keep their LIBOR-indexed ARMs or seek to refinance into a fixed-rate or non-LIBOR-based product. For borrowers who choose to keep their LIBOR-indexed ARMs, once LIBOR is no longer available, servicers of GSE-owned loans will inform borrowers of the replacement index. The replacement index will be chosen by the GSEs in consultation with FHFA, taking into consideration the Federal Reserve Board-selected benchmark replacement.

Q26. Since there is not a specific mortgage margin associated with the SOFR ARM product, can loans with different mortgage margins be securitized in the same Fannie Mae MBS / Freddie Mac PC?

Yes, loans with varying mortgage margins may be securitized in the same Fannie Mae MBS / Freddie Mac PC or delivered into whole loan commitments.

Q27. Can the initial fixed rate on a SOFR ARM be lower than the mortgage margin?

Yes. However, the initial fixed rate cannot be lower than the margin minus the initial reset cap. For example, for a 5 year/6-Month SOFR-indexed ARM with a 3% margin and a 2% initial reset cap, the initial fixed rate cannot be lower than 1% (3% margin – 2% reset cap) during the first 5 years when the interest rate is fixed.

Please note that the lifetime floor, which must equal the initial mortgage margin, only applies during the adjustable-rate period. If the initial mortgage margin is 2.5% and the initial rate during the fixed-rate period is 1%, the lifetime floor for the interest rate is 2.5%, but that floor only applies during the life of the adjustable rate period, not during the initial fixed-rate period.

Q28. Can Servicers provide disclosures to Borrowers based on the replacement index?

Until such time as both LIBOR becomes unavailable and a replacement index is chosen, we note that the CFPB has issued LIBOR Transition FAQs that indicate that borrower notices under Regulation Z "must reflect the legal obligations of the consumer and creditor when the disclosures are provided." CFPB LIBOR Transition FAQs, Adjustable-Rate Mortgage Products, Question 6. Servicers should consult with counsel to ensure they provide accurate notices to borrowers prior to the legally effective change to the replacement index.

Single-Family Credit Risk Transfer (SF CRT)

Q1. Will the GSEs adopt ARRC recommended fallback language in new issuance CRT deals?

Yes. The GSEs support the ARRC recommended fallback language. Each GSE has adopted the recommended securitization fallback language, beginning with the applicable transaction listed below:

Fannie Mae: CAS 2020-SBT1 transaction in March 2020
Freddie Mac: STACR 2020-HQA2 transaction in March 2020

Q2. Are the GSEs planning to issue non-LIBOR based SF CRT deals?

Reducing LIBOR exposure for both the GSEs and investors is very important to us. Freddie Mac moved its Credit Risk Transfer program away from the LIBOR based CRT issuance in October 2020. Fannie Mae moved its Single-Family Credit Risk Transfer program to SOFR based issuance in October 2021.

Q3. What benchmark index will the GSEs use in non-LIBOR based SF CRT deals?

The GSEs have structured and plan to continue to structure SOFR-indexed CRT transactions so that they:

- Initially use 30-day Average SOFR (published by the New York Fed) as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period
- Subsequently transition to using an IOSCO compliant One-month Term SOFR at a later date, if the appropriate regulatory authority approves such a rate and if the ARRC recommends that the use of such a rate is appropriate for securities such as SF CRT securities.
  - This subsequent transition would be made when One-month Term SOFR can be operationalized and is administratively feasible, and the transition would make use of the same Determination Date conventions mentioned for 30-day Average SOFR 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 published benchmark replacement recommendations under which compounded, rather than Term, SOFR is recommended for most securitization transactions.
  - A spread adjustment will not be applied when this subsequent transition to term SOFR is made.
  - This subsequent transition could occur prior to the time LIBOR ceases or is declared to be non- representative

Q4. What are the key considerations for the GSEs to decide when to move to SOFR-indexed SF CRT issuance?

In October 2020, Freddie Mac successfully issued its inaugural SOFR-based STACR transaction (STACR 2020-DNA5) with broad support from all key CRT market participants. Fannie Mae issued its first SOFR-based CAS transaction (CAS 2021-R01) in October 2021.

A successful transition to SOFR-indexed CRT issuance requires the entire “ecosystem” (e.g., the GSEs as the issuers, CRT investors, broker/dealers, trustees, calculation agents, rating agencies, data vendors, etc.) to be ready. Other key items include the development of the SOFR market, and the breadth and depth of the SOFR-indexed derivatives and financing market.

In June 2020, the GSEs jointly conducted a survey of investors and dealers in their CRT programs seeking feedback on SOFR index methodology and conventions for SOFR CRT issuance and gauging market readiness for the transition.

