



Fannie Mae

Freddie Mac



COFI Transition Playbook

April 2021



Table of Contents

- 1 Overview..... 4**
 - 1.1 Introduction..... 4**
 - 1.2 COFI transition timelines..... 4**
 - 1.3 Actions market participants should consider..... 5**
- 2 Single-Family and Multifamily ARMs..... 5**
 - 2.1 Introduction..... 5**
 - 2.2 Scenarios for COFI-indexed ARMs transition 6**
 - 2.3 Servicing of SF and MF ARMs..... 10**
 - 2.4 Administration of SF and MF MBS/PC..... 11**
- 3 Collateralized Mortgage Obligations (“CMOs”)..... 12**
 - 3.1 Introduction..... 12**
 - 3.2 Administration..... 13**



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Information in the transition away from the 11th District Monthly Weighted Average Cost of Funds Index (COFI) produced by the Federal Home Loan Bank of San Francisco¹ is contained in this COFI Transition Playbook. This material is preliminary and subject to revision and updates as needed. This document is an indicative summary of our preliminary analysis regarding the upcoming transition away from COFI. Nothing in this document should be interpreted as having any bearing on or implications for transitions away from other reference rates such as LIBOR. The information in this document pertains specifically and only to the transition away from COFI. This document and the analysis may be amended, superseded or replaced by subsequent summaries or actions. The analyses, preliminary views and opinions expressed herein are based on certain assumptions that also are subject to change. Readers should rely on the information contained in the loan documentation, securities offering documents, and operative documents to evaluate the rights and obligations for each such loan or security. As a reminder, Fannie Mae and Freddie Mac (the “GSEs”) are in separate conservatorships and their conservator, Federal Housing Finance Agency (“FHFA”), has the authority to direct either or both GSEs to take whatever actions it deems appropriate in respect of any COFI transition and product or contract.

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¹ See <https://www.fhlbsf.com/resources/cofi>



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1 Overview

1.1 Introduction

❖ Playbook purpose and scope

To assist stakeholders in preparing for the transition from the 11th District Monthly Weighted Average Cost of Funds Index (“COFI”) to a replacement index, the GSEs are jointly publishing this COFI Transition Playbook, targeted to readers who need information about the following COFI-indexed products:

- Single-Family (“SF”) and Multifamily (“MF”) Adjustable Rate Mortgages (“ARMs”)
- Collateralized Mortgage Obligations (“CMOs”)

This playbook describes key transition milestones and recommended actions for stakeholders to consider as they manage the upcoming transition from COFI. This document serves as a tool to help plan and adapt business policies, procedures, and processes to prepare for discontinuing the use of COFI as an index for existing COFI mortgages.

The GSEs have been working together on several aspects of the COFI transition. Where appropriate, the GSEs have aligned policies and milestones.

Details and FAQs on each GSE’s COFI transition will be published at a later date on Fannie Mae and Freddie Mac webpages.

Please direct any additional questions to your Fannie Mae or Freddie Mac account management teams.

❖ Why is there a need to transition from COFI?

The administrator of COFI, the Federal Home Loan Bank of San Francisco (“FHLB SF”), announced it would cease publishing COFI after January 31, 2022 due to a significant decline in the number of financial institutions eligible to provide data for the calculation of COFI. When the monthly COFI was originally developed in 1981, there were over two hundred COFI reporting members. The number of panel banks has decreased substantially since the 2008 financial crisis and was reported at nine panel banks as of May 2020.²

1.2 COFI transition timelines

The FHLB SF will cease publication of COFI after the publication of the December 2021 COFI on January 31, 2022. Freddie Mac will publish the replacement index for Single-Family and Multifamily ARMs, Freddie Mac PCs, Fannie Mae MBS and Freddie Mac CMOs³ monthly, starting with the January 2022 index on February 28, 2022. This change will affect legacy

