

FAQs for the Enterprise 11th District COFI Replacement Index and Enterprise 11th District COFI Institutional Replacement Index

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Summary of Changes

The table below details the list of changes since the February 2022 version of the FAQs published on the Fannie Mae and Freddie Mac websites.

Section	Summary of change
March 2022	
FAQs	<ul style="list-style-type: none"> Q11: Changed LIBOR tenor used as a fallback by Fannie Mae Collateralized Mortgage Obligations indexed to COFI from one-month LIBOR to one-year LIBOR. Moved “Summary of change (February 2022)” to “Summary of prior changes” section at the end.

FAQs

Q1: Why did Federal Home Loan Bank of San Francisco retire the 11th District Monthly Weighted Average Cost of Funds Index (COFI)?

A: The Federal Home Loan Bank of San Francisco announced that it would 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 did Federal Home Loan Bank of San Francisco retire COFI?

A: The last date for publication of the COFI index by the Federal Home Loan Bank of San Francisco was January 31, 2022 (for the December 2021 rate). The Enterprise 11th District COFI Replacement Index and the Enterprise 11th District COFI Institutional Replacement Index were 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. 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 and CMOs that use COFI?

A: Based on current comparability analysis, and based on a good faith determination, the GSEs selected the Federal Cost of Funds Index (Federal COFI) plus a spread adjustment, as the replacement index. The purpose of the spread adjustment is to minimize or eliminate any value transfer between investors and consumers. The methodology for the spread adjustment is similar to the spread adjustment methodology that was recommended by the Alternative Reference Rates Committee (“ARRC”) in June 2020 for the LIBOR transition. Like the [ARRC spread adjustment](#) methodology, the COFI spread adjustment methodology includes a phased-in adjustment (1-year transition period) for consumer loans only. As a result, two replacement indices are being published – one for Single Family (consumer) loans and one for Multifamily loans and Freddie Mac CMOs. For information on Freddie Mac and Fannie Mae CMOs, please refer to Q11. The replacement index is for use on those products for which the legal documents did not specify a particular index to transition to in the event COFI retired.

Q5: How do end users know whether the index contains the 1-year transition period for consumer loans?

A: The replacement index for Single Family loans is called “Enterprise 11th District COFI Replacement Index” and the replacement index for Multifamily loans and Freddie Mac CMOs is called “Enterprise 11th District COFI Institutional Replacement Index”. The publication of two indices will remain in place even after the 1-year transition period of the Consumer index, at which time the indices will reflect the same value. Consequently, the users of each index will not need to make another transition

after the 1-year transition period ends. Refer to the [COFI Playbook](#) for further information about the spread adjustment methodology.

Q6: Where are the replacement indices published?

A: Freddie Mac began publishing the replacement indices on its [website](#) on February 28, 2022.

The replacement indices are 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 replacement indices are not created, calculated or published by or at the direction of, nor are the 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: May the replacement indices be used for legacy financial instruments other than those owned or guaranteed by the GSEs?

A: Entities other than the GSEs that choose to use the replacement indices on their legacy financial instruments do so “as is,” at their own risk, and subject to Freddie Mac’s COFI Replacement Index [Disclaimer](#) (Disclaimer). The replacement indices may not be used on newly issued financial instruments as set forth in the Disclaimer.

Q8: What did Freddie Mac/Fannie Mae do to get ready for the transition away from COFI?

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

#	Activity	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 <ul style="list-style-type: none"> • Servicer Guide Bulletin dated 6/9/21 • FAQs & Playbook update dated 7/27/21
2	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. <ul style="list-style-type: none"> • Emails to Servicers to review notes for non-standard language (week of 7th June)

#	Activity	Completion Date
		<ul style="list-style-type: none"> • Response to Servicers on use of replacement index for notes with non-standard language (Week of 9th August) • Meetings with 3 Servicers on margin changes operational process (August 12, 18 & 25) • Emails to Servicers to announce the publication of the Enterprise 11th District COFI Replacement Index web page and the availability of downloadable test data is available from October 20, 2021 to February 27, 2022 (week of 1st November). • MBS Announcement (week of 13th December). • Follow-up Freddie Mac MBS Announcement (week of 24th January). • COFI Transition reminder emails to Servicers (week of 31st January). • Follow-up Fannie Mae MBS Announcement (week of 14th February)
3	Develop and publish new webpage hosting new indices.	Completed Q4 2021 <ul style="list-style-type: none"> • FAQs & Playbook update dated 10/20/21 • Servicer Guide Bulletin dated 10/20/21
4	Develop internal capability to support the replacement indices.	Completed Q1 2022
5	Convert legacy portfolio to replacement indices.	Q1 2022 and until all COFI ARMs have been transitioned to the relevant Replacement Index based on the interest rate adjustment date and the lookback period.

#	Activity	Completion Date
6	Updating Fannie Mae MBS Subtypes (MBS data construct that identifies the ARM characteristics of the underlying collateral) with the replacement index description.	Completed Q1 2022
7	Making necessary changes to be operationally ready to support the new replacement indices.	Q1 2022

Q9: Why were the Enterprise 11th District COFI Replacement Index and the Enterprise 11th District COFI Institutional Replacement Index selected as the “replacement indices”?

- 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 indices.

The GSEs reassessed Federal COFI in Q4 2021 and the results indicate that that Federal COFI had continued to be 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.

Q10: What impacts do you foresee to MBS/PC 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 indices.

For more information about impacts to Freddie Mac securities, refer to the [January 27, 2022 announcement](#).

For more information about impacts to Fannie Mae securities, refer to the [announcement sent the week of February 14, 2022](#).

Q11: 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 Fannie Mae CMOs is one-year LIBOR. Since the anticipated index cessation date for one-year 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.

Q12: What if I have COFI ARM Notes that contain non-standard index replacement language?

A: Most Single-Family (consumer) 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. The GSEs have required their COFI ARM 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, and to bring those to applicable GSE’s attention as soon as possible for further instruction. There may be operational or other impacts based on the criteria prescribed in these non-standard documents.

Summary of Prior Changes

Section	Summary of change
October 2021	
Single Family	<p>Q4. Updated to include CMOs. Added that Fannie Mae’s CMOs tied to COFI are indexed to LIBOR (SOFR).</p> <p>Q5. Reworded A. to reflect that the 2 indices will have the same value at the end of the 1-year transition period.</p> <p>Q6, Q7, Q8, Q9 (Activity 4 & 5), Q11: Changed, “Enterprise 11th District COFI Replacement Indices” to “replacement indices” for reducing repeated use of the full name of the replacement indices.</p> <p>Q7: New FAQ to address use of the COFI replacement indices for non-agency legacy financial instruments.</p> <p>Q8: New FAQ to address availability of the replacement indices website with test data.</p> <p>Q9 (Activity 3): Added completion date (Q4 2021) to develop and publish new webpage hosting new indices. Added completed actions under completed dates.</p> <p>Q12. Changed to “one-month LIBOR” from “LIBOR”.</p>

Section	Summary of change
February 2022	
FAQs	<ul style="list-style-type: none"> • In general, updated Questions and Answers to reflect the passing of COFI transition milestones, including the final publication of COFI and the first publication of the indices chosen to replace COFI. • Deleted previous Q8 as this was specific to test data available and test data is not available on/after 2/28/22. Renumbered remaining Questions. • Q8: Added completed activities. • Q9: Updated to reflect that the GSEs completed the replacement index comparable analysis in Q42021. • Q10: Added links to the applicable MBS Announcements. • Added new section at the end for Summary of Prior Changes.