Q5. Will the GSEs consider issuing both LIBOR-based and SOFR-indexed SF CRT deals at the same time?

Freddie Mac issued its first SOFR-based SF CRT deal in October 2020 and has ceased issuing LIBOR-based SF CRT deals. Fannie Mae ceased issuing LIBOR-based CRT deals and issued its first SOFR-based SF CRT deal in October 2021. A full transition will help reduce the LIBOR exposure for both the GSEs and CRT investors and will be beneficial for the liquidity of the CRT programs.

Q6. Will Fannie Mae's CAS and Freddie Mac's STACR programs be aligned for transitioning to non-LIBOR-based issuance?

Freddie Mac and Fannie Mae are generally aligned on SOFR-based methodologies and conventions for SF CRT deals.

Q7. Will the GSEs consider issuing fixed-coupon SF CRT deals?

Currently we do not plan to issue fixed-coupon SF CRT deals.

Q8. What SOFR methodology/convention will be used for calculating and paying interest for Fannie Mae CAS and Freddie Mac STACR?

CAS and STACR securities will calculate the index each month using 30-day Average SOFR (as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period. Please see "Fannie Mae and Freddie Mac Credit Risk Transfer Index Framework" for details of the convention (including payment date, benchmark adjustment date, accrual period, day count, cap/floor, etc.). Links:
https://www.fanniemae.com/resources/file/libor/pdf/framework.pdf
http://www.freddiemac.com/about/pdf/LIBOR_SOFRdeck_SFCRT.pdf

Q9. What does the Fannie Mae CAS and Freddie Mac STACR fallback language say?

Fallback language has evolved slightly over time, so investors should read the offering documents associated with their securities. In general, however, the GSEs have the obligation to select an alternative index once LIBOR is no longer viable or available. We must select a successor index based on general comparability and other factors.

The GSEs adopted new fallback language based on the ARRC recommendations; each GSE started using this new language with Fannie Mae's CAS 2020-SBT1 and Freddie Mac's STACR 2020-HQA2 offerings in March 2020.

Q10. Will the GSEs be aligned in the LIBOR transition for outstanding SF CRT deals that are LIBOR-based?

The GSEs intend to align LIBOR transition strategy and implementation for SF CRT deals, in consultation with FHFA, taking into consideration the Federal Reserve Board-selected benchmark replacement.

Q11. The ICE Benchmark Administration (IBA) ceased publication of 1 week and 2-month USD LIBOR at the end of 2021, and announced its intention to cease all other tenors after the last publication on June 30, 2023. Does this extension change the GSEs plans for LIBOR transition?

Freddie Mac and Fannie Mae have ceased issuing LIBOR-based CRT deals. Regarding transition of legacy SF CRT deals, the GSEs expect to make further announcements in 2022. Please refer to related offering documents for contractual language.

Q12. For legacy SF CRT deals, what benchmark index will the GSEs use when LIBOR is no longer available or no longer representative?

The GSEs will continue to work with the ARRC, FHFA, and other industry partners on the transition of legacy SF CRT deals, taking into consideration the Federal Reserve Board-selected benchmark replacement, and the GSEs will communicate details pertaining to them in advance to facilitate the legacy transition.

Collateral Mortgage Obligations (CMOs)

In these FAQs, "new SOFR-indexed CMOs" and "new issue SOFR-indexed CMOs" generally refer to SOFR-indexed CMOs issued by the Enterprises beginning in July 2020.

Q1. When were new SOFR-indexed CMOs available for issuance?

Freddie Mac and Fannie Mae began to offer new SOFR-indexed CMOs for REMIC settlements in July 2020. The GSEs ceased offering new LIBOR-indexed CMOs on September 30, 2020. The cessation does not apply to RCR/MACR exchanges, or halt resecuritizations of previously issued LIBOR-indexed certificates (whether CMO or ARM certificates) into appropriately structured new-issue SOFR-indexed CMOs.

Q2. What is the determination date for Delay and Non-delay securities using the Fed Published Compounded SOFR Rate?

All SOFR-indexed 45-day, 55-day and 75-day Delay and Non-Delay securities have a determination date of 2 business days (2BD) prior to the beginning of the accrual period.

Q3. What collateral is eligible to be included in a SOFR-indexed CMO?

For new issue SOFR-indexed CMOs, the Enterprises accept all collateral that was acceptable for LIBOR-indexed structures at each respective Enterprise.

Q4. Will the new issue SOFR-indexed CMOs transition from Compounded SOFR to Term SOFR? Could this transition occur prior to the time LIBOR ceases or is declared to be unrepresentative?

