Freddie Mac SINGLE-FAMILY

# Bulletin

**TO: Freddie Mac Servicers** **January 25, 2023 | 2023-2**

## SUBJECT: LIBOR TRANSITION

**Effective July 1, 2023. For LIBOR ARMs with interest rate adjustments based on a lookback date after June 30, 2023, Servicers must use the following replacement index.**

## REPLACEMENT INDEX

On March 5, 2021, the ICE Benchmark Administration Limited ("IBA"), the authorized administrator of the LIBOR Index (LIBOR), announced they would cease publishing all impacted USD LIBOR tenors after June 30, 2023. As a result, Freddie Mac must select a replacement index to be used after June 30, 2023, for any Freddie Mac-owned loans indexed to LIBOR that do not contain replacement index language recommended by the Alternative Reference Rates Committee (ARRC).

The Federal Adjustable Interest Rate (LIBOR) Act enacted on March 15, 2022 provides that a default alternative benchmark selected by the Board of Governors of the Federal Reserve System (Federal Reserve Board) based on the Secured Overnight Financing Rate (SOFR) will automatically apply to any contract that (a) does not contain a specific fallback provision for LIBOR, or (b) contains a fallback provision that identifies neither (i) a specific replacement index, nor (ii) a person with authority to select a replacement index. The Act provides liability protections to persons with authority to select a replacement index when they select the default alternative benchmark selected by the Federal Reserve Board. The Act also requires the Federal Reserve Board to select the default alternative benchmark. The Federal Reserve Board published its **final rulemaking** related to the legacy LIBOR retirement on December 16, 2022.

For consumer loans, 1-month, 6-month and 1-Year LIBOR indices are replaced by the applicable Term SOFR plus the transition tenor spread adjustment. Different spread adjustments will apply for each tenor of LIBOR. The tenor spread adjustment is subject to a one-year phase-in period.

| LIBOR Index | 1-month | 6-month | 1-Year |
|---|---|---|---|
| Active Index Codes | 036 | 007, 011, 017, 038, 039 | 041 |
| Refinitiv Public Replacement Index Name* | Refinitiv USD IBOR Consumer Cash Fallback 1-Month (CME Term SOFR) | Refinitiv USD IBOR Consumer Cash Fallback 6-Month (CME Term SOFR) | Refinitiv USD IBOR Consumer Cash Fallback 12-Month (CME Term SOFR) |
| Refinitiv Instrument Code (RIC)** | USDCFCFCTSA1M | USDCFCFCTSA6M | USDCFCFCTSA1Y |
| Replacement Index Details | 1M CME Term SOFR + Transition Tenor Spread Adjustment | 6M CME Term SOFR + Transition Tenor Spread Adjustment | 12M CME Term SOFR + Transition Tenor Spread Adjustment |
| Rate | All-In | All-In | All-In |
| Feature | No Floor | No Floor | No Floor |
| Freddie Mac Replacement Index Name for Servicing* | LIBOR REP 1M | LIBOR REP 6M | LIBOR REP 1Y |

*Servicers must use the “Refinitiv Public Replacement Index Name” in connection with its external communications and disclosures to Borrowers, subject to applicable law. Freddie Mac and Servicers should use the “Freddie Mac Replacement Index Name” in connection with their systems and communications with each other.

**When Servicers access the historical rates published by Refinitiv Limited, the index reflected by the RIC in this table represents the “all-in”, “no floor” replacement index.

Freddie Mac’s portfolio contains 1-month, 6-month and 1-Year LIBOR ARMs. Most Freddie Mac LIBOR ARM Notes contain standard index replacement language stating, “If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information.” Since 2020, Freddie Mac has acquired loans indexed to LIBOR that were originated using uniform Notes containing the ARRC recommended replacement index language, which requires those loans to transition from LIBOR to the applicable Federal Reserve Board selected replacement index. Today’s Bulletin ensures that all of Freddie Mac’s ARMs indexed to LIBOR transition to the applicable Federal Reserve Board selected replacement index.

For all Freddie Mac-owned loans indexed to LIBOR with interest rate adjustments based on a lookback date that occurs after June 30, 2023, Servicers must use the applicable, “all-in”, “no floor” replacement index set forth in the table which will be published by Refinitiv Limited. Refinitiv Limited was selected by the ARRC to administer the USD IBOR cash fallback rates. Refinitiv Limited began **publishing** prototype fallback rates on **September 21, 2022**. The applicable “all-in”, “no floor” replacement index to be used by Servicers of Freddie Mac loans indexed to LIBOR will be available on the Refinitiv USD IBOR Consumer Cash Fallbacks Summary **website** after June 30, 2023. Servicers will also be able to access historical USD IBOR cash fallback rates on Refinitiv Limited’s **website**.

As a reminder, for Freddie Mac LIBOR ARM Notes that contain neither the standard nor the ARRC replacement index language, Servicers must comply with the requirements set forth in Bulletin 2022-12 and follow Freddie Mac’s replacement index instructions to be provided directly to each impacted Servicer with respect to those non-standard/non-ARRC LIBOR ARM Notes that Servicers should have already identified for Freddie Mac.

Servicers must provide affected Borrowers with written notice identifying the replacement index and indicating where it is posted on or before the date of their next Mortgage interest rate adjustment based on the replacement index and in accordance with the Note, applicable laws and regulations. In addition, Servicers must store a copy of this notice in the Freddie Mac Mortgage file and send a copy of the notice to the Document Custodian with instructions to store the notice with the original Note.

## RESOURCES

To learn more about the LIBOR transition, please visit:

- **Freddie Mac Reference Rate web page**
- **LIBOR FAQs**
- **LIBOR Playbook**

## CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,

Bill Maguire

Vice President, Servicing Portfolio Management