

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). The Enterprise 11th District COFI Replacement Index will be published starting February 28, 2022 for the January 2022 rate.

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

A: 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, as the replacement index for ARMs. The purpose of the spread adjustment is to minimize or eliminate any value transfer between investors and consumers. The GSEs anticipate that the methodology for the spread adjustment will be similar to the spread adjustment methodology that was recommended by the Alternative Reference Rates Committee (“ARRC”) for the LIBOR transition in June 2020. The [ARRC spread adjustment](#) methodology includes a phased-in adjustment (1-year transition period) for consumer loans only. Two replacement indices will be published – one for Single Family (consumer) loans and one for Multifamily loans and Freddie Mac CMOs.

Further ARRC announcements regarding spread adjustment methodology will be reviewed and considered as well as any relevant legislative or regulatory developments.

Q5: How will end users know whether the index contains the 1-year transition period recommended by the ARRC for consumer loans?

A: The replacement index for the Single Family Loan will be called “Enterprise 11th District COFI Replacement Index” and the replacement index for the Multifamily and Freddie Mac CMOs will be called “Enterprise 11th District COFI Institutional Replacement Index”. The publication of two indices

will remain in place even after the 1-year transition period so that users of each index will not need to make another transition. Refer to the Playbook for further information about the spread adjustment methodology.

Q6: Where will the replacement indices be published?

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

The Enterprise 11th District COFI Replacement Indices will be made available for use 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 Indices. The Enterprise 11th District COFI Replacement Indices are not created, calculated or published by or at the direction of, nor are the Enterprise 11th District COFI Replacement Indices or the decision that such indices are appropriate for use in any financial instrument, in any way associated or affiliated with, the Federal Home Loan Bank of San Francisco. The Replacement Indices 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](#).

Q7: What is Freddie Mac/Fannie Mae doing to get ready for the transition away from COFI?

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

#	Activity	Expected Completion Date
1	Choosing names for the new indices and sending an announcement of this information to impacted Servicers and informing them about high level timing of the conversion. The new names are: <ul style="list-style-type: none"> • Enterprise 11th District COFI Replacement Index, and • Enterprise 11th District COFI Institutional Replacement Index. 	Completed Q2 2021
2	Develop internal capability to support the Enterprise 11th District COFI Replacement Indices.	Q4 2021
3	Develop and publish new webpage hosting new indices.	Q3/Q4 2021
4	Convert legacy portfolio to Enterprise 11th District COFI Replacement Indices.	Q1 2022 and until all COFI ARMs have been transitioned to the relevant Replacement Index based on the adjustment date and the lookback period.
5	Actively engaging impacted stakeholders (servicers, regulators and investors) on a regular basis to provide	Q1 2021 and onward.

#	Activity	Expected Completion Date
	information to prepare for operational readiness and borrower notification of the index change and its impact.	
6	Updating Fannie Mae MBS Subtypes (MBS data construct that identifies the ARM characteristics of the underlying collateral) with the replacement index description.	Q1 2022
7	Making necessary changes to be operationally ready to support the new replacement indices.	Q1 2022

Q8: Why was the Enterprise 11th District COFI Replacement Index selected as the replacement index?

A: Freddie Mac and Fannie Mae considered several 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.

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 spread-adjusted Federal COFI as the replacement index for COFI is not an indication of the GSEs' intentions with respect to the replacement index for LIBOR-indexed financial instruments.

Q9: 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 Enterprise 11th District COFI Replacement Indices.

Q10: 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 has selected the Enterprise 11th District COFI Institutional Replacement Index 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.

Q11: What if I have COFI ARM Notes that contain non-standard index replacement language?

A: Most COFI ARM Notes contain standard index replacement language stating that “If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information.” Some servicers may also service legacy COFI loans that were closed on non-standard documents. We encourage servicers to identify loans closed on non-standard documents that provide for variations in selecting a replacement index, or in calculating the margin after COFI has been retired, so they are prepared in advance of the COFI expiration. There may be operational or other impacts based on these non-standard documents.