Outstanding new-issue CMOs based on the Fed Published Compounded SOFR would transition to a Term SOFR rate if the issuing Enterprise, in its sole judgment, determines that a Term SOFR rate has been approved by the appropriate regulatory authority, that such a rate is operationally, administratively and technically feasible, and if the ARRC recommends that the use of a Term SOFR rate is appropriate for securities such as CMOs. As part of the transition, the Enterprises may make changes to conventions (such as determination dates) that are appropriate for a term rate. This transition could occur prior to the time LIBOR ceases or is declared to be unrepresentative. In these FAQs, "appropriate regulatory authority" generally refers to the Federal Reserve, the New York Fed or applicable official committee (e.g., the ARRC).

Q5. How will you treat legacy LIBOR-indexed CMOs?

We have not determined the replacement index for any legacy products if LIBOR ceases in the future. However, on May 28, 2020, we announced that we intend for certain of our legacy LIBOR-indexed CMOs that were supplemented with ARRC-recommended fallback language to be treated the same as our new issue LIBOR-indexed CMOs at LIBOR cessation (or once LIBOR is no longer representative), in that our legacy 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 the GSEs in their sole judgment, 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 Compounded SOFR. For more information, see (Fannie Mae Announcement) (Freddie Mac announcement)

Fannie Mae - Multifamily Adjustable-Rate Mortgages (ARMs)

Q1. Can lenders still sell LIBOR-indexed Multifamily ARMs to the GSEs?

No, under FHFA guidance, Fannie Mae is no longer accepting Multifamily ARM loans indexed to LIBOR. December 31, 2020 was the last day Fannie Mae would purchase LIBOR-indexed ARM loans as Cash Mortgage Loans and December 1, 2020 was the last Issue Date for LIBOR-indexed MBS Mortgage Loans. This applies to all LIBOR ARM Loan and Structured ARM Loan plans, and also to all Hybrid ARM Loans.

Q2. Is Fannie Mae accepting delivery of Multifamily SOFR-indexed ARMs?

Yes, Fannie Mae Multifamily began quoting SOFR-indexed ARMs on September 1st, 2020.

Q3. Where can I find details related to Fannie Mae's SOFR-indexed ARM products?

Product details can be found on our Fannie Mae Multifamily Products Page or through training sessions that have been communicated through the standard channels. Additional details on the LIBOR transition can be found on the Enterprise LIBOR Transition webpage.

Q4. Will the 30-day Average of SOFR be used for the Multifamily SOFR-indexed ARMs?

Yes. All Multifamily SOFR-indexed ARM products currently use the 30-day Average SOFR.

Q5. What are the Multifamily ARM subtypes and prefixes?

Details related to the Multifamily SOFR-indexed ARM subtypes and prefixes can be found in section 5.3 of Fannie Mae and Freddie Mac's externally published LIBOR Transition Playbook. For ease of reference, please see the table below.

Index Type	Product	ARM Subtype	ARM Plan	Prefix			
				A/360	30/360	Supp A/360	Supp 30/360
SOFR (30-Day Compounded Avg)	Single-Family ARM	85NW	04932	HF	MF	HW	MW
SOFR (30-Day Compounded Avg)	ARM 5/5	85MW	04931	HF	MF	HW	MW
SOFR (30-Day Compounded Avg)	ARM 7/6	85PW	04933	HF	MF	HW	MW
SOFR (30-Day Compounded Avg)	Hybrid ARM	85QW	04934	HC	MC	HU	MU

Q6. Have you chosen a replacement index for Multifamily legacy ARMs?

We have not chosen a replacement index for any of our legacy LIBOR products. The GSEs are working together at the guidance of our regulator to address the replacement index.

Addressing what happens to legacy LIBOR ARMs is one of the largest remaining issues.

Based on any applicable regulatory guidance and requirements, including Federal Reserve Board rulemaking to implement the LIBOR Act, and informed by developments occurring during the transition period, Fannie

Mae will seek fair outcomes to minimize the potential economic impact on both borrowers and investors to the extent possible. We will communicate details pertaining to legacy LIBOR products in advance to facilitate any legacy product transition.

Q7. What happens to the ongoing interest rate cap contracts for existing Single-Family ARM loans?

Existing Single-Family ARM loans are not affected by this announcement. The borrower's obligation to purchase replacement interest rate caps/hedges as required by the loan documents is unaffected.

Q8. What was the fallback language for LIBOR-indexed Multifamily ARM Loans acquired before Fannie Mae stopped purchasing LIBOR-indexed loans?

From Form 6102.ARM: If the foregoing index is no longer posted through electronic transmission, is no longer available or, in Lender's determination, is no longer widely accepted or has been replaced as the index for similar financial instruments (regardless of whether the index continues to be posted electronically or available), Lender will choose a new Index taking into account general comparability to the previous Index and other factors, including any adjustment factor to preserve the relative economic positions of Borrower and Lender with respect to the Mortgage Loan.

