

Conforming SOFR ARM Overview

PCG

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SOFR ARM Introduction

Why not LIBOR?

- The Financial Conduct Authority (FCA), the British regulator of the LIBOR benchmark administrator, [announced](#) that the LIBOR will either cease to be published or deemed no longer representative between 2021 and 2023.
- The Federal Reserve Board, FDIC, and Office of the Comptroller of the Currency have encouraged market participants to “transition away from U.S. dollar (USD) LIBOR as soon as practicable and in any event by December 31, 2021”

Why SOFR?

- In conjunction with the [Alternative Reference Rates Committee \(ARRC\)](#), the GSEs designed SOFR ARM products that use the **30-day average SOFR index** as published by the [Federal Reserve Bank of NY](#)
 - August 3, 2020 - Fannie Mae began accepting delivery of SOFR ARMs
 - November 9, 2020 - Freddie Mac began accepting delivery of SOFR ARMs
 - **January 1, 2021 - the GSEs no longer purchase LIBOR ARMs**
 - October 1, 2021 - the GSEs no longer purchase CMT-indexed ARMs

Why not CMT?

- Fannie Mae and Freddie Mac no longer purchase CMT-indexed ARMs as of October 1, 2021
 - [FNMA Lender Letter 2021-05](#) / [FHLMC Bulletin 2021-4](#)

SOFR ARM Attributes

Note: This is a summary of Pennymac SOFR ARM product attributes.

	SOFR ARMs	
Interest Rate Index	30 Day Average SOFR (NY Fed)	
Initial Fixed Period	5, 7, 10 Year (5/6, 7/6, 10/6 ARMs)	
Interest Rate Adjustment Period	6 Months	
Lookback Period	New rate determined 45 days in advance	
Initial Adjustment Cap	+/-2% for 5 Year ARMs +/-5% for 7, 10 Year ARMs	
Subsequent Adjustment Cap	+/-1%	
Lifetime Adjustment Cap	5%	
Margin	Delegated 2.75% - 3.00%	Non-Delegated 2.75%

SOFR ARM Pennymac Guidelines

Pennymac Guidelines (Fannie Mae and Freddie Mac)

Terms / Cap Structures	Terms: Initial Fixed (Year) / Adjustment Period (Months) <ul style="list-style-type: none"> • 5/6-month • 7/6-month • 10/6-month 	Cap Structures: Initial Cap / Subsequent Cap / Lifetime Cap <ul style="list-style-type: none"> • 2/1/5 (5-year) • 5/1/5 (7-year) • 5/1/5 (10-year)
	<p>Example. A 5/6 SOFR ARM</p> <ul style="list-style-type: none"> - Adjusts a maximum of 2% during the first adjustment period (5 year mark). - Adjusts a maximum of 1% during the subsequent adjustment periods (every 6 months thereafter). - Adjusts up to 5% over the life of the loan. 	
LTV	Max LTV 95%	
Property Type	<ul style="list-style-type: none"> • 1-4 Unit Primary • 1 Unit Second Home • 1-4 Unit Investment 	
Transaction Type	<ul style="list-style-type: none"> • Purchase • Rate/Term Refinance • Cash-out Refinance 	
AUS	DU (Fannie Mae) / LPA (Freddie Mac)	
Temp Buydowns	Not allowed	

Note: All other Pennymac GSE requirements apply (i.e. LTV, credit score, etc). Above grid does not encompass full product requirements, please refer to Product Profiles for full product information.

SOFR ARM Underwriting Impacts

Qualifying Rate

	Fannie Mae (FN) LL 2021-11/DU 7.17.2021	Freddie Mac (FH) LL 2021-19/LPA 8.29.2021
5/6 ARM	Greater of fully indexed rate or note rate plus 2%	Greater of fully indexed rate or note rate plus 2%
7/6 and 10/6 ARMs	Greater of fully indexed rate or note rate	Note rate (for non-HPML) Greater of fully indexed rate or note rate (for HPML)

Fully Indexed Rate

- Fully indexed rate is the sum of the applicable index (30 Day SOFR) plus the margin (2.75%), rounded to the nearest one-eighth percent (0.125%)
 - The applicable index is the lowest value in effect during the 90 days that precede the date of the mortgage or deed of trust
- Example:
 - 30 Day Average SOFR = 0.710%
 - Margin = 2.75%
 - Fully Indexed Rate = 0.710% + 2.75% = 3.460% (rounding to 0.125%) → = 3.500%

SOFR ARM Documentation Impacts

Fannie Mae and Freddie Mac Uniform Instruments (specifically the 30-day Average SOFR docs) should be used for SOFR ARMs.

Sample Fannie Mae SOFR ARM Rider

ADJUSTABLE RATE RIDER
(30-day Average SOFR Index (As Published by the Federal Reserve Bank of New York)—Rate Caps)

THIS ADJUSTABLE RATE RIDER is made this _____ day of _____, _____, and is incorporated into and will be deemed to amend and supplement the Mortgage, Mortgage Deed, Deed of Trust, or Security Deed (the "Security Instrument") of the same date given by the undersigned (the "Borrower") to secure Borrower's Adjustable Rate Note (the "Note") to _____ (the "Lender") of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

THE NOTE CONTAINS PROVISIONS ALLOWING FOR CHANGES IN THE INTEREST RATE AND THE MONTHLY PAYMENT. THE NOTE LIMITS THE AMOUNT THE BORROWER'S ADJUSTABLE INTEREST RATE CAN CHANGE AT ANY ONE TIME AND THE MINIMUM AND MAXIMUM RATES THE BORROWER MUST PAY.

ADDITIONAL COVENANTS. In addition to the representations, warranties, covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. INTEREST RATE AND MONTHLY PAYMENT CHANGES
The Note provides for monthly payments of principal and interest ("Monthly Payment") and an initial interest rate of _____%. The Note provides for changes in the interest rate and the Monthly Payments as follows:

4. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Dates
The interest rate I will pay may change on the first day of _____, _____, and on the first day of the month every 6th month thereafter. Each date on which my interest rate could change is called a "Change Date."

(B) The Index
Beginning with the first Change Date, my interest rate will be based on an Index that is calculated and provided to the general public by an administrator (the "Administrator"). The "Index" is a benchmark, known as the 30-day Average SOFR index. The Index is currently published by the Federal Reserve Bank of New York. The most recent Index value available as of the date 45 days before each Change Date is called the "Current Index," provided that if the Current Index is less than zero, then the Current Index will be deemed to be zero for purposes of calculating my interest rate.

Note: Please refer to your doc provider and legal counsel for all SOFR ARM Uniform Instrument(s) details and requirements.

**THANK
YOU!**





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