

Overview

As announced in *Guide Bulletin 2020-36*, Freddie Mac will begin purchasing nonconvertible SOFR-indexed ARMs under the ARM Cash and WAC ARM Guarantor programs effective November 9, 2020.

The Secured Overnight Financing Rate (SOFR) Index is defined as “For ARMs, the Secured Overnight Financing Rate (SOFR) Index is the compounded 30-day Average SOFR as published by the Federal Reserve Bank of New York.” The Federal Reserve Bank of New York (New York Fed) publishes the SOFR Averages and SOFR Index each business day. For the most up-to-date SOFR indices, refer to the [Federal Reserve Bank of New York](https://www.frb.org/monetarypolicy/sofr) website.

The sections below identify impacts to Loan Advisor tools including Loan Product Advisor® and Loan Selling Advisor® for SOFR ARMs.

Loan Product Advisor® is the cornerstone of Freddie Mac’s Loan Advisor. It is our automated loan assessment system that indicates whether a mortgage will be eligible for purchase by Freddie Mac. Listed below are key tips to help you prepare for the underwriting and subsequent sale of SOFR ARMs to Freddie Mac.

- On or after October 1, 2020, you may submit SOFR-indexed ARMs through Loan Product Advisor specification version 4.8.01* and provide the following data points:
 - Index Source Type = Other. This data point is required for all ARMs.
 - Index Source Type Other Description (a new data point) = 30 Day Average SOFR
- No updates are necessary for:
 - The Uniform Loan Application Dataset (ULAD), since ARM indexes are not displayed on the Uniform Residential Loan Application (URLA).
 - Uniform Closing Dataset (UCD).

*For Loan Product Advisor v5.0.06 that supports the redesigned Uniform Residential Loan Application, contact your software partner on their implementation readiness. For more information refer to the [Uniform Residential Loan Application & Uniform Loan Application Dataset](#) webpage.

Loan Selling Advisor is our all-in-one system that integrates secondary marketing functions, from pricing to contracting to funding to loan delivery, making it easier for sellers to deliver loans to Freddie Mac. Listed below are key tips to help you sell and deliver SOFR ARMs to Freddie Mac:

- SOFR ARMs adjust every 6 months, not every year.
- The initial fixed periods are 3, 5, 7, and 10 years.
- Margin Min = 1%, Margin Max = 3%
- The Margin will likely differ due to basis and other market-based adjustments.

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- Lookback period = 45 days – no change.
- Interest rate cap at first adjustment for 3 and 5 years = +/-2%, for 7 and 10 years = +/-5%.
- Interest rate cap at subsequent adjustments = +/-1%
- Life Cap = 5%

SOFR ARM products will be available in Loan Selling Advisor on November 9, 2020 as follows:

Loan Selling Advisor SOFR ARM Contract Products

Cash Execution

- 3-Year 6-Month 30-Day Average SFOR ARM 2/1/5
- 5-Year 6-Month 30-Day Average SOFR ARM 2/1/5
- 7-Year 6-Month 30-Day Average SOFR ARM 5/1/5
- 10-Year 6-Month 30-Day Average SOFR ARM 5/1/5

Guarantor Execution

- 3/6 SOFR ARM – NonCnvr 3-Year 6-Month 30-Day Average SOFR ARM 2/1/5
- 5/6 SOFR ARM – NonConvrt 5-Year 6-Month 30-Day Average SOFR 2/1/5
- 7/6 SOFR ARM – NonConvrt 7-Year 6-Month 30-Day Average SOFR 5/1/5
- 10/6 SOFR ARM – NonCnvr 10-Year 6-Month 30-Day Average SOFR ARM 5/1/5

See the information below for examples of SOFR ARM contract types in Loan Selling Advisor:

Cash Contracts

You can take out SOFR ARM Cash contracts and receive ASAP Funding beginning November 9, 2020. When you take out a contract:

- Click the Index Source Type drop-down menu and select 30 Day Average SOFR
- Click the Contract Product drop-down menu and select the applicable SOFR product

Cash contracts must be manually entered in the system.

