Fannie Mae and Freddie Mac CMO SOFR Index Framework

June 11, 2020

Summary of Changes

June 11, 2020	
Slide 4	Updated language to reflect a Determination Date of two business days prior to the beginning of the accrual period for 45-day, 55-day and 75-day Delay and Non-Delay SOFR-indexed securities
Slide 5	Removed language referring to the previous Determination Date timing
Slides 6-11	Updated graphics to reflect a Determination Date of two business days prior to the beginning of the accrual period for 45-day, 55-day and 75-day Delay and Non-Delay Compounded SOFR-indexed securities

Background

The Alternative Reference Rates Committee (ARRC) endorsed the Secured Overnight Financing Rate (SOFR) as its recommended alternative rate to the London Interbank Offered Rate (LIBOR) in anticipation of the cessation of LIBOR that may occur as soon as the end of 2021.

This document presents a **preliminary joint framework proposal** for:

1. Issuing CMOs indexed to Term SOFR [1] (depending on its availability) or Compounded SOFR (defined as "30 day Average SOFR" published by the FRBNY). As discussed on Slide 4, we currently plan to use Compounded SOFR for new SOFR-indexed CMOs, as a Term SOFR rate has not yet developed.

2. Transitioning to Term SOFR or Compounded SOFR on **new-issue** LIBOR-indexed CMOs[2] in the event LIBOR ceases to be published or is declared to no longer be representative.

   - Fannie Mae and Freddie Mac (the Enterprises) each recently adopted a slightly modified version of the ARRC securitization waterfall for **new-issue** LIBOR-indexed CMOs. This waterfall language generally provides for the use of Term SOFR as the first alternative index. If Term SOFR has not received appropriate regulatory approval or cannot be operationalized, the next alternative index is Compounded SOFR.
   - The Enterprises will each have discretion in determining (i) when LIBOR has ceased to be published or, in some cases, is declared to no longer be representative, thus triggering a transition from LIBOR to Term SOFR or Compounded SOFR and (ii) whether Term SOFR has received appropriate regulatory approval and can be operationalized at the time of such transition or whether Compounded SOFR will apply at the time of the transition.

The Enterprises each recently announced that they intend for their respective **legacy** LIBOR-indexed CMOs[3] to be treated the same as their new-issue LIBOR-indexed CMOs in the event LIBOR ceases to be published or is declared to no longer be representative, in that the legacy LIBOR-indexed CMOs would also transition to Term SOFR (depending on whether it has received appropriate regulatory approval and can be operationalized) or Compounded SOFR. For more information, see Freddie Mac announcement and Fannie Mae announcement.

1) In this presentation, "Term SOFR" means the forward-looking term rate that has been selected or recommended by the Federal Reserve, the Federal Reserve Bank of New York or applicable official committee (e.g., the ARRC).
2) The ARRC waterfall applies to LIBOR-indexed collateralized mortgage obligations (CMOs) (i.e., REMICs and strips) issued by Fannie Mae on and after June 1, 2019 and issued by Freddie Mac on and after October 1, 2019. In this presentation, we refer to these CMOs collectively as "new-issue LIBOR-indexed CMOs."
3) In this presentation, "legacy LIBOR-indexed CMOs" refers to LIBOR-indexed CMOs issued by Fannie Mae prior to June 1, 2019 and Freddie Mac prior to October 1, 2019.

Considerations

There are a variety of ways to implement a SOFR CMO rate structure. The feasibility of these options depends on events that have not yet occurred or other variables (potential emergence/publication of Term SOFR rates, operational capabilities at both Enterprises, the Federal Reserve and Common Securitization Solutions, etc.).

SOFR is currently only a backward-looking rate, as opposed to the term LIBOR rate structure used for CMOs. Term SOFR may develop in the future, but there can be no assurance that reliable and widely-accepted Term SOFR rates will emerge and receive regulatory approval, or when they will do so. Until Term SOFR emerges and is implemented, Fannie Mae and Freddie Mac would likely use Compounded SOFR for SOFR-indexed CMO issuances.

We currently plan to structure new issue Delay and Non-Delay SOFR-indexed CMOs that would:

- Initially use "30 Day Average SOFR" published by the FRBNY[1] as the reference rate, and a Determination Date of 2 Business Days (2BD) prior to the beginning of the accrual period for 45-day, 55-day and 75-day Delay and Non-Delay securities.
- Transition to a Term SOFR rate at a later date if the appropriate regulatory authority approves such a rate. The transition would be made as soon as the Term SOFR rate can be operationalized. Determination Dates for CMO securities using a Term SOFR rate will use the same 2BD prior to the accrual period convention described above for the "30 Day Average SOFR" rate.[2]
- Utilize at-issuance disclosure and operative documents that would provide that the CMO securities would accrue interest in accordance with the two bullets above.

