LIBOR Transition FAQs
Collateral Mortgage Obligations (CMO)

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, Credit Risk Transfer transactions, and Collateralized Mortgage Obligations.*

Please be aware that the federal Adjustable Interest Rate (LIBOR) Act (LIBOR ACT) became law on March 15, 2022. As required by the Act, the Board of Governors of the Federal Reserve System (Federal Reserve Board) published regulations identifying benchmark replacement rates based on SOFR on December 16, 2022. The regulations published by the Federal Reserve Board were used as guidance for the answers provided by Fannie Mae and Freddie Mac in this document.

*Disclaimer: The information provided on this website does not, and is not intended to, constitute legal advice; instead, all information, content, and materials available on this site are for general informational purposes only. Information on this website may not constitute the most up-to-date legal or other information. This website contains links to third-party websites. Such links are only for the convenience of the reader, user or browser; Fannie Mae and Freddie Mac do not recommend or endorse the contents of the third-party sites.

Readers of this website should contact their attorney to obtain advice with respect to any particular legal matter. No reader, user, or browser of this site should act or refrain from acting on the basis of information on this site without first seeking legal advice from counsel in the relevant jurisdiction. Only your individual attorney can provide assurances that the information contained herein – and your interpretation of it – is applicable or appropriate to your particular situation. Use of, and access to, this website or any of the links or resources contained within the site do not create an attorney-client relationship between the reader, user, or browser and website authors, contributors, contributing law firms, or committee members and their respective employers.

The following disclaimer has been provided by the London Stock Exchange Group plc ("LSEG") and the GSEs take no responsibility for its contents: FTSE USD IBOR Cash Fallbacks are provided by LSEG and its affiliates. LSEG and its affiliates shall not be liable for any errors or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same. FTSE USD IBOR Cash Fallbacks cannot be used for any commercial purpose (including redistribution) without a license. Please contact LSEG D&A (formerly Refinitiv) if a license is required. FTSE USD IBOR Cash Fallbacks are subject to LSEG's terms of use and disclaimer available at https://www.lseg.com/en/ftse-russell/benchmarks/usd-ibor-cash-fallbacks.

Summary of Changes

The table below details the list of changes since the June 2023 version of the FAQs published on the Fannie Mae and Freddie Mac websites.

Section	Summary of change
December 2023	
Collateral Mortgage Obligations (CMOs)	Q.10 Added question explaining Fannie Mae CMO bond scenarios where the derivative (interest rate cap) and the CMO bond transitioned to different fallback rates

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. Prior limitations on resecuritizing existing LIBOR-indexed CMOs into new-issue SOFR-indexed re-REMICs will no longer apply once the index for existing LIBOR CMOs has transitioned on June 30, 2023 into a Federal Reserve Board-selected benchmark replacement based on SOFR.

Q2. What is the determination date for Delay and Non-delay securities using the NY Fed published 30-day Average 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 30-day Average SOFR to Term SOFR?

New-issue CMOs indexed to NY Fed published 30-day Average SOFR will not include language allowing an optional transition to Term SOFR. Outstanding CMOs indexed to NY Fed published 30-day Average SOFR that include optional transition language will also not transition to Term SOFR.

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

The Federal Reserve Board is implementing the Adjustable Interest Rate (LIBOR) Act which was signed into law in March 2022. The final regulations on the replacement rates were announced by the Federal Reserve Board on December 16, 2022. Consistent with the Federal Reserve Board’s regulation, the GSEs will transition to the 30-day Average SOFR rate published by the Federal Reserve Bank of New York, plus an applicable tenor spread adjustment. The transition will occur following the June 30, 2023, cessation of the publication of all remaining tenors of USD LIBOR by ICE Benchmark Administration Limited. Refer to the table in Q12 of the Enterprise section for more details.

Q6. When is the last time that the GSEs will use the 1-month LIBOR benchmark for legacy CMOs?

Any legacy CMO with a determination date on or before 6/30/2023 will use the LIBOR rate published on that determination date.