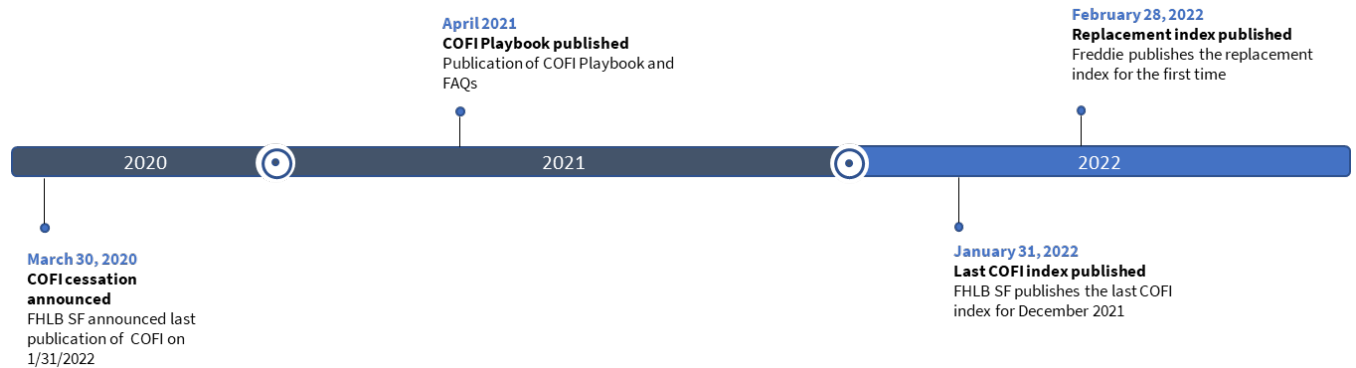
² [Cost of Funds Indices, FHLBank San Francisco](#)

³ The replacement index for Fannie Mae COFI-indexed CMOs will be based on the fallback language in the governing prospectuses.



transactions only. Fannie Mae and Freddie Mac no longer purchase COFI-indexed ARMs, nor issue COFI-indexed CMOs.

Transition timeline



1.3 Actions market participants should consider

The GSEs encourage all market participants to conduct an operational assessment and start their operational builds as early as possible.

❖ Accounting and tax considerations

The transition may have an impact on the accounting treatment for existing contracts, hedge accounting relationships or other transactions that reference COFI. The GSEs encourage all stakeholders to identify potential impacts due to the transition from COFI.

❖ Compliance considerations

The transition of legacy COFI-indexed transactions may involve compliance risk related to disclosure.

Both GSEs maintain processes which provide reasonable assurance that they comply with disclosure laws and regulations.

2 Single-Family and Multifamily ARMs

2.1 Introduction

COFI-indexed ARMs will be impacted by FHLB SF’s decision to cease publication of COFI after January 31, 2022.

The GSEs selected a replacement index for their respective COFI-indexed ARMs based on language in the underlying mortgage note regarding the replacement index once COFI is no longer available. The GSEs realize that market participants require several months of advance



notice regarding the replacement index for operational readiness, borrower notices and education, compliance with the note and applicable law and several other reasons. Therefore, based on current comparability analysis, and based on a good faith determination, the GSEs anticipate that they will select the Federal Cost of Funds Index (“Federal COFI”) plus a spread adjustment (“Enterprise 11th District COFI Replacement Index”), as the replacement index for ARMs.⁴ The purpose of the spread adjustment is to minimize or eliminate any value transfer for investors or “payment shock” for consumers as a result of the transition from COFI to Federal COFI. The GSEs anticipate the COFI spread adjustment methodology will be similar to that recommended by the Alternative Reference Rates Committee (“ARRC”) for consumer products in the LIBOR transition.⁵ The COFI spread adjustment methodology includes a one-year phase-in period to a 5-year historical median spread between COFI and Federal COFI. The GSEs will provide updates about the spread adjustment as more information becomes available.

Freddie Mac intends to publish the Enterprise 11th District COFI Replacement Index containing the spread adjustment on its website starting February 28, 2022.

The GSEs will update this playbook closer to the time of COFI’s anticipated cessation to confirm the Enterprise 11th District COFI Replacement Index continues to be a comparable replacement for COFI and that it will be the actual replacement index selected by the GSEs (or, in the unlikely event that the Enterprise 11th District COFI Replacement Index is no longer comparable, to provide details about that the actual replacement index selected by the GSEs). The GSEs currently anticipate such an update to be provided around mid-year 2021, again to ensure that servicers, vendors and other market participants have adequate time to transition to the replacement index.

The remainder of this playbook is drafted in anticipation of the Enterprise 11th District COFI Replacement Index ultimately being selected by each of the GSEs as the replacement index for ARMs.