Example

The screenshot shows a 'Create Contract' form with the following fields and values:

- Master Commitment:** * (empty dropdown)
- Index Source Type:** 30 Day Average SOFR
- Contract Product:** * (dropdown menu open with options: 3-Year 6-Month 30-Day Average SOFR ARM 2/1/5, 5-Year 6-Month 30-Day Average SOFR ARM 2/1/5, 7-Year 6-Month 30-Day Average SOFR ARM 5/1/5, 10-Year 6-Month 30-Day Average SOFR ARM 5/1/5)
- Contract Amount:** *
- Contract Name:**
- Contract Period:** *

A [Show Details](#) link is located to the right of the Contract Product dropdown.

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Cash Price Sheets

You will have the option to create cash price sheets for SOFR ARMs on November 9, 2020.

Example

Request Freddie Mac Price Sheet

Enter parameters below to receive a Freddie Mac Price Sheet for Servicing Retained/CTOS loans:

Contract Product

All Products

ARM

<input type="checkbox"/> 1/1 1-Year CMT ARM 1/1/6 or 2/2/6	<input type="checkbox"/> 3/1 1-Year CMT ARM 2/2/6
<input type="checkbox"/> 5/1 1-Year CMT ARM 2/2/5	<input type="checkbox"/> 5/1 1-Year CMT ARM 5/2/5
<input type="checkbox"/> 7/1 1-Year CMT ARM 5/2/5	<input type="checkbox"/> 10/1 1-Year CMT ARM 5/2/5
<input type="checkbox"/> 1/1 1-Year LIBOR ARM 2/2/6	<input type="checkbox"/> 3/1 1-Year LIBOR ARM 2/2/5 or 6
<input type="checkbox"/> 5/1 1-Year LIBOR ARM 2/2/5 or 6	<input type="checkbox"/> 5/1 1-Year LIBOR ARM 5/2/5
<input type="checkbox"/> 7/1 1-Year LIBOR ARM 5/2/5	<input type="checkbox"/> 10/1 1-Year LIBOR ARM 5/2/5
<input type="checkbox"/> 3-Year 6-Month 30-Day Average SOFR ARM 2/1/5	<input type="checkbox"/> 5-Year 6-Month 30-Day Average SOFR ARM 2/1/5
<input type="checkbox"/> 7-Year 6-Month 30-Day Average SOFR ARM 5/1/5	<input type="checkbox"/> 10-Year 6-Month 30-Day Average SOFR ARM 5/1/5

Contract Period

All Contract Periods

5 day

10 day

15 day

30 day

45 day

60 day

75 day

90 day

Interest Rate: % to % or All Interest Rates

Remittance Option: Standard

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Guarantor Contracts

You can take out SOFR ARM Guarantor contracts on or after November 9, 2020, for contracts with settlement dates on or after December 1, 2020. When you take out a contract, click the **Product Type** drop-down menu to select the applicable SOFR product and select an **Index Source Type** of 30 Day Average SOFR.

Guarantor Contracts may be imported (using an XML file) or manually entered in the system.

Guarantor Rate Sheet

Create Guarantor Rate Sheets for SOFR ARM products beginning November 9, 2020, for contracts with settlement dates on or after December 1, 2020.

Example

The screenshot shows the 'Request Price' form. A dropdown menu for 'Product Type' is open, listing various options. The '3/6 SOFR ARM' option is highlighted in blue. Below the dropdown, the 'Index Source Type' is set to '30 Day Average SOFR'. Other fields include 'Contract Name', 'Delivery Type', 'Pool Type', 'Security Product', 'LTV Ratio Percent Range', 'Prepayment Penalty Indicator', and 'Interest And Payment Adjustment Index Lead Days Count'.

Example

The screenshot shows the 'Request Price' form with the 'Request Rate Sheet' section. The 'Rate Sheet Type' is set to 'All Pricing'. The 'Security Product' dropdown is open, showing a list of products. The '3/6 SOFR ARM' option is highlighted in red. The 'Settlement Date Range' is set to '12/01/2020' to '12/31/2020'. There are 'REQUEST PRICE' and 'BACK' buttons at the bottom.