Q7. When is the first time that the GSEs will use the spread-adjusted 30-day Average SOFR rate as a replacement for the LIBOR benchmark for legacy CMOs?

Any legacy CMO with a determination date after 6/30/2023 will use the 30-day Average SOFR rate published on that determination date, with the 1 month spread adjustment added to the rate.

Q8. With the transition of legacy CMOs after 6/30/2023, will there be any other changes regarding how the accrued interest will be calculated and paid in the future, such as the benchmark adjustment date, accrual period, payment date, and day count convention, etc.?

After the transition, the benchmark adjustment date, accrual period, payment date, and the day count convention will stay the same. The GSEs will change the time at which the benchmark will be determined. On a benchmark adjustment date, the time that the spread-adjusted 30-day Average SOFR rate is determined will be 3:00 pm (New York City time), instead of 11:00 am (London time) as for 1-month LIBOR. This would make it consistent with the time at which the 30-day Average SOFR rate is determined for existing SOFR-indexed CMOs.

Q9. What spread adjustment will be used for legacy CMOs after LIBOR cessation on 6/30/2023?

Per the LIBOR Act and Fed's final rule, the spread adjustment will be 11.448 bps for the 1-month tenor, thus the spread adjustment will be fixed at 11.448 bps after 6/30/2023 for legacy CMOs that were indexed to 1-month LIBOR. After transition, the spread-adjusted 30-day Average SOFR rate will replace the 1-month LIBOR benchmark for legacy CMO transactions.

Q10. What if I have a Fannie Mae CMO bond with an interest rate cap where the derivative and the CMO bond transitioned to different fallback rates (Fannie Mae only).

There are a few Fannie Mae Collateralized Mortgage Obligations (CMOs) with interest rate caps that have corresponding derivatives. The corresponding derivatives for Single-Family and Multifamily CMO CUSIPs transitioned to the ISDA-recommended LIBOR replacement rate (this rate was also selected by the Federal Reserve Board as the replacement rate for derivatives transactions in its final rules), the 30-day Average SOFR calculated in arrears of the interest rate period.

As a result, there may be a mismatch between payments owed on the CMOs and the derivatives beginning with the August 25, 2023, payment. Under certain circumstances, such a mismatch could result in lower payments on the derivative. Under those circumstances, this could result in lower or delayed payments on the CMO certificates. As specified in the relevant prospectus supplement, the guaranty from Fannie Mae does not apply to amounts owing on the derivative.

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.
October 2020	
Collateral Mortgage Obligations (CMOs)	Q5. Updated the language on replacement index for legacy products and intentions for LIBOR-indexed CMOs.
April 2021	
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
October 2021	
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
June 2022	
Collateral Mortgage Obligations (CMOs)	Q1. Updated to incorporate information from the resecuritization announcement on May 12, 2022.
January 2023	
Collateral Mortgage Obligations (CMOs)	Q1. Updated to state that limitations on resecuritizing existing LIBOR-indexed CMOs into new-issue SOFR-indexed re-REMICS will no longer apply following LIBOR cessation on June 30, 2023. Q4. Updated to state that new issue SOFR-indexed

Section	Summary of change
	CMOs will not transition to Term SOFR. Q5. Updated to state the GSEs' legacy LIBOR replacement rate selections for CMO products.
April 2023	
Collateral Mortgage Obligations (CMOs)	Q6. FAQ added: "When is the last time that the GSEs will use the 1-month LIBOR benchmark for legacy CMOs?" Q7. FAQ added: "When is the first time that the GSEs will use the spread-adjusted 30-day Average SOFR rate as a replacement for the LIBOR benchmark for legacy CMOs?" Q8. FAQ added: "With the transition of legacy CMOs after 6/30/2023, will there be any other changes regarding how the accrued interest will be calculated and paid in the future, such as the benchmark adjustment date, accrual period, payment date, and day count convention, etc.?" Q9. FAQ added: "What spread adjustment will be used for legacy CMOs after LIBOR cessation on 6/30/2023?"