Q9. Will you create a Multifamily ARM product indexed to term SOFR? When there is a term SOFR what will happen to this product?

Fannie Mae has focused its efforts on providing ARM products tied to the 30-day Average SOFR, the rate currently published. In 2021 the Alternative Reference Rate Committee (ARRC) published its recommended best practices for the use of term SOFR in contracts, including the ARRC's recommendation for continued use of overnight SOFR and SOFR averages in markets where there has been successful adoption of those rates, such as floating rate notes, adjustable-rate mortgages, and most securitizations. Our SOFR products, all based on SOFR averages, have been well received by the market and we will continue to use the more robust SOFR averages in line with the ARRC's recommendations for these products. For those products that allow a move to term SOFR, we expect to remain consistent with ARRC recommendations and any other applicable regulations or guidance. We will continue to evaluate the operational feasibility of such a move and provide further guidance if a move is warranted.

Q10. Was Fannie Mae Multifamily required to notify lenders, borrowers, servicers or investors of the LIBOR events announced on March 5, 2021?

Fannie Mae has determined, in our sole discretion, that the LIBOR events announced on March 5 did not trigger a LIBOR cessation event under the terms of the applicable Multifamily LIBOR floating rate loans and offering documents, and therefore did not require that notice of the March 5 events be sent to lenders, borrowers, servicers or investors. That result may differ from the result that may have occurred for certain loans and derivatives containing a different version of LIBOR fallback language.

Fannie Mae - Multifamily Credit Risk Transfer

Q1. Will Fannie Mae adopt ARRC recommended fallback language in new issuance CRT deals?

Yes. Fannie Mae supports the ARRC recommended fallback language. Starting with our CAS 2020-SBT1 transaction in March 2020, we adopted the recommended securitization fallback language.

Q2. Is Fannie Mae planning to issue non-LIBOR based CRT deals?

Reducing LIBOR exposure for both Fannie Mae and our investors is very important to us. Fannie Mae stopped issuing LIBOR-based Credit Risk Transfer deals at the end of Q4 2020 and is on track to issue SOFR-based CRT deals in the future.

Q3. What benchmark index will Fannie Mae use in non-LIBOR based CRT deals?

Fannie Mae has structured and plans to continue to structure SOFR-indexed CRT transactions so that they:

- Initially use 30-day Average SOFR (published by the New York Fed) as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period
- Subsequently transition to using an IOSCO compliant One-month Term SOFR at a later date, if the appropriate regulatory authority approves such a rate and if the ARRC recommends that the use of such a rate is appropriate for securities such as MF CRT securities
    - This subsequent transition would be made when One-month Term SOFR can be operationalized and is administratively feasible, and the transition would make use of the same Determination Date conventions mentioned for 30-day Average SOFR above.
    - A spread adjustment will not be applied when this subsequent transition to term SOFR is made.
    - This subsequent transition could occur prior to the time LIBOR ceases or is declared to be non- representative

Q4. What are the key considerations for Fannie Mae to decide when to move to SOFR-based CRT issuance?

A successful transition to SOFR-indexed CRT issuance will require the entire "ecosystem" (e.g., Fannie Mae as the issuer, CRT investors, broker/dealers, trustees, calculation agents, rating agencies, data vendors, etc.) to be ready. Other key items include the development of the SOFR market, and the breadth and depth of the SOFR-indexed derivatives and financing market.

In June 2020, the GSEs jointly conducted a survey of investors and dealers in their CRT programs seeking feedback on SOFR index methodology and conventions for SOFR CRT issuance and gauging market readiness for the transition. Per the survey, the GSEs expect that most market participants were ready for SOFR-indexed CRT transactions by the end of Q3 2020.

Q5. Will Fannie Mae consider issuing both LIBOR based and SOFR-based CRT deals at the same time?

Fannie Mae has ceased issuing LIBOR-based CRT deals as of the end of Q4 2020. A full transition will help reduce the LIBOR exposure for both Fannie Mae and CRT investors and will be beneficial for the liquidity of the CRT programs.

Q6. Will Fannie Mae consider issuing fixed coupon CRT deals?

Currently we do not plan to issue fixed coupon CRT deals.

Q7. **Will the broker/dealers be able to support SOFR based CRT primary issuance?**

The willingness and ability of the broker/dealers to support SOFR-based CRT primary issuance will be critical for a successful transition. Per the dealer survey conducted in June 2020, the GSEs expect that the vast majority of the broker/dealers can support the transition to SOFR-based CRT issuance.