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Beginning November 9, 2020, you must deliver the ULDD Index Source Type, Sort ID 110, of 30 Day Average SFOR for SOFR ARM loans. The section below provides examples of the required ARM loan data delivery fields in Loan Selling Advisor's Loan page.

Loan Page – Section Name

ARM Details, Closing Section, First Adjustment and Subsequent Adjustment

Example

The screenshot shows the 'Create New Loan' interface with a progress bar at the top containing steps: PROPERTY, BORROWER, PARTY, CLOSING (highlighted with a red box), CURRENT, MODIFICATION, CONVERSION, and TOTAL LOANS. Below the progress bar is a section titled 'ARM Details' with a collapse icon. The form contains several input fields and dropdown menus:

- Initial Fixed Period Effective Months Count:
- Margin Rate Percent: %
- First Rate Change Payment Effective Date:
- Ceiling Rate Percent: %
- Index Source Type:
- Interest And Payment Adjustment Index Lead Days Count:
- Floor Rate Percent: %
- Disclosed Index Rate Percent: %
- Interest Rate Rounding Type:
- Interest Rate Rounding Percent: %

Below the 'ARM Details' section are two sections: 'First Adjustment' and 'Subsequent Adjustment', each with its own set of input fields:

- First Adjustment:**
 - Per Change Rate Adjustment Frequency Months Count:
 - Per Change Maximum Increase Rate Percent: %
 - First Rate Adjustment Effective Date:
 - Per Change Maximum Decrease Rate Percent: %
- Subsequent Adjustment:**
 - Per Change Rate Adjustment Frequency Months Count:
 - Per Change Maximum Increase Rate Percent: %
 - Subsequent Rate Adjustment Effective Date:
 - Per Change Maximum Decrease Rate Percent: %

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ARM Details, Modification Section

Example

The screenshot shows the 'Create New Loan' interface with the 'MODIFICATION' step highlighted in a red box. The 'ARM Details' section is expanded, showing various input fields for loan parameters. The 'Index Source Type' dropdown menu is open, with '30 Day Average SOFR' selected and highlighted by a red box. Other fields include 'Initial Fixed Period Effective Months Count', 'Margin Rate Percent', 'First Rate Change Payment Effective Date', 'Ceiling Rate Percent', 'Interest And Payment Adjustment Index Lead Days Count', 'Floor Rate Percent', 'Disclosed Index Rate Percent', 'Interest Rate Rounding Type', and 'Interest Rate Rounding Percent'. Below this are sections for 'First Adjustment' and 'Subsequent Adjustment', each with fields for 'Per Change Rate Adjustment Frequency Months Count', 'Per Change Maximum Increase Rate Percent', 'Per Change Maximum Decrease Rate Percent', and 'First/Subsequent Rate Adjustment Effective Date'.

Note: For **Freddie Mac Document Custodians**, as part of the note certification process, the Custodian must verify, for ARM Notes with the revision date “(rev. 2/20)”, that the Lifetime Floor is equal to the ARM’s Margin as stated in the note. If it does not, the discrepancy will be reported in Loan Selling Advisor as a documentation issue (certification issue) and the Note will not be certified for sale.

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Resources

For more information on selling and delivering SOFR ARMs to Freddie Mac, refer to the following resources:

[LIBOR Transition Playbook](#)

[Freddie Mac's Prefix Library](#)

[Loan Product Advisor \(web page\)](#)

[Loan Product Advisor Online Tool \(v4.8.01 or lower\)](#)

[ULDD – Export Specification – Phase 3](#)

[ULDD Appendix D – Import Specification](#)

[Loan Selling Advisor Import Guarantor Contract Specification](#)

[SOFR What's Changing for Selling and Delivery tutorial](#)

[SOFR Readiness checklist](#)

Single Family Seller/Servicer Guide Bulletins, [2020-1](#), [2020-9](#) and [2020-13](#)

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