2.2 Scenarios for COFI-indexed ARMs transition

The transition date of each legacy COFI-indexed ARM will depend on the characteristics of the ARM, such as the next interest rate reset date and loan interest rate lookback period. If the date calculated by applying the loan interest rate lookback period occurs on or after February 28, 2022, COFI-indexed ARMs will transition to the Enterprise 11th District COFI Replacement Index.

⁴ The Enterprise 11th District COFI Replacement Index is not created, calculated or published by or at the direction of, nor is the Enterprise 11th District COFI Replacement Index or the decision that such index is appropriate for use in any financial instrument in any way associated or affiliated with the Federal Home Loan Bank of San Francisco. The replacement index may not be used on any new financial instrument created or entered into on or after February 28, 2022.

⁵ [ARRC spread adjustment methodology](#)

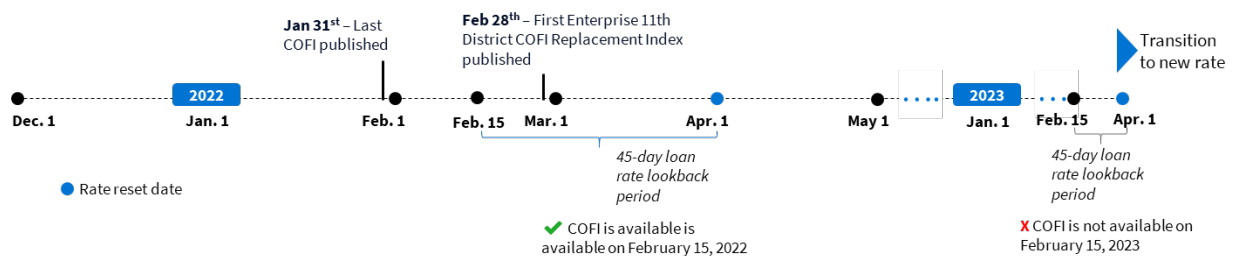


The scenarios included below provide the expected payments and interest rate reset mechanics for COFI-indexed ARMs with different characteristics. The scenarios are not intended to be exhaustive but are intended to provide the reader with representative examples, such that they are able to anticipate changes to ARMs which do conform to the examples included below. The examples should be used as a guide to help readers understand when the interest rate and payment calculation of a COFI-indexed ARM switches to reference the Enterprise 11th District COFI Replacement Index for the first time. The examples consider ARMs with interest rate and payments resetting at the same time (i.e., Scenarios A and B) and cases in which the interest rate and payment reset frequencies differ (i.e., Scenarios C and D).

Scenario A: COFI-indexed ARM, with annual interest rate reset frequency, re-setting on April 1, 2022 and a 45-day loan interest rate lookback period

- Loan A is a 10-year seasoned ARM loan indexed to COFI, with an annual interest rate reset frequency and next interest rate reset date on April 1, 2022. Loan A has a 45-day loan interest rate lookback period.
- Since COFI is still available 45 days prior to the ARM’s interest rate reset date (i.e., February 15, 2022), the interest rate calculations (and the related payment calculation) use COFI published on January 31, 2022.
- The Enterprise 11th District COFI Replacement Index will be used on the subsequent annual interest rate reset date on April 1, 2023 and each reset date thereafter to calculate interest and related payments.

Scenario A



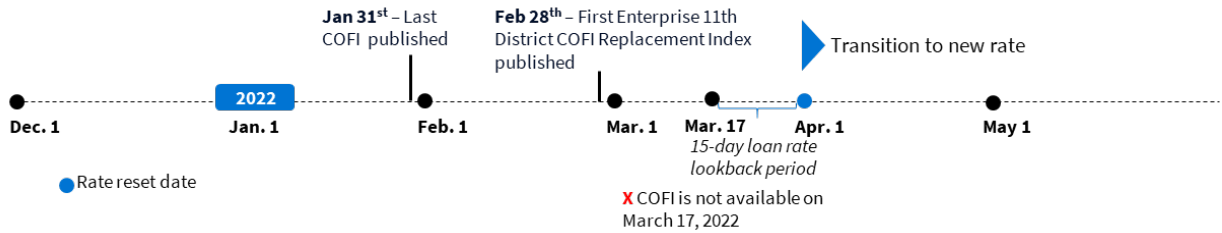
Scenario B: COFI-indexed ARM, with annual interest rate reset frequency, re-setting on April 1, 2022 and a 15-day loan interest rate lookback period

- Loan B is a 10-year seasoned ARM loan indexed to COFI, with an annual interest rate reset frequency and next interest rate reset date on April 1, 2022. Loan B has a 15-day loan interest rate lookback period.
- Since COFI is no longer published after the end of January and is not available 15 days prior to the ARM’s interest rate reset date (i.e., March 17, 2022), the Enterprise 11th



District COFI Replacement Index published on February 28, 2022 is used to calculate the new interest rate and the related new payment.