Q8. **What SOFR methodology/convention will be used for calculating and paying interest for Fannie Mae CAS?**

MCAS securities will calculate the index each month using 30-day Average SOFR (published by the New York Fed) as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period. Please see "Fannie Mae and Freddie Mac Credit Risk Transfer Index Framework" for details of the convention (including payment date, benchmark adjustment date, accrual period, day count, cap/floor, etc.). Links: https://www.fanniemae.com/resources/file/libor/pdf/framework.pdf http://www.freddiemac.com/about/pdf/LIBOR_SOFRdeck_SFCRT.pdf

Q9. What does the Fannie Mae MCAS fallback language say?

Investors should read the offering documents associated with their securities. In general, however, Fannie Mae has the obligation to select an alternative index once LIBOR is no longer viable or available. We must select a successor index based on general comparability and other factors.

The GSEs recently adopted new fallback language based on the ARRC recommendations; each GSE started using this new language with Fannie Mae's CAS 2020-SBT1 and Freddie Mac's STACR 2020-HQA2 offerings in March 2020. No MCAS deals have been issued since this new language was introduced.

Q10. **For legacy CRT deals, which benchmark index will Fannie Mae use when LIBOR is no longer available or no longer representative?**

We will continue to work with the ARRC, FHFA, and other industry partners on the transition of legacy CRT deals and will communicate details pertaining to legacy CRT deals in advance to facilitate the legacy transition.

Freddie Mac - Multifamily Floating Rate Loans and Securities

Q1. When will Freddie Mac Multifamily stop purchasing LIBOR-based floating-rate loans?

Effective January 1, 2021, Freddie Mac is no longer purchasing LIBOR-indexed floating-rate loans.

Q2. Why is Freddie Mac Multifamily using SOFR in its new floating-rate offering?

We are following the guidance from the ARRC. To better understand the ARRC's position on SOFR and how it addresses the LIBOR issues, please see the ARRC's LIBOR transition page.

Q3. What resources are available to learn more about SOFR?

Please visit our LIBOR Transition webpage for information, updates and links to recommended resources.

Additionally, we encourage you to send questions to our LIBOR transition team at MFLIBOR@freddiemac.com.

Q4. When will floating-rate loans based on SOFR be available for quoting and purchase?

On September 29, 2020, we purchased the first floating-rate loan that uses an index based on SOFR. We started quoting SOFR-indexed floating rate loans on September 1, 2020, and concurrently ceased issuance of new LIBOR-indexed quotes.

Q5. Will legacy LIBOR floating rate loans use the same index as the new SOFR-indexed loans?

We have not chosen a replacement index for any of our legacy LIBOR products. The GSEs are working together at the guidance of our regulator to address the replacement index.

Addressing what happens to legacy LIBOR floating rate loans is one of the largest remaining issues.

Based on any applicable regulatory guidance and requirements, including Federal Reserve Board rulemaking to implement the LIBOR Act, and informed by developments occurring during the transition period, Freddie Mac will seek fair outcomes to minimize the potential economic impact on both borrowers and investors to the extent possible. We will communicate details pertaining to legacy LIBOR products in advance to facilitate any legacy product transition.

Q6. What do Optigo® lenders and other Freddie Mac servicers need to do in preparation for newly originated SOFR- indexed loans?

Our objective is to minimize impacts to established reporting and remitting practices followed by our servicing community. SOFR readiness requires servicers to assess their internal processes and systems in order to ensure timely and effective implementation of a SOFR index rate.

Q7. Is SOFR volatility a concern?

Freddie Mac and other market participants currently use a backward-looking SOFR compounded average for many of their products which is less volatile than single-day rates. To better understand the ARRC's position on SOFR and its volatility, please see "About SOFR" on the ARRC's LIBOR transition page.

Q8. How will interest rate caps be affected by the transition to SOFR

Third-party interest rate caps that reference a LIBOR-based index (whether now in place or, with respect to replacement or renewal caps, purchased after the date of these FAQs) will transition to a SOFR-based index only in accordance with their governing documents and the loan documents.

As of January 15, 2021, floating-rate loan borrowers are no longer permitted to purchase initial LIBOR-based cap agreements. Instead, only SOFR-based cap agreements are permitted.

Q9. Which SOFR index will be used for new loan and security offerings?

The initial index for our SOFR loans and securities will be the 30-day average SOFR. That index will be used for floating rate loans across all our product lines—Conventional, Targeted Affordable Housing and Small Balance Loans. Also, interest will accrue on a calendar-month basis, just as is currently done with existing LIBOR-based products.

Q10. Will Freddie Mac change the methodology for sizing floating-rate loans as part of the transition?

No, Freddie Mac's methodology for sizing floating-rate loans will not change as part of the transition.

Q11. How will SOFR-indexed loan pricing compare with LIBOR? Will loan spreads increase?

