



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 <u>MFLIBOR@freddiemac.com</u> mailbox, or by reaching out to <u>Annie Gong</u> or <u>Steve Malloy</u> 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.

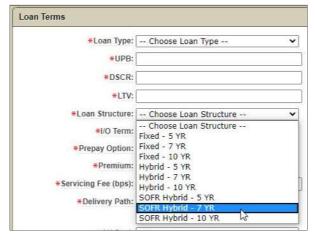
Additional details are available in the ARRC's "A User's Guide to SOFR":
 https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/Users_Guide_to_SOFR.pdf

19	Metric	LIBOR	SOFR
	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
9	Publisher	Intercontinental Exchange (ICE)	Federal Reserve Bank of New York
=	Access Provider	Various sources that publish LIBOR as described in the Note	FRBNY website

hents	Interest Accrual Period	Calendar Month		
	Margin	Index + 325		
	Interest Rate Reset Frequency	SBL Hybrid: Every 6 months during floating-rate period		
ın Payr	Interest Rate Caps	1% - 1% - 5% with a floor of the initial fixed rate		
Log	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 calenda	thly, 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:



- 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
5-Year SOFR Hybrid	Product Type
	Loan Amount:
	Refi/Aca.

Loan Documents:

 Updated Loan Documents for SOFR loans are posted on the <u>Freddie Mac SOFR loan documents</u> 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.