Enterprise 11th District COFI Replacement Index FAQs

Q1: Why is the 11th District Monthly Weighted Average Cost of Funds Index (COFI) being retired?

A: The Federal Home Loan Bank of San Francisco announced that it will stop publishing COFI by January 2022 (for the December 2021 rate) because of the significant decline in the number of financial institutions eligible to report the data used to calculate the indices.

Q2: When will COFI retire?

A: The last date for publication of the COFI index by the Federal Home Loan Bank of San Francisco is January 31, 2022 (for the December 2021 rate).

Q3: What products at Freddie Mac/Fannie Mae are impacted by the COFI retirement?

A: This replacement index is for our legacy portfolios only. Single Family and Multifamily cash and MBS/PC loans are impacted, as well as CMOs. Both GSEs only have a de minimis population of Multifamily COFI loans so there is minimal impact. Freddie Mac and Fannie Mae no longer accept the delivery of ARM mortgage products indexed to COFI. There are no impacts to our Credit Risk Transfer securities.

Q4: What is the replacement index for mortgage loans that use COFI?

A: Based on current comparability analysis, and based on a good faith determination, the GSEs have selected the Federal Cost of Funds Index (Federal COFI) plus a spread adjustment ("Enterprise 11th District COFI Replacement Index"), as the replacement index for ARMs. The purpose of the spread adjustment is to minimize or eliminate any value transfer to investors or "payment shock" to consumers as a result of the transition from COFI to Federal COFI. The GSEs anticipate that the methodology for the spread adjustment would be similar to the spread adjustment methodology that is being used by the Alternative Reference Rates Committee ("ARRC") for the LIBOR transition. The ARRC spread adjustment methodology includes a phased-in adjustment in the same manner as that recommended by the ARRC. The GSEs will provide updates about the spread adjustment as more information becomes available.

The Replacement Index is made available for use as a replacement index on Freddie Mac and Fannie Mae owned or guaranteed financial instruments, subject to the Enterprise 11th District COFI Replacement Index Notice And Disclaimer and the terms, conditions and restrictions set forth in applicable contracts pertaining to the Replacement Index. 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.

For more information on Freddie Mac's Federal COFI, visit Freddie Mac's website here.

Q5: What is Freddie Mac/Fannie Mae doing to get ready for the transition away from COFI?

A: Fannie and Freddie are working on a number of tasks to ensure a smooth transition. Some of those are listed below:

#	Activity	Expected Completion Date
1	Choosing a name for the new index, the Enterprise 11th District COFI Replacement Index, sending an announcement of this information to impact Servicers and letting them know about high level timing of the conversion.	Completed Q2 2021
2	Develop internal capability to support the Enterprise 11th District COFI Replacement Index.	Q4 2021
3	Convert legacy portfolio Enterprise 11th District COFI Replacement Index.	Q1 2022 and until all COFI ARMs have been transitioned to the Replacement Index.
4	Actively engaging impacted stakeholders (servicers, regulators and investors) on a regular basis to provide information to prepare for operational readiness and borrower notification of the index change and its impact.	Q1 2021 and onward.
5	Updating Fannie Mae MBS Subtypes (MBS data construct that identifies the ARM characteristics of the underlying collateral) with the replacement index description.	Q1 2022
6	Updating the description of the existing index code for Freddie Mac PCs and Fannie Mae MBS with the replacement index description.	Q1 2022

Q6: Why was the Enterprise 11th District COFI Replacement Index selected as the replacement index?

A: Freddie Mac and Fannie Mae considered potential alternative indices with the objectives of, among others, finding a fair, reasonable and comparable substitute index (by reviewing composition, tenors, and correlation) that met the following criteria:

- Based upon reliable, broad-based sources of information
- Based on instruments with a range of maturities
- High correlation to the original index

A spread-adjusted Federal COFI was determined to be the most fair, reasonable and comparable substitute index for COFI. This determination was made in consultation with FHFA following a review of 13 other indices, including the one-month simple average SOFR and 30-day average SOFR indexes. Federal COFI was determined to be the most closely correlated index to COFI.

The GSEs will reassess Federal COFI closer to the actual COFI cessation to ensure that it remains the most comparable index.

The GSEs' selection of Federal COFI as the replacement index for COFI under the guidance of FHFA is not an indication of the GSEs' intentions with respect to the replacement index for LIBOR-indexed financial instruments.

Q7: What impacts do you foresee to MBS/PCs securities with the transition of COFI to a successor index?

A: Freddie Mac and Fannie Mae will update the index codes (as referenced in our disclosures) and subtypes (Fannie Mae only) to reflect the replacement index.

Q8: Have you identified a successor index for Freddie Mac and Fannie Mae CMOs that use COFI?

A: Outstanding Freddie Mac CMOs indexed to COFI have fallback language indicating that, if the Federal Home Loan Bank of San Francisco 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 anticipates selecting spread-adjusted Federal COFI, as the replacement index for its COFI-indexed CMOs.

Outstanding Fannie Mae CMOs tied to COFI 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. The National Median Cost of Funds Index was discontinued in February 2012. Thus, the fallback index for all outstanding COFI-indexed CMOs is LIBOR. 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, 2023. In that event, we currently anticipate providing more information on the replacement index for LIBOR no later than December 31, 2022.