



Small Balance Loan (SBL) New SOFR Hybrid Training Guide

SOFR Background and Resources:

- The publication of LIBOR is expected to cease at the end of 2021. The Secured Overnight Financing Rate (SOFR) has been chosen by the Alternative Reference Rates Committee (ARRC) as the best alternative index to USD LIBOR.
- SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities in the repurchase agreement (repo) market.
- Additional resource: [Freddie Mac Multifamily LIBOR Transition webpage](#)
- SOFR-related questions or loan offering feedback should be communicated to us by emailing our MFLIBOR@freddiemac.com mailbox, or by reaching out to [Annie Gong](#) or [Steve Malloy](#) on the SBL Production & Sales team.

Key Dates:

- **September 1, 2020:** All Optigo® SBL lenders will begin to issue SOFR-Indexed Hybrid loan applications, and applications for LIBOR-Indexed Hybrids can no longer be issued.
- **November 9, 2020:** Last day for submission of underwriting packages for LIBOR-Indexed SBL Hybrid loans to Freddie Mac.
- **December 11, 2020:** Last day for submission of final delivery packages for LIBOR-Indexed SBL Hybrid loans to Freddie Mac.
- **December 31, 2020:** Last day for Freddie Mac to purchase LIBOR-Indexed SBL Hybrid loans, regardless of the application date or the date of the mortgage note.
- Please note, with respect to the required cut-off dates, the earlier of the stated cut-off date or the standard process timeline requirement will apply.

Loan Structure and Process Changes:

Our objective is to keep nonessential loan structure and process changes to a minimum. If any aspect of loan structure or process is not mentioned in this memo, it is very likely that no change is planned.

Loan Structure Change

- Floating-rate Index: The existing SBL Hybrids are indexed to 6-month Term LIBOR. The new SOFR-based SBL Hybrids will be indexed to 30-day Average SOFR.
 - Publisher: The 30-day Average SOFR is published by the Federal Reserve Bank of New York on the following publication page:
<https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>.
- Term LIBOR vs. Average SOFR: LIBOR is a term rate, meaning it is “forward-looking” and represents a rate that is fixed over a specified term, with a maturity date in the future. In contrast, 30-day Average SOFR represents a “backward-looking” calculated rate, calculated by taking the compounded average of daily SOFR over the preceding 30-days. However, it is

important to note that the rate reset frequency remains unchanged for the new SBL SOFR-Indexed Hybrids.

- Additional details are available in the ARRC’s “A User’s Guide to SOFR”:
https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/Users_Guide_to_SOFR.pdf

	Metric	LIBOR	SOFR
Index	Index	London Inter-Bank Offered Rate (LIBOR)	Secured Overnight Financing Rate (SOFR)
	Index Rate Term	SBL Hybrid: 6-month Term Rate	FRBNY-published 30-day average Rate is known "In Advance" of Accrual Period
	Publisher	Intercontinental Exchange (ICE)	Federal Reserve Bank of New York
	Access Provider	Various sources that publish LIBOR as described in the Note	FRBNY website

Loan Payments	Interest Accrual Period	Calendar Month	
	Margin	Index + 325	
	Interest Rate Reset Frequency	SBL Hybrid: Every 6 months during floating-rate period	
	Interest Rate Caps	1% - 1% - 5% with a floor of the initial fixed rate	
	Rate Determination Date	1st day preceding the beginning of rate reset date for which LIBOR has been released by the IBA	1st day preceding the beginning of rate reset date for which 30-day SOFR average has been released by the FRBNY
	Loan Installment Due Date/Frequency	Monthly, first day of calendar month	

Process Changes

- Prescreen, exception and pricing waiver requests should clearly note that the request is for a SOFR-Indexed Hybrid loan.
- SBL Pipeline Manager Tool (PMT) includes additional selection options that should be chosen for SOFR-Indexed Hybrids, as shown below:

The screenshot shows the 'Loan Terms' configuration window. The 'Loan Structure' dropdown menu is expanded, displaying the following options:

- *Loan Type: -- Choose Loan Type --
- *UPB: []
- *DSCR: []
- *LTV: []
- *Loan Structure: -- Choose Loan Structure --
- *I/O Term: -- Choose Loan Structure --
- *Prepay Option: Fixed - 5 YR, Fixed - 7 YR, Fixed - 10 YR
- *Premium: Hybrid - 5 YR, Hybrid - 7 YR, Hybrid - 10 YR
- *Servicing Fee (bps): SOFR Hybrid - 5 YR, SOFR Hybrid - 7 YR, SOFR Hybrid - 10 YR
- *Delivery Path: SOFR Hybrid - 5 YR, **SOFR Hybrid - 7 YR**, SOFR Hybrid - 10 YR

- SOFR-Indexed Hybrid selection in PMT will be available on September 1.
- Full Package Submission emails should indicate the applicable term and indicate the loan is a SOFR-Indexed Hybrid in the “Product Type” field, as shown below:

Freddie Mac Loan #	
Property Name	
City, State	
Units:	
Standard Delivery/ERL	
Product Type	5-Year SOFR Hybrid
Loan Amount:	
Refi/Acq.	

Loan Documents:

- Updated Loan Documents for SOFR loans are posted on the [Freddie Mac SOFR loan documents webpage](#)

Although Term SOFR is not currently available, it is expected to become available at a later date, potentially by 2021.

- SOFR note form will provide that the index will automatically transition (“jump”) from 30-day Average SOFR to 1-month Term SOFR, when available.
- “Availability” will occur only when ARRC endorses Term SOFR and when Freddie Mac determines that transition to Term SOFR is technically, administratively and operationally feasible.