Fannie Mae®

Guide Update 20-07: Secured Overnight Financing Rate (SOFR)

Effective: 09/01/20
Retired: 07/01/21

Summary of Changes

HIGHLIGHTS
Effective September 1, 2020, • variable rate Mortgage Loans may use the 30-Day Average Secured Overnight Financing Rate (SOFR) Index, and • a new ARM 5/5 Loan option will be available using the 30-Day Average SOFR Index. All LIBOR-based Mortgage Loans must be • Committed by September 30, 2020, and • Delivered by December 31, 2020.

Primary Changes

Variable rate Mortgage Loans will all have a 30-Day Average SOFR Index option:

- SARM Loans, ARM 7/6 Loans, and Hybrid ARM Loans will be SOFR-indexed with new plan numbers.
- A new ARM 5/5 Loan will be available, including:
  - a 5-year SOFR-indexed variable rate and embedded interest rate cap;
  - the option to convert to fixed rate after the 1st Loan Year until the start of the open period;
  - an option to renew for a second 5-year adjustable rate term
    - using the same Guaranty and Servicing Fees,
    - an adjusted Investor spread based on current market conditions, and
    - which will be traded as a new MBS with a prepayment lockout during the 1st Loan Year of the 2nd adjustable rate term (i.e., the 6th Loan Year); and
  - a maximum lifetime interest rate limit capped at 5%, plus the Guaranty Fee and Servicing Fee.

The conversion option for all ARM Loans will also be aligned with SARM Loans, allowing conversion to fixed rate after the stated lockout period and until the start of the open period.

Hedge Delivery Information (Form 4643) was updated with a new drop-down category of 30-day

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average SOFR in the Index Type column.

Questions

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