Scenario B



Scenario C: Negative-Amortizing⁶ COFI-indexed ARM, with annual payment reset frequency on April 1, 2022, monthly interest rate reset frequency, a 1-day loan payment lookback period and a 45-day loan interest rate lookback period.

- In a negative-amortizing loan, the portion of the interest accrued each month that is not covered by the monthly payment is added to the unpaid principal balance.
- Loan C is a 10-year seasoned negative-amortizing ARM loan indexed to COFI, with the following characteristics:

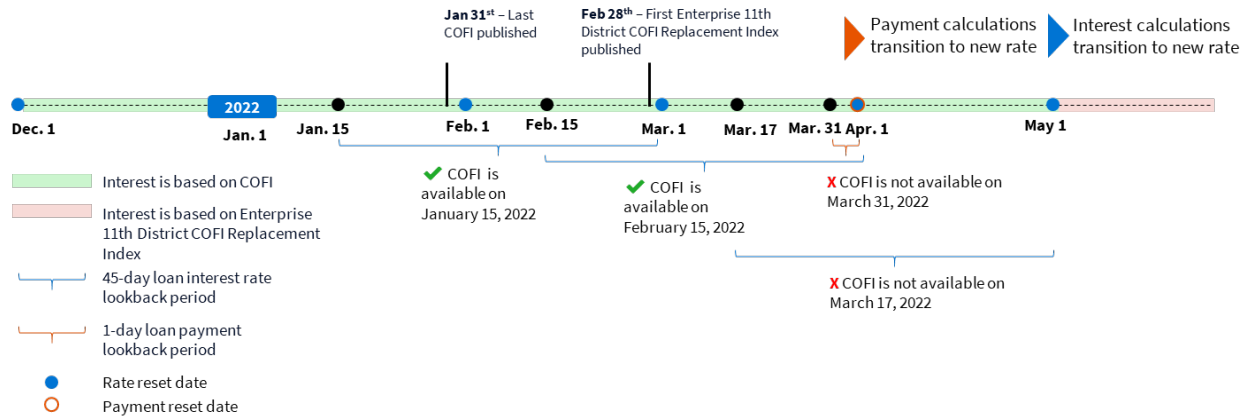
Loan Features	Payment	Interest rate
Reset frequency	Annual	Monthly
Next reset date	April 1, 2022	March 1, 2022
Loan lookback period	1 day	45 days

- Since COFI is still available 45 days prior to the ARM’s interest rate reset dates of March 1, 2022 and April 1, 2022 (i.e., January 15, 2022 and February 15, 2022 respectively), the interest rate calculations (and the related payment calculation) use COFI.
 - The Enterprise 11th District COFI Replacement Index will be used on the subsequent monthly interest rate date on May 1, 2022 and each reset date thereafter to calculate interest and related payments.
- COFI is not available 1 day prior to the ARM’s payment reset date on April 1, 2022 (i.e., March 31, 2022), hence the Enterprise 11th District COFI Replacement Index will be used to calculate the new payments.

⁶ The GSEs no longer offer the negative-amortizing ARM product. However, there may be legacy negative-amortizing COFI-indexed ARMs that remain outstanding at the time of the transition.



