April 13, 2020

ARRC Commends Fannie Mae and Freddie Mac's Progress on the First SOFR-Based Consumer Loan Products

The Alternative Reference Rates Committee (ARRC) welcomed Fannie Mae and Freddie Mac's announcements that provided additional details about their adjustable-rate mortgage (ARM) products indexed to the 30-day Average Secured Overnight Financing Rate (SOFR). SOFR is the ARRC's recommended alternative to U.S. dollar (USD) LIBOR.

As noted in their announcements, Fannie Mae and Freddie Mac have confirmed eligibility, underwriting, and delivery requirements for residential SOFR-based ARMs to provide additional clarity to all stakeholders in the consumer loan market on the transition away from USD LIBOR.

These recent developments build on the Federal Housing Finance Agency's (FHFA) February announcement that Fannie Mae and Freddie Mac will stop accepting ARMs indexed to USD LIBOR by the end of 2020 and that they will adopt the ARRC's recommended fallback language to facilitate a smooth transition away from LIBOR.

"We commend Fannie Mae and Freddie Mac for the significant progress both institutions have made in transitioning the consumer loan market toward SOFR," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "We hope that Fannie Mae and Freddie Mac's leadership in establishing the first major consumer loan product based on SOFR will encourage other institutions to accelerate their transition toward SOFR-based products as the end of 2021, when LIBOR is no longer guaranteed, rapidly approaches."

In July 2019, the ARRC issued a white paper detailing how an average of SOFR can be used in newly issued ARMs in a structure that is comparable to today's existing ARMs. The actions taken by Fannie Mae and Freddie Mac have put that message into practice and will help to facilitate an outcome where consumers are less exposed to the risks inherent in LIBOR.

About the ARRC

The ARRC is a group of private-market participants convened by the Federal Reserve Board and Federal Reserve Bank of New York in cooperation with the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Office of Financial Research, the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission, the Securities and Exchange Commission and the U.S. Treasury Department. It was initially convened in 2014 to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption. The ARRC accomplished its first set of objectives and identified the SOFR as the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published its Paced Transition Plan, with specific steps and timelines designed to encourage adoption of the SOFR. The ARRC was reconstituted in 2018 with an expanded membership to help to ensure the successful implementation of the Paced Transition Plan, address the increased risk that LIBOR may not exist beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

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