



## Selling Notice

July 11, 2019

### SOFR ARM Whitepaper

We currently offer several adjustable-rate mortgage (ARM) plans that are tied to LIBOR index. It has been widely communicated in the industry that the LIBOR index may no longer be available after 2021. There is a great deal of support across the industry to develop a new framework for newly originated ARM loans that will utilize indexes other than the LIBOR.

In 2014, the Alternative Reference Rates Committee (ARRC), a group of private-market participants and official sector ex-officio members, was convened by the Federal Reserve Board and the New York Fed to help ensure a successful transition from LIBOR. Today, the ARRC Consumer Products Working Group published the "[Options for Using SOFR in Adjustable Rate Mortgages](#)" whitepaper. This whitepaper puts forth a framework for the use of the Secured Overnight Financing Rate (SOFR) for newly originated consumer residential ARM products. It reflects the input of members of the ARRC, including Fannie Mae and Freddie Mac, lenders, investors, servicers, and consumer advocates. The SOFR was recommended by the ARRC because it

- is a more robust rate as it represents a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities in the repurchase agreement ("repo") market,
- is based on live trades and is not at risk of cessation,
- is produced by the Federal Reserve Bank of New York in cooperation with the Office of Financial Research, and
- meets international best practices for financial benchmarks.

The framework outlined in the whitepaper is comparable to today's existing ARM structure, which seeks to offer a product that is attractive to both investors and consumers while providing the appropriate consumer protections. Though the transition to SOFR is voluntary, we support the framework and intend to leverage it to create a SOFR-indexed ARM product for new originations in advance of the "end of 2021" cessation of LIBOR.

We expect to make an ARM product based on SOFR available after systems and processes have been put in place to accommodate the new index, and will provide reasonable notice in advance of the offering to our lenders. Complete details about any new product(s) will be communicated in a future *Selling Guide* update. Such details will include: plan numbers; fallback policies; and underwriting, committing, closing (security instruments), and delivery requirements.

The ARRC will also release the "ARRC Consultation on LIBOR Fallback Contract Language for Adjustable Rate Mortgages"— regardless of whether those ARM loans are LIBOR- or SOFR-based. Following this market-wide consultation, the ARRC plans to recommend fallback language for ARMs for voluntary adoption in the marketplace. We plan to adopt this recommended language, shortly after it is finalized, for newly acquired LIBOR- and SOFR-based ARMs.

We encourage industry participants to review the whitepaper and review the consultation regarding the more robust LIBOR fallback contract language. Fannie Mae, along with ARRC members and other mortgage participants will continue to focus on ensuring a successful transition away from LIBOR.

Lenders who have questions about this Notice may contact their Fannie Mae Account Team or refer to the [ARRC](#) website.