Scenario C: Negative-Amortizing COFI-indexed ARM



Scenario D: Negative-Amortizing COFI-indexed ARM, with annual payment reset frequency on February 1, monthly interest rate reset frequency, a 1-day loan payment lookback period and a 45-day loan interest rate lookback period

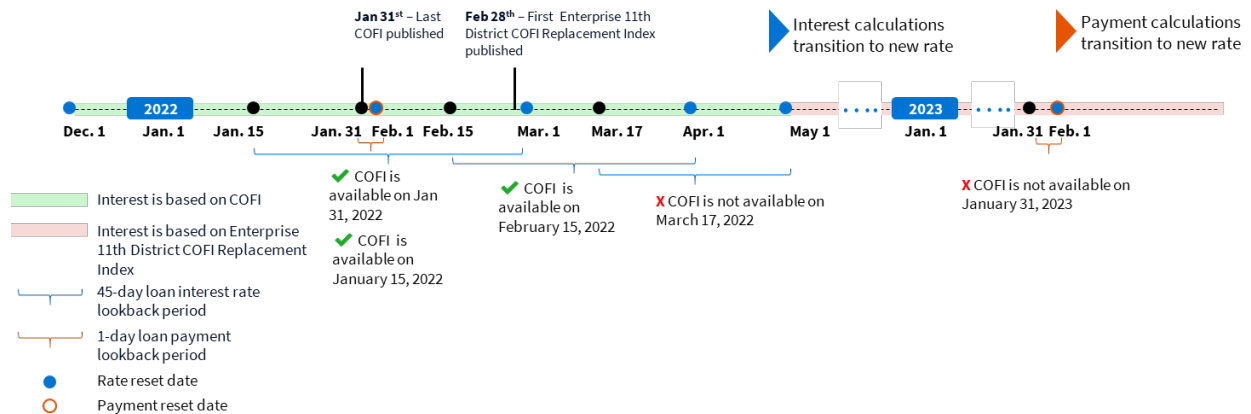
- Loan D is a 10-year seasoned negative-amortizing ARM loan indexed to COFI, with the following characteristics:

Loan Features	Payment	Interest rate
Reset frequency	Annual	Monthly
Next reset date	February 1, 2022	March 1, 2022
Loan lookback period	1 day	45 days

- Since COFI is still available 45 days prior to the ARM’s interest rate reset dates of March 1, 2022 and April 1, 2022 (i.e., January 15, 2022 and February 15, 2022 respectively), the interest rate calculations (and the related payment calculation) use COFI.
 - The Enterprise 11th District COFI Replacement Index will be used on the subsequent monthly interest rate date on May 1, 2022 and each reset date thereafter to calculate interest and the related payment.
- Since COFI is still available 1 day prior to the ARM’s payment reset date on February 1, 2022 (i.e., January 31, 2022), the payment calculation uses the COFI rate. The payment will remain the same (reference the same COFI rate) until it resets on the subsequent annual payment reset date (i.e., February 1, 2023).
- COFI is not available 1 day prior to the ARM’s subsequent payment reset date of February 1, 2023, hence the Enterprise 11th District COFI Replacement Index will be used to calculate the new payments.



Scenario D: Negative-Amortizing COFI-indexed ARM



2.3 Servicing of SF and MF ARMs

ARMs indexed to COFI would transition to the Enterprise 11th District COFI Replacement Index, requiring borrower communications and updated payment calculations.

Key concepts

Servicers will need to incorporate the Enterprise 11th District COFI Replacement Index into calculations and reconciliations for borrower payments. The calculations will need to be updated on an individual loan basis based on the terms of the ARM, which include:

- Payment adjustment frequency
- Rate adjustment frequency
- Loan payment lookback period
- Loan rate lookback period
- Next payment reset date
- Next interest rate reset date

Actions to consider

Focus areas	Actions to consider
Borrower Communications	<ul style="list-style-type: none"> ▪ Provide timely notice of the change in the index to borrowers consistent with loan documents, applicable law and regulations, including those governing payment change notices under Regulation Z for SF ARMs ▪ Retain a copy of the notice in the servicing file
Document custodian	<ul style="list-style-type: none"> ▪ Send a copy of the borrower notice to the document custodian with an instruction to maintain the copy with the original SF COFI note ▪ For Multifamily loans, maintain the borrower notice in the loan servicing file, subject to review as requested
Legal documentation	<ul style="list-style-type: none"> ▪ Provide a copy of the note to the appropriate GSE if there are any variations to the Uniform ARM note’s fallback index replacement language



Focus areas	Actions to consider
	that was used just prior to the recent February 2020 revisions and request instructions on how to proceed
Use of a new index in rate and payment calculations	<ul style="list-style-type: none"> ▪ Update and test systems, reporting and other processes or activities related to interest rate adjustment calculations to incorporate the Enterprise 11th District COFI Replacement Index product parameters ▪ Engage in testing with Freddie Mac once Freddie Mac provides access to testing ▪ Adjust interest accrual calculations for changes in the underlying index
Transfer of servicing	<ul style="list-style-type: none"> ▪ Ensure that servicing transferees have the capability to service loans indexed to the Enterprise 11th District COFI Replacement Index