Loan pricing is evaluated routinely to ensure alignment with market conditions; therefore, any changes will be market-driven and will not be a direct result of our transition to SOFR. Of note, spread hold periods will not be affected by the transition to SOFR.

Q12. How are Optigo lenders expected to access the index?

Optigo lenders can access the New York Fed's website for published SOFR averages for 30, 90 and 180 days, as well as a SOFR index.

Q13. Do legacy Freddie Mac floating-rate securities require certificate holder consent or a vote to determine the alternative index?

Legacy floating-rate securities do not require certificate holder consent or a vote in order to change from LIBOR to an alternative index.

Freddie Mac - Multifamily Credit Risk Transfer (MFCRT)

Q1. Will Freddie Mac Multifamily adopt ARRC recommended fallback language in new issuance multifamily credit risk transfer deals?s

Currently, we have not issued, nor do we plan to issue any LIBOR-based Multifamily credit risk transfer deals. To date, our only Multifamily CRT security offerings have been called "Structured Credit Risk (SCR) Notes." We also have another CRT offering through reinsurance form, "Multifamily Credit Insurance Pool", which will not be covered here due to the fixed insurance premium obligation nature without any LIBOR or floating-rate component.

Q2. Is Freddie Mac Multifamily planning to issue non-LIBOR-based SCR deals?

Reducing LIBOR exposure for both Freddie Mac Multifamily and our investors is very important to us. In January 2021, Freddie Mac Multifamily successfully completed its first SOFR-based issuance (MSCR 2021-MN1) with broad support from a large number of key CRT market participants.

Q3. Will Freddie Mac Multifamily consider issuing both LIBOR-based and SOFR-based SCR deals at the same time?

No. We have not issued LIBOR-based SCR deals and we plan to issue only SOFR-based SCR deals for any new issuance.

Q4. What benchmark index will Freddie Mac Multifamily use in non-LIBOR-based SCR deals?

Freddie Mac has structured and plans to continue to structure SOFR-indexed MF CRT transactions so that they :

- Initially use 30-day Average SOFR as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period
- Subsequently transition to using an IOSCO compliant One-month Term SOFR at a later date, if the appropriate regulatory authority approves such a rate and if the ARRC recommends that the use of such a rate is appropriate for securities such as MF CRT securities
    - This subsequent transition would be made when One-month Term SOFR can be operationalized and is administratively feasible, and the transition would make use of the same Determination Date conventions mentioned for 30-day Average SOFR above.
    - We do not anticipate that a spread adjustment will be applied when this subsequent transition to term SOFR is made.
    - This subsequent transition could occur prior to the time LIBOR ceases or is declared to be non-representative

Q5. Will Freddie Mac Multifamily's SCR and Freddie Mac's STACR programs be aligned for transitioning to non-LIBOR- based issuance?

Freddie Mac Multifamily and Single-Family intend to align the move to non-LIBOR-based CRT offerings, to ensure the credit risk transfer transitions are consistent across both types of credit risk transfer offerings as well as between the GSEs.

Q6. Will Freddie Mac Multifamily consider issuing fixed coupon SCR deals?

Though our previous SCR Notes deals are fixed-coupon-based, we don't have current plans to issue additional fixed-coupon SCR deals.

Q7. Should I be concerned that SOFR-based SCR securities will become less liquid?

We expect that most broker/dealers will be able to provide a similar level of support to the general CRT secondary market when we move to SOFR, including making a two-way market in any SOFR-based CRT securities.

Q8. What happens to legacy SCR Notes deals after the LIBOR transition?

All previous Multifamily SCR Notes deals are fixed coupon based and will not be impacted by the LIBOR transition.

Summary of Prior Changes

Section	Summary of change
June 2020	
Collateralized Mortgage Obligations ("CMOs")	Q1. Updated the SOFR-indexed CMO issuance from June 2020 to July 2020; Q2. For both Delay and Non-delay securities, updated the determination date to be 2 Business Days (2BD) prior to the beginning of the accrual period; Q4. Clarified the entities referred as "appropriate regulatory authority" Q5. Updated language to note the May 28, 2020 announcements; Q6. Removed question as it is no longer applicable.
July 2020	
Enterprise	Q10. Added June 11, 2020 CMO announcement and July 29, 2020 CRT announcements. Q15. Updated order of the CMO and CRT announcements to reflect both chronologically.
Single Family ARMs	Q3. Added link to the SF Chapter in the Playbook for easy reference. Q21. Added language to clarify where the fall back language applies.
SF CRT	Q3. Added language to clarify the plan to use 30-day Average SOFR (published by the New York Fed) as the reference rate, and related conventions. Q4. Added reference to the joint June 2020 Survey. Q8, Q9, Q10. Updated language to reflect most current information based on June's survey Q15. Added a link to the 7/29/20 CRT Deck to be posted on the LIBOR transition website.
Fannie Mae Multifamily ARMs	Q3. Further explains the product details Q4. Added the specific date of September
Fannie Mae Multifamily CRT	This section now conforms to the updates made in the joint SF CRT section. Q3; Q12; Q13. Updated to include more product details.
Freddie Mac – Multifamily Floating Rate Loans	Q4. The September 1, 2020, quote start date for SOFR-indexed loans has been included. Q8. Detail regarding LIBOR-based cap optionality for SOFR-indexed loans has been added, with a reference to the LIBOR Transition Playbook for additional detail. Q10. Now confirms that the sizing methodology for floating-rate loans will remain unchanged as part of the transition to SOFR.

