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ARRC Welcomes Federal Housing Finance Agency's Announcement that Fannie Mae and Freddie Mac Will No Longer Accept Adjustable-Rate Mortgages Based on LIBOR by Year-End

The Alternative Reference Rates Committee (ARRC) welcomed the Federal Housing Finance Agency's (FHFA) announcement today that the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac will stop accepting adjustable-rate mortgages (ARMs) based on LIBOR by the end of 2020, and the GSEs' announcements that they plan to begin accepting ARMs based on the Secured Overnight Financing Rate (SOFR) later in 2020. SOFR is the ARRC's recommended alternative to U.S. dollar (USD) LIBOR.

Both Fannie Mae and Freddie Mac also announced they would adopt the fallback language the ARRC recommended to ensure contracts would continue to be effective in the event that LIBOR is no longer usable.

Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley, issued the following statement about the announcement:

> "The ARRC applauds Fannie Mae and Freddie Mac for their leadership in announcing they will begin offering adjustable-rate mortgages based on SOFR. This is the first major announcement of a consumer loan product based on SOFR and will help lenders transition a trillion-dollar market away from LIBOR. The ARRC commends the FHFA for taking decisive action to address the risk LIBOR poses to the housing market. Last summer, the ARRC issued a white paper that carefully modeled potential loan characteristics and payment flows in demonstrating that SOFR could be used to create ARM loans that can be offered at rates consistent with other mortgage rates offered in the market and can meet consumers' needs. The end result is a product that we are confident is well-designed and avoids subjecting consumers to the risks inherent in LIBOR."

As co-conveners of the ARRC, the Federal Reserve Board and Federal Reserve of New York also issued supportive statements.

Per Randal K. Quarles, Federal Reserve Vice Chair for Supervision:

> "The FHFA and GSEs have shown tremendous leadership in advancing the transition away from LIBOR. Authorities from around the world have warned of the need to transition away from LIBOR and firms should heed these statements. The announcement that the GSEs will no longer accept adjustable-rate mortgages based on LIBOR by the end of the year, and that they will soon accept SOFR-based mortgages, should indicate to everyone that the LIBOR transition will accelerate."

Per John C. Williams, New York Fed President and Chief Executive Officer:

> "As the clock on LIBOR runs down, these crucial actions by the FHFA and GSEs will help buttress the mortgage industry in the transition. I applaud this decision, and encourage all others with LIBOR exposures to similarly prepare."

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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