ARRC Consultation Questions:

Question 1: Should fallback language for ARMs include either of the pre-cessation triggers (triggers 4(G)(ii) and 4(G)(iii))? If so, which ones?

- Fallback language should include both of the pre-cessation triggers, 4(G)(ii) and 4(G)(iii). Although 4(G)(iii) may be unlikely, it would be better to include as a possibility than to not include. These pre-cessation triggers address situations in which the purposes for which the index was chosen as an appropriate measure of rate adjustment no longer exist and the continued application of the index after these events is not consistent with the intentions of the parties regarding movement of the index at the time the note was executed.

Question 2: Please indicate whether any concerns you have about these pre-cessation triggers relate to differences between these triggers and those for standard derivatives or relate specifically to the pre-cessation triggers themselves.

- No material concerns (response provided by CIB)

Question 3: If pre-cessation triggers are not included, what options would be available to market participants to manage the potential risks involved in continuing to reference a Benchmark whose regulator has publicly determined that it is not representative of the underlying market?

- If the Benchmark continues to be published but the applicable regulator has publicly determined the Benchmark to be no longer reliable or representative of the market, the options available to market participants include: (1) petitioning the Benchmark publisher to cease publication of the Benchmark, (2) requesting the applicable regulator or legislative entity to prohibit continued use of the Benchmark and/or declare the use of a replacement benchmark to be a safe harbor. If there is an applicable law or regulation that prohibits the continued use of the Benchmark, the market participants could petition the regulator or a court to issue a declaratory ruling on how to proceed or to declare the continued exercise of the contract to be an impossibility under applicable law.

Question 4: The ARM language proposed uses simplified language in an effort to be more comprehensible for the consumer market. Is the simplified language appropriate or are there concerns with the language not matching ISDA or other cash product language precisely?

- Yes. To receive support from consumer organizations and consumer regulatory agencies, language should be clear and easy to understand. If there are differences in language between ARM Notes and ISDA/other cash products, those can be discussed within the industry groups to resolve. It is important and appropriate for consumer agreements to contain clear language that is easily understood by consumers.

Question 5: Is the replacement index determined by the Federal Reserve Board, the Federal Reserve Bank of New York, or a committee endorsed or convened by the Federal Reserve Board or the Federal Reserve Bank of New York the best choice as the first step of the waterfall? Why or why not?

- Yes. This would ensure uniformity within the industry since ARM Note is standard, and only upon no action or decision by Fed or FRB would noteholders be obligated to select. Borrowers with Mortgage Loans using same initial Index should be in the same position upon a Replacement Event, no matter who holds the note. In addition, these entities are widely recognized in the industry to be the appropriate leaders with respect to these issues.

Question 6: As noted in the narrative, the ARRC has committed to recommending spread adjustments for cash products that reflect the general difference between various tenors of LIBOR and SOFR. In addition, the ARRC has committed to seeing all-in, "spread-adjusted" rates published for use in cash products (e.g., a SOFR-based spread-adjusted replacement index for 1-year LIBOR). Should the ARRC recommend a spread adjustment for LIBOR ARMs and other consumer products, and should the corresponding spread-adjusted rate be the replacement index for the LIBOR ARMs?

- Yes. The ARRC should recommend a spread adjustment and the spread-adjusted rate should be the replacement index for the LIBOR ARM index. It is important that the selection of the methodology for determining the spread adjustment consider all pertinent factors relevant to consumers, investors and the industry participants. The ARRC is best positioned to accomplish this as a forum focused on these issues with the open participation and involvement of all market participants and interests. Moreover, the ARRC will make this determination in consideration of and in accordance with its guiding principles of effective advance communication, easily comprehensible and with the goal of minimizing value transfer based on observable, objective rules. It is also important for consistency and uniformity in the industry that the spread-adjusted rate is published by and under the authority of the Fed.

Question 7: As noted in the narrative, in addition to recommending SOFR, the ARRC may recommend forward-looking term SOFR rates if it is satisfied that a robust, IOSCO-compliant term rate that meets its criteria can be produced. If the ARRC recommends forward-looking term rates (e.g., 1-month, 3-month, 6-month, etc.) and a corresponding spread adjustment, should a spread-adjusted term rate be the replacement index for LIBOR ARMs, or would a spread-adjusted average (simple or compounded) of SOFR be more appropriate? Please provide support for your answer.

- [A forward-looking term SOFR rate with a spread adjustment would be the preferred replacement for corresponding term LIBOR. If such a term SOFR cannot be so developed in time to replace term LIBOR, a spread-adjusted average would be the next best alternative.]

Question 8: Should the Note Holder have the responsibility as the 2^{nd} and last step of the waterfall? Why or why not?

- If all other sources within the waterfall fail to provide guidance, it is important to have a final fallback process at the bottom of the waterfall to eliminate the possibility of no guidance or solution and it is appropriate for the noteholder to assume responsibility for the determination of the replacement rate in that case. The noteholder possess the knowledge and understanding of market conditions and impact to consumers and investors necessary to make the replacement determination.

Question 9: Should the Note Holder have the ability to make adjustments (positive or negative) to the loan's margin to more closely approximate LIBOR at the time of replacement? Why or why not? If you do not believe the Note Holder should make adjustments to the loan's margin, and potential replacement indices diverge from the value of the current Index, what provision or step should be taken to preserve that consistency?

- If the fallback provisions of the ARM note allow the Note Holder to adjust the Margin in order to minimize the change in the cost of the loan, as does the fallback language in the Consultation, it is appropriate for the Note Holder to make such adjustments. If the ARM note does not contain such authorization, the Note Holder should not have the ability to make unilateral changes to the note.

Question 10: If the Note Holder is a trust (for example, as may occur in private label MBS), is there some entity other than the Note Holder that should be responsible for identifying the Replacement Index if Step 1 of the waterfall fails? Please provide sufficient rationale for your answer.

- The trust in a private label MBS is the Note Holder and, as Note Holder, it has the authority and the responsibility under the terms of the fallback provisions recommended in the Consultation to select the replacement index and margin. If the trust fails to exercise this authority, the trust should delegate the determination of the replacement index to another party, e.g., the servicer and the servicer should be protected from liability to the trust, investors and borrowers in connection with such a determination. Absent an affirmative delegation and in the event no action is taken in selecting a replacement index when such action is needed, the servicer may be deemed to have authority to determine the replacement index in the best interest of the trust, but the servicer should be similarly protected from liability to the trust, investors and borrowers in connection with such a determination.

Question 11: Will this language have unintended consequences not considered by the ARRC working group, such as title insurance restrictions, state law endorsement or filing restrictions, etc.? If so, please explain and provide information about why this language would present challenges. If there are concerns with this proposed language, please be sure to specify if concerns relate to this proposed language, or index replacement language in general.

- As long as the ARM note entered into by the customer at origination of the loan contains the authorizations and outlines the procedures for the replacement of the index and margin, there should be no impacts to title insurance or filing requirements.

Question 12: Is there any provision in the proposal that would significantly impede ARM originations? If so, please provide a specific and detailed explanation.

- These provisions should add clarity and certainty to ARM notes, eliminating confusion and ambiguity as impediments to ARM origination.

Question 13: Please provide any additional feedback on any aspect of the proposal.