Section	Summary of change
August 2020	
Enterprise	Q8. Changed UMBS to MBS Q10. Re-organized and Re-worded response to reflect what SOFR-based transactions have been announced/issued between the two GSEs. Q15. Removed reference to including ARRC Fallback language in LIBOR-based transactions.
Single Family ARMs	Q24 and Q25. Added as new questions.
Freddie Mac – Multifamily Floating Rate Loans	Q4. The September 1, 2020, quote start date for SOFR-indexed loans has been included. Q8. Detail regarding LIBOR-based cap optionality for SOFR-indexed loans has been added, with a reference to the LIBOR Transition Playbook for additional detail. Q10. Now confirms that the sizing methodology for floating-rate loans will remain unchanged as part of the transition to SOFR.
September 2020	
Enterprise	Q10. Updated Freddie Mac delivery date of November 16 to November 9. Q10 and Q15. additional content based
Single-Family Adjustable-Rate Mortgages (ARMs)	Q7. replaced “adjustment” with ”reset” Q8, Q9 and Q25. Added the word mortgage before margin
Fannie Mae – Multifamily Adjustable-Rate Mortgages (ARMs)	Q2. Updated to include acceptance date for delivery Q3. Updated to reflect product offering specifics Q4. Replaced previous Q4 “When will Fannie Mae provide details about the Multifamily loan structure?” with Q4 “where can I find details related to Fannie Mae’s SOFR-indexed ARM products?”
Fannie Mae- Multifamily Credit Risk Transfer	Q3 and Q4. updated answers to align with similar SF CRT FAQs Q7, Q8 and Q9. Updated answers with findings from dealer survey Q14. Provided more detail on where GSEs will align on LIBOR transition (similar to SF CRT FAQ) Q15. added “what convention will be used for calculating and paying interest?”
Freddie Mac Floating Rate Loans	Q1. Updated with the discontinuance of LIBOR-index loans Q4. Updated to reflect the start of quoting process for SOFR-indexed ARMs on 9/1 Q5. Eliminated the language regarding LIBOR no longer being available or representative Q6. Removed the language pertaining to assessing impacts and systems

Section	Summary of change
	Q8. Changes to make interest rate cap language present tense Q9. Updated to reflect present tense language around SOFR being the replacement index Q11. Updated to reflect present tense language around SOFR-based index pricing Q13. Removed Q13. New FAQ around legacy floating rate loans and certificate holder consent on replacement index
Freddie Mac – Multifamily Credit Risk Transfer	Q4. Updated the Benchmark Index with current state language
October 2020	
Enterprise	Q9. Updated the definition of legacy LIBOR to include only outstanding floating-rate products and do not include ARRC-recommended fallback language. Q11. Added a statement that notes that LIBOR products that include ARRC-recommended fallback language will transition to SOFR pursuant to their terms.
Single Family Adjustable Rate Mortgages (ARMs)	Q14. Updated language to reflect that Loan Product Advisor is now available as of 10/1/2020 for underwriting of SOFR-based ARMs.
Single-Family Credit Risk Transfer (SF CRT)	Q18. Updated language to note the GSE's coordination with ARRC, FHFA and other industry partners on the transition of legacy SF CRT deals.
Collateral Mortgage Obligations (CMOs)	Q5. Updated the language on replacement index for legacy products and intentions for LIBOR-indexed CMOs.
Fannie Mae-Multifamily Credit Risk Transfer	Q14. Updated replacement index determination for outstanding CRT deals. Q16. Updated language to reflect continued work on transition of legacy CRT deals.
Fannie Mae – Multifamily ARM	Q1. Updated answer to say no longer accepting LIBOR-indexed MF ARMs Q2. Updated question "when is Fannie Mae offering SOFR…?" to "Is Fannie Mae…?" and updated the answer accordingly. Deleted previous Q3. "How will Fannie Mae meet the market demand for Multifamily ARM executions after the final application date for LIBOR-based ARMs at the end of Q3 2020?
Freddie Mac- Multifamily Floating Rate Loans and Securities	Q5. Updated language regarding replacement index for legacy LIBOR products and addressing legacy LIBOR floating rate loans next steps.
Freddie Mac Multifamily Credit Risk Transfer	Q3. Updated language to issue only SOFR-based SCR deals for new issuances. Q5. Replaced 'announce' with 'communicate'

