

May 30, 2023

**APM 23-07**

**MEMORANDUM FOR:** All Participants in Ginnie Mae Programs

**FROM:** Alanna McCargo, President

**SUBJECT:** Transition from LIBOR to SOFR-Based Rates for Home Equity Conversion Mortgages (HECM)

Publication of the representative USD London Interbank Offered Rate (LIBOR) will cease after June 30, 2023. In accordance with the Adjustable Interest Rate (LIBOR) Act, passed by Congress as a part of the Consolidated Appropriations Act, 2022 (Public Law 117-103) and the related regulations, existing LIBOR contracts without provisions for a replacement benchmark rate will transition to spread-adjusted term rates based on the Secured Overnight Financing Rate (SOFR). FHA has announced in Mortgagee Letter 2023-09, that the new indexes shall be the applicable Refinitiv USD IBOR Cash Fallback based on the Chicago Mercantile Exchange (CME) Group’s Term SOFR Rates (CME Term SOFR) plus the applicable spread adjustment (Replacement Index) for legacy LIBOR based HECM ARMs<sup>1</sup>. Additionally, FHA has announced that new HECM originations may be based on either the 30-day average SOFR, or the 1-year Constant Maturity Treasury (CMT). This APM provides guidance to Issuers for the transition of existing, or legacy, adjustable-rate HECMs based on LIBOR to the Replacement Index and announces a new pool type for new annually adjusting HECMs based on SOFR.

**Transition of existing HECMs and HMBS**

Existing LIBOR based HECM ARMs will convert to the Replacement Index as follows:

Existing LIBOR based Adjustable Rate HECMs	Replacement Index*
Annually Adjustable Rate HECMs	12-Month CME Term SOFR
Monthly Adjustable Rate HECMs	1-Month CME Term SOFR

<sup>1</sup> The CME Term SOFR indices are found at: <https://www.refinitiv.com/en/financial-data/financial-benchmarks/usd-ibor-cash-fallbacks> Issuers must use the “All-In” CME Term SOFR Rate and select the “Feature” (No Floor) when downloading historical data.

Adjustable Rate HECMs will remain based on LIBOR until they convert to the applicable Replacement Index on their first change date, or periodic adjustment date for which the index in effect on the lookback date is SOFR, that occurs after June 30, 2023.<sup>2</sup> Monthly Adjustable LIBOR based HMBS will convert to the Replacement Index by September 1, 2023. However, annually adjustable HECMs may have differing change dates, therefore annually adjusting LIBOR based HMBS will begin to transition to the Replacement Index on September 1, 2023 and can contain a combination of HECMs indexed to LIBOR and HECMs indexed to the Replacement Index until all such mortgages have converted. In all cases, the interest rate of the HMBS will transition in a manner consistent with the treatment of the HMBS as a fixed investment trust for U.S. federal income tax purposes.

### **Updates to HMBS Pool Types and New SOFR Based Pool Type**

To support the transition, and forward pooling of participations, Ginnie Mae is retaining the LIBOR based HMBS pool types for monthly and annually adjusting HECMs, types “H ML” and “H AL.” However, beginning with Issuances on or after July 1, 2023, the LIBOR based HMBS may only contain loans originated and funded prior to July 1, 2023, and the subsequent participations thereof.

Monthly and Annually Adjustable HMBS pool types based on the 1-year CMT Index will not change. Newly originated HECMs and subsequent participations of HECMs based on the CMT Index are eligible for pooling in the “H RM” and “H RA” pool types.

### **New SOFR Based Pool Type**

Ginnie Mae is also releasing a new pool type “H SA” for annually adjusting HECMs based on SOFR that are originated on or after July 1, 2023. The index will be 30-day average SOFR, which is the compounded average of the SOFR over a rolling 30-day period, as administered and published daily by the Federal Reserve Bank of New York<sup>3</sup>. The new pool type will be

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<sup>2</sup> In accordance with FHA’s requirements, the index rate is the rate published on the first business day of the week; and is in effect 30 days before the interest rate change date. For example: 30 days before August 1, 2023, is July 2, a Sunday. The rate in effect is the rate from Monday June 26, 2023. Since the LIBOR rates are still in effect through June 30, the August 1, 2023, change will be based on LIBOR.

<sup>3</sup> The 1-year CMT index is found at: <https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>



available for issuances on or after July 1, 2023.

NOTE: Annually Adjustable HECMs that convert to the Replacement Index are ineligible for the new “H SA” HMBS pool type announced above.

### **Additional Updates to HECM Requirements**

In Mortgage Letter 2023-09, FHA also announced a floor of zero for a HECM Interest Rate Index, and a maximum interest rate for monthly adjustable HECMs. For annually adjusting HECMs, the floor would be the higher of the initial interest rate minus the lifetime cap, but not less than the margin. For monthly adjustable HECMs the floor rate is equal to the margin, and the maximum interest rate is 10% above the initial interest rate. Please see Appendix III-28 of the Ginnie Mae Mortgage Backed Securities Guide, HUD Handbook 5500.3, Rev-1 (MBS Guide) for more detailed information.

Chapter 35, Appendices III-28 (11705H and 11706H Instructions); IV-29 (HMBS Base Prospectus); IV-32 (HMBS Partial Statement of Terms); and Glossary of the MBS Guide have been updated accordingly.

If you have any questions regarding this announcement, please contact your Account Executive in the Office of Issuer and Portfolio Management.



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