Helpful links

For more information on COFI transition impacts on servicing of COFI-indexed ARMs, refer to:

- [Fannie Mae’s Single-Family Servicing Guide](#)
- [Fannie Mae’s Multifamily Selling and Servicing Guide](#)
- [Freddie Mac’s Seller/Servicer Guide](#)

2.4 Administration of SF and MF MBS/PC

The COFI transition will impact COFI-indexed ARMs pooled into MBS/PC. Unless terminated at or prior to the time of the COFI transition, those MBS/PC will also transition to the Enterprise 11th District COFI Replacement Index.

❖ MBS features

The GSEs are reusing existing index codes and Fannie Mae sub-types for the COFI transition. Descriptions for index codes and Fannie Mae sub-types will be updated to reflect the transition to COFI Replacement Index.

Actions to consider

Focus areas	Actions to consider
Investor awareness	<ul style="list-style-type: none"> ▪ Maintain awareness of the updates to impacted pools
Use of a new index in rate and payment calculations	<ul style="list-style-type: none"> ▪ Update and test systems, reporting and other processes or activities related to interest rate adjustment calculations to incorporate the Enterprise 11th District COFI Replacement Index product parameters



Helpful links

For more information on COFI transition impacts on administration of COFI-indexed MBS/PCs, refer to:

- [Fannie Mae's updated MBS Prospectus language](#)
- Replacement index publication site (to be published at a later date)

3 Collateralized Mortgage Obligations (“CMOs”)

3.1 Introduction

COFI-indexed CMOs will be impacted by FHLB SF's decision to cease publication of COFI after January 31, 2022.

All outstanding Fannie Mae COFI-indexed CMOs contain waterfall fallback language in the governing prospectuses identifying the fallback index for interest accruals as 1) the National Median Cost of Funds Index published by the Office of Thrift Supervision and then 2) LIBOR. Since the National Median Cost of Funds Index was discontinued in February 2012, the fallback index for all outstanding COFI-indexed CMOs is LIBOR.⁷

The fallback language in the Freddie Mac COFI-indexed CMOs indicates that, if FHLB SF fails to publish COFI for a period of 65 days and does not publish or designate a replacement index, then Freddie Mac is required to select an index that performs in a manner substantially similar to COFI.

Based on current comparability analysis, and based on a good faith determination, Freddie Mac has selected the Enterprise 11th District COFI Replacement Index, as the replacement index for CMOs. As with COFI-indexed ARMs, the playbook will be updated closer to the time of COFI's anticipated cessation, confirming the Enterprise 11th District COFI Replacement Index continues to be a comparable replacement for COFI and that it will be the actual replacement index selected (or, in the unlikely event the Enterprise 11th District COFI Replacement Index is no longer comparable, to provide details about that the actual replacement index selected). It is currently anticipated that such an update will be provided around midyear 2021.

Freddie Mac intends to publish the Enterprise 11th District COFI Replacement Index on its website starting February 28, 2022.

⁷ Since the anticipated index cessation date for one-month LIBOR is June 30, 2023, it is currently anticipated that these COFI-indexed CMOs would switch from COFI to LIBOR after COFI is no longer published. Subsequently those CMOs would switch to a replacement index for LIBOR after June 30, 2022. In that event, we currently anticipate providing more information on the replacement index for LIBOR no later than December 31, 2022.



3.2 Administration

Key concepts

Investors and trustees should maintain awareness of potential impacts of COFI transition.

Actions to consider

Focus areas	Actions to consider
Investor awareness	<ul style="list-style-type: none"> ▪ Investors should maintain awareness of the updates to impacted CMOs
Use of a new index in rate and payment calculations	<ul style="list-style-type: none"> ▪ Upon evaluation, update and test systems, reporting and other processes or activities related to interest rate adjustment calculations to incorporate the Enterprise 11th District COFI Replacement Index as necessary

Helpful links

For more information on the COFI transition impacts on administration of COFI-indexed CMOs, refer to:

- [Omnibus Supplement](#)
- [Fannie Mae/ Freddie Mac LIBOR transition playbook](#)