Section	Summary of change
December 2020	
Enterprise	Q10. Updated language to reflect what new floating rate notes have been launched using a SOFR-based index and the date of the first purchased SOFR indexed-loans Q11. Updated language to reflect December announcement on legacy replacement index. Q12. Updated language around why the GSEs are not waiting for a Term SOFR Index for legacy transition.
Single Family	Q2, Q4, Q5 and Q6. Minor edits. Q7. Added a new question on how 30-day SOFR is calculated. Q20. Updated language to reflect December announcement on legacy replacement index.
SF Credit Risk Transfer	Q2, Q3, Q4, Q5 and Q6. Updated for SOFR-based CRT issuance Removed Q8, Q9, Q10, Q11, Q12, Q13 and Q14. and consolidated SOFR market convention related questions to Q15. (now Q8.) Q18. (now Q11.) Updated to reference legacy announcement and spread adjustment Added Q12, Q13, Q14 and Q15. for legacy SF CRT
Freddie Mac – Multifamily Floating Rate Loans and Securities	Q1. Removed dates that are no longer current.
Freddie Mac Multifamily Credit Risk Transfer	Q3. Deleted paragraph with regards to LIBOR issuance
April 2021	
Enterprise	Q2. Updated to acknowledge the IBA March 5th Announcement Q3. New FAQ around the IBA March 5th Announcement Q4. New FAQ around the IBA March 5th Announcement Q5. New FAQ around the IBA March 5th Announcement Q13. Updated to reflect SOFR-based product rollouts in 2021
SF ARM	Q2. Updated to reflect that GSEs no longer acquire LIBOR ARMs Q3, Q5, Q13, Q15, Q20, and Q27: cosmetic updates only Q7. Reworded existing information only Q14. Update to reflect that all systems have been updated to support SOFR-indexed ARMs Q16 and Q17. Updated to past tense and removed the second sentence in the response to Q17 because it is no longer applicable Q22 and Q25. Updated to add reference to CFPB LIBOR Transition FAQs

Section	Summary of change
	Q24. Updated to add announcement of specific CMT-indexed ARM 2021 retirement dates Q27. Updated FAQ to clarify initial fixed rate and mortgage margin Q28. New FAQ to address Borrower Disclosures from Servicers
SF CRT	Q11. Added to reflect IBA announcement
CMO	Q1. Updated to reflect that SOFR-index CMOs have been issue. Q2. Updated to reflect that determination date has been determined Q3. Updated to reflect the same collateral acceptable for LIBOR-indexed CMOs can be included in SOFR-indexed CMOs
Multifamily Floating Rate Loans and Securities	Q1. Updated to reflect we no longer buy LIBOR loans Q8. Revised to address termination of LIBOR Cap option
MF CRT	Q2, 4 & 9: updated related to timing, etc. Deleted original Q5 & Q8. Q14: New question related to the March 5th IBA Announcement
October 2021	
Enterprise	Q13. Updated language on MF K-deals. Q14. Updated language on LIBOR cessation. Q15. (old) Removed outdated question on term-SOFR and replaced it with the previous Q16. Q15. (new) Added note on ARRC's recommendation of CME's term-rates. Q16. (new) Added Q&A on planned usage of term-SOFR by GSEs
Single Family	Q23. Updated Q&A to address usage of Term-SOFR
Single-Family CRT	Q3. Added language that transition to one-month Term SOFR will also depend on ARRC recommendation that use of rate is appropriate for SF CRT.
Collateral Mortgage Obligations (CMOs)	Q3. Added language that transition to Term SOFR for new issue CMOs will depend on ARRC recommendation that use of rate is appropriate for CMOs Q4. Added language that treatment of transition to Term SOFR for legacy CMOs will depend on GSE evaluation and ARRC recommendation that use of rate is appropriate for CMOs
Fannie Mae Multifamily Floating Rate Loans & Securities	Q8. Updated question tense Q9. Added considerations on usage of Term-SOFR for MF ARMs following the ARRC's recommendation of CME Group's Term-SOFR rates

Section	Summary of change
Freddie Mac Multifamily Floating Rate Loans & Securities	Q.9 Removed Term SOFR reference until transition to Term SOFR has been made definitively.
Freddie Mac Multifamily Credit Risk Transfer	Q.4 Updated to match the same response used in Q3 of SF CRT.