The Selling Guide has been updated to include changes to the following:

- **Secured Overnight Financing Rate (SOFR) ARMs**: Provides additional details for SOFR ARM products we will begin to accept as of Aug. 3, 2020.
- **Property tax and escrow clarification**: We have revised the underwriting changes previously made on Dec. 4, 2019.
- **Miscellaneous update**: Special Feature Code 785 has been added to the Guide.

View the list of impacted topics.

### Secured Overnight Financing Rate (SOFR) ARMs

As a follow-up to LL-2020-01 that introduced several new SOFR ARM plans, we have updated the Selling Guide and Standard ARM Plan Matrix to include information about the SOFR index, new ARM Plan numbers, and individual plan specifications. All our existing, conventional ARM requirements will apply to SOFR ARMs. The following table reiterates many of those existing policies and provides some additional details, including when we will begin accepting deliveries of SOFR ARM loans. We will update our Guide to remove reference to the indexes and associated ARM Plan numbers being retired in a future publication.

<table>
<thead>
<tr>
<th>SOFR ARM Requirements</th>
<th>ARM Plan 4926: 3/6 mos</th>
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<td>SOFR ARM Plans</td>
<td>ARM Plan 4927: 5/6 mos</td>
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<td>ARM Plan 4928: 7/6 mos</td>
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<td>ARM Plan 4929: 10/6 mos</td>
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Borrower disclosure requirements

Lenders must provide borrowers with disclosure requirements in compliance with all applicable laws. Refer to the Selling Guide for existing disclosure requirements related to below-market interest rates, conversion options, and assumptions, etc.

Eligible loan terms – LTV, CLTV, HCLTV ratios; occupancy; loan purpose, property type, product type, etc.

All existing ARM eligibility requirements apply - refer to the Eligibility Matrix.

Temporary interest rate buydowns

Standard policies apply.

Underwriting

Lenders may begin accepting loan applications at their discretion. SOFR ARMs can be underwritten manually or with Desktop Underwriter® (DU®). Loan casefiles must be submitted to DU using the applicable generic ARM plan:

- FM GENERIC, 3 YR
- FM GENERIC, 5 YR
- FM GENERIC, 7 YR
- FM GENERIC, 10 YR

**Note**: Lenders are not required to submit the SOFR index to DU.

Index

30-Day Average of the SOFR index as published by the Federal Reserve Bank of New York.
Property tax and escrow clarification

On Dec. 4, 2019, we announced changes to the calculation of property taxes as a component of monthly housing expense for qualifying and escrow account purposes. In Feb. 2020, we suspended applicability of the Dec. changes due to issues raised by our lenders.

This update is to notify you that after further review, we have removed the prior policy update that would have required the use of estimated property taxes for the establishment of the escrow account, and replaced it with a requirement that lenders comply with applicable law and regulations. We have retained the prior clarifications that a reasonable estimate of property taxes based on the value of the land and all new and existing improvements must be used for purchase and construction-related transactions, including jurisdictions where a transfer of ownership typically results in a reassessment of property taxes.

Effective: Lenders may implement this change immediately but must do so for applications dated on or after Jun. 1, 2020.

Miscellaneous Update

Selling Guide B2-1.4.02, Adjustable Rate Mortgages (ARMs) has been updated to include reference to SFC 785 that was introduced in LL-2020-01 and must be delivered for all non-SOFR ARM loans that are closed on notes and riders with a revision date of Feb. 2020 or after and contain the updated fallback language.

See the Selling Guide for details about these updates. Lenders who have questions about this Announcement should contact their Fannie Mae Account Team.
### Impacted Topics

<table>
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<th>Section of the Announcement</th>
<th>Updated Selling Guide Topics (Dated Apr. 1, 2020)</th>
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<td>Secured overnight financing rate ARMs</td>
<td>▪ [B2-1.4-02, Adjustable-Rate Mortgages (ARMs)]&lt;br&gt;▪ [B5-4.1-02, Texas Section 50(a)(6) Loan Eligibility]&lt;br&gt;▪ [B5-6-02, HomeReady Mortgage Loan and Borrower Eligibility]&lt;br&gt;▪ [E-1-02, Acronyms and Abbreviations]</td>
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<tr>
<td>Property tax and escrow clarification</td>
<td>▪ [B2-1.5-04, Escrow Accounts]&lt;br&gt;▪ [B3-6-03, Monthly Housing Expense for the Subject Property]</td>
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