SOFR ARMs Fact Sheet

August 2023

The Secured Overnight Financing Rate (SOFR) is based on actual transactions in the Treasury repurchase (repo) market, one of the largest markets in the world. This is the market where investors offer borrowers overnight loans backed by their U.S. Treasury bond assets.

The Alternative Reference Rates Committee (ARRC) selected SOFR as the preferred alternate index for U.S. dollar-denominated London Interbank Offered Rate (LIBOR) contracts. SOFR is based on actual transactions in a market where extensive trading happens every day, whereas LIBOR is based on an average of estimates of interbank offered rates in the London market provided by a panel of global banks surveyed by the Intercontinental Exchange. SOFR complies with the governance standards of the International Organization of Securities Commissions (IOSCO).

The Federal Reserve Bank of New York (New York Fed) began publishing SOFR in April 2018 as part of the effort to replace LIBOR. The New York Fed, as administrator of SOFR and in cooperation with the Treasury Department's Office of Financial Research, began publishing 30-, 90- and 180-day Average SOFR as well as an overnight SOFR index rate. These indices are available **here.** For their newly originated Single-Family SOFR ARMs, Freddie Mac and Fannie Mae (the GSEs) require the use of the 30-day Average SOFR, which the New York Fed began publishing on March 2, 2020.

Potential users of the SOFR Averages and Index can subscribe **here** to receive alerts and updates from the New York Fed.

For information on Freddie Mac-owned loans that are transitioning from the LIBOR index to CME Term SOFR plus a tenor spread adjustment (as published by Refinitiv Limited), refer to the Reference Rates Transition website.

<table>
<tr><th colspan="2">General Requirements for SOFR-indexed ARMs</th></tr>
<tr><td colspan="2">• 3/6-month, 5/6-month, 7/6-month and 10/6-month SOFR-indexed ARMs.
• For all SOFR-indexed ARMs, the margin must be equal to or greater than 100 basis points and less than or equal to 300 basis points.</td></tr>
<tr><th>Transaction Type</th><th>Credit Fees</th></tr>
<tr><td>• Purchase
• “No cash-out” refinance
• Cash-out refinance</td><td>• Credit Fees may apply based on the individual characteristics of the mortgage. See Single-Family Seller/Servicer Guide (Guide) Exhibit 19 for details on applicable fees.</td></tr>
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Eligible Mortgages

- Home Possible® mortgages may be 7/6-month and 10/6-month ARMs; 5/6-month ARMs are allowed if secured by a property other than a manufactured home.
- Financed permanent buydown mortgages may be 5/6-month, 7/6-month and 10/6-month ARMs.
- Construction conversion mortgages and renovation mortgages.
- Manufactured homes may be 7/6-month and 10/6-month ARMS.
- Investment property mortgage may be a 3/6-month, 5/6-month, 7/6-month or 10/6-month ARM, however if the borrower owns more than one financed investment property, the investment property adjustable-rate mortgage sold to Freddie Mac must be a 7/6-month or 10/6-month ARM.
- CHOICEHome® may be 5/6-month, 7/6-month and 10/6-month ARMs.
- CHOICERenovation®
- GreenCHOICE Mortgages®
- Super conforming mortgages may be 5/6-month, 7/6-month and 10/6-month ARMs.

Maximum LTV Ratios

- See Guide Section 4203.4.

Underwriting Path

- SOFR-indexed ARMs may be submitted to Loan Product Advisor® (LPA℠) or manually underwritten.

Property Type/Occupancy

- 1- to 4-unit primary residences
- Second homes
- 1- to 4-unit investment properties

Execution and Delivery Requirements

- See Guide Section 6302.7(b) for special delivery instructions for SOFR-indexed ARMs.

Learn more about SOFR-indexed ARMs:

- Review Guide Sections 4401.2 through 4401.5 and 4401.8 for ARM eligibility requirements related to SOFR-indexed ARMs and Section 4401.9 and Exhibit 19, Credit Fees, for information on the ARM Credit Fees applicable to the sale of certain ARMs and other credit fees.
- Visit the Uniform Instruments webpage.
- Refer to SOFR At-a-Glance for Selling and Delivery
- Contact your Freddie Mac representative.
- Call the Customer Support Contact Center (800-FREDDIE).