

Lender Letter LL-2020-01

Feb. 5, 2020

To: All Fannie Mae Single-Family Sellers Important Updates to Adjustable-Rate Mortgage (ARM) Products

As previously communicated, the LIBOR index may no longer be available after 2021. In 2019, we [announced](#) our support for fallback language recommended by the Alternative Reference Rates Committee (ARRC) for all ARM security instruments. We also announced our intention to offer ARM product(s) based on the ARRC's recommendation of the Secured Overnight Financing Rate (SOFR) for newly originated loans. This Lender Letter is the next step in preparing our customers for a successful transition from LIBOR ARMs to SOFR ARMs, and describes the following:

- **Updated ARM Notes and Riders:** We have updated and published all existing standard ARM notes and riders to incorporate the ARRC fallback language. A new special feature code is required for loans closed on these documents.
- **Retirement of LIBOR ARMs:** By the end of 2020, we will no longer acquire loans indexed to LIBOR, and will be retiring all LIBOR ARM plans later this year. Application and final purchase dates are noted below.
- **SOFR ARMs:** We anticipate accepting deliveries of SOFR ARMs during the second half of 2020. We are announcing several new ARM plans that use an index based on a 30-day average of SOFR.
- **Future Retirement of CMT ARMs:** At some point in 2021 we will no longer acquire ARM loans that use an index based on constant maturity Treasury securities (CMT) and will retire all CMT ARM plans. No specific dates have been established yet.

Updated ARM Notes and Riders

On Nov. 15, 2019, the ARRC published final recommended fallback language for new closed-end, residential ARMs. The fallback language provides clear direction on the selection of a replacement index in the event an index is no longer available. We have updated all joint Fannie Mae/Freddie Mac uniform ARM notes and riders and Fannie Mae-only ARM notes and riders to include this new fallback language. The following LIBOR and CMT ARM (indices based on) documents have been revised and published on our [Legal Documents webpage](#).

Notes: 3501 series; 3502 series, 3503, 3504, 3505, 3508, 3514, 3522, 3522.44, 3523, 3523.44, 3525, 3526, 3527, 3528, 3528.44, 3529, and 3529.44.

Riders: 3108, 3108.53, 3111, 3111.53, 3113, 3114, 3115, 3118, 3122, 3131, 3182, 3182.44, 3183, 3183.44, 3186, 3187, 3187.44, 3188, 3188.44, and 3189.

Note: *Lenders that use nonstandard instruments to close ARM loans must also modify the notes and riders to include the updated fallback language.*

New Special Feature Code

For tracking purposes, SFC 785 must be included in the loan delivery data for loans that are closed on these updated documents.

Effective: We encourage lenders to use these updated documents immediately; but they must be used for loans closed on or after June 1, 2020.



Retirement of LIBOR ARMs

To be eligible for delivery, all LIBOR ARMs must have application dates on or before Sep. 30, 2020. In addition, all LIBOR ARMs must be purchased as whole loans on or before Dec. 31, 2020, or in MBS pools with issue dates on or before Dec. 1, 2020.

These policies apply to all LIBOR ARM plans including plan numbers 2720 through 2729 and 2737.

SOFR ARMs

We anticipate being able to accept whole loan and MBS delivery of SOFR ARMs during the second half of 2020. We are announcing several new ARM plans that use an index based on a 30-day average of the SOFR. The SOFR index will be published by the Federal Reserve Bank of New York.

The following tables describes the key features of the SOFR plans that will be available.

ARM Product	ARM Plan Numbers	Max Margin	ARM Subtypes and Prefix (MBS only)	Fixed Rate Period	Reset Period	First Rate Change Caps	Subsequent Rate Change Caps	Life Cap (Ceiling)
3 Year (3yr/6m)	4926	300	85A SO	3 years	6 months	+2%/-2%	+1%/-1%	Up to +5%
5 Year (5yr/6m)	4927		85B SO	5 years	6 months	+2%/-2%	+1%/-1%	Up to +5%
7 Year (7yr/6m)	4928		85C SO	7 years	6 months	+5%/-5%	+1%/-1%	Up to +5%
10 Year (10yr/6m)	4929		85D SO	10 years	6 months	+5%/-5%	+1%/-1%	Up to +5%

We will announce additional details about these plans in the coming months, including (but not limited to):

- application start dates;
- changes to eligibility, underwriting, and pricing (if applicable);
- new ARM notes and riders that must be used;
- impacts to Desktop Underwriter and Loan Delivery; and
- committing and delivery requirements, including timing.

Future Retirement of CMT ARMs

Under FHFA guidance, we will cease purchasing CMT-indexed ARMs at some point during 2021. We are developing plans to execute those instructions and coordinating with FHFA and Freddie Mac. We will publish details and requirements (including timing) as they become available. We do not recommend that lenders increase their CMT-indexed loan deliveries to Fannie Mae to address the expiration of LIBOR ARM purchases.

Lenders who have questions about this Lender Letter should contact their Fannie Mae Account Team.