[1] https://www.newyorkfed.org/markets/opolicy/operating_policy_200212

[2] This transition could occur prior to the time LIBOR ceases or is declared to be unrepresentative, to the extent Term SOFR has been approved by the appropriate regulatory authority and can be operationalized. Once this transition occurs, we would also expect to commence using Term SOFR for new issue SOFR-indexed CMOs and cease using Compounded SOFR.

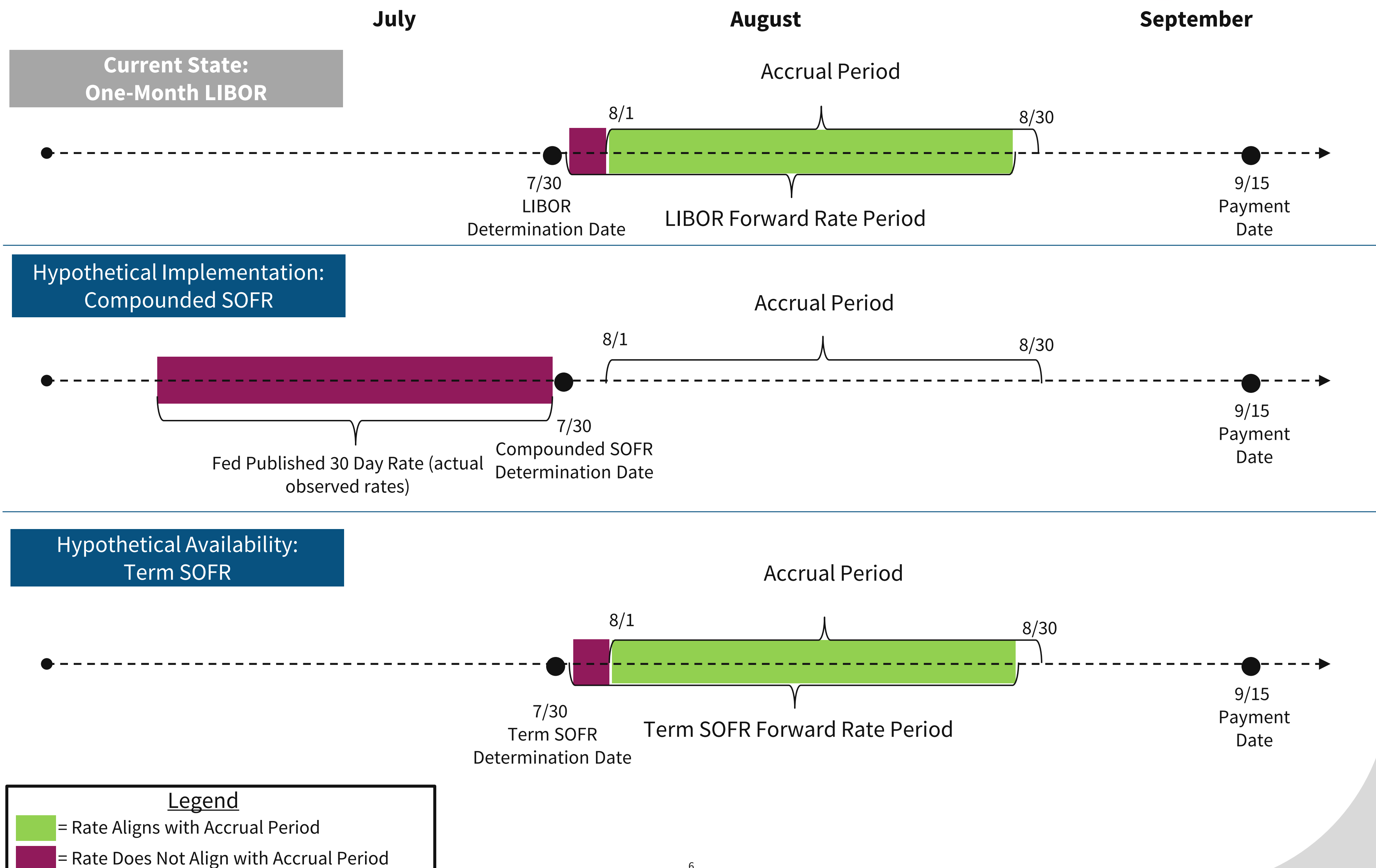
Market participants are encouraged to provide feedback on this framework by contacting their Fannie Mae and Freddie Mac Structured Transactions counterparts or via this link (Fannie Mae) or email Investor_Inquiry@freddiemac.com (Freddie Mac).

Outline of Proposals

The following slides contrast the differences in Determination Dates and Accrual Periods among the current state offerings (using one-month LIBOR), and our hypothetical implementations of Term SOFR and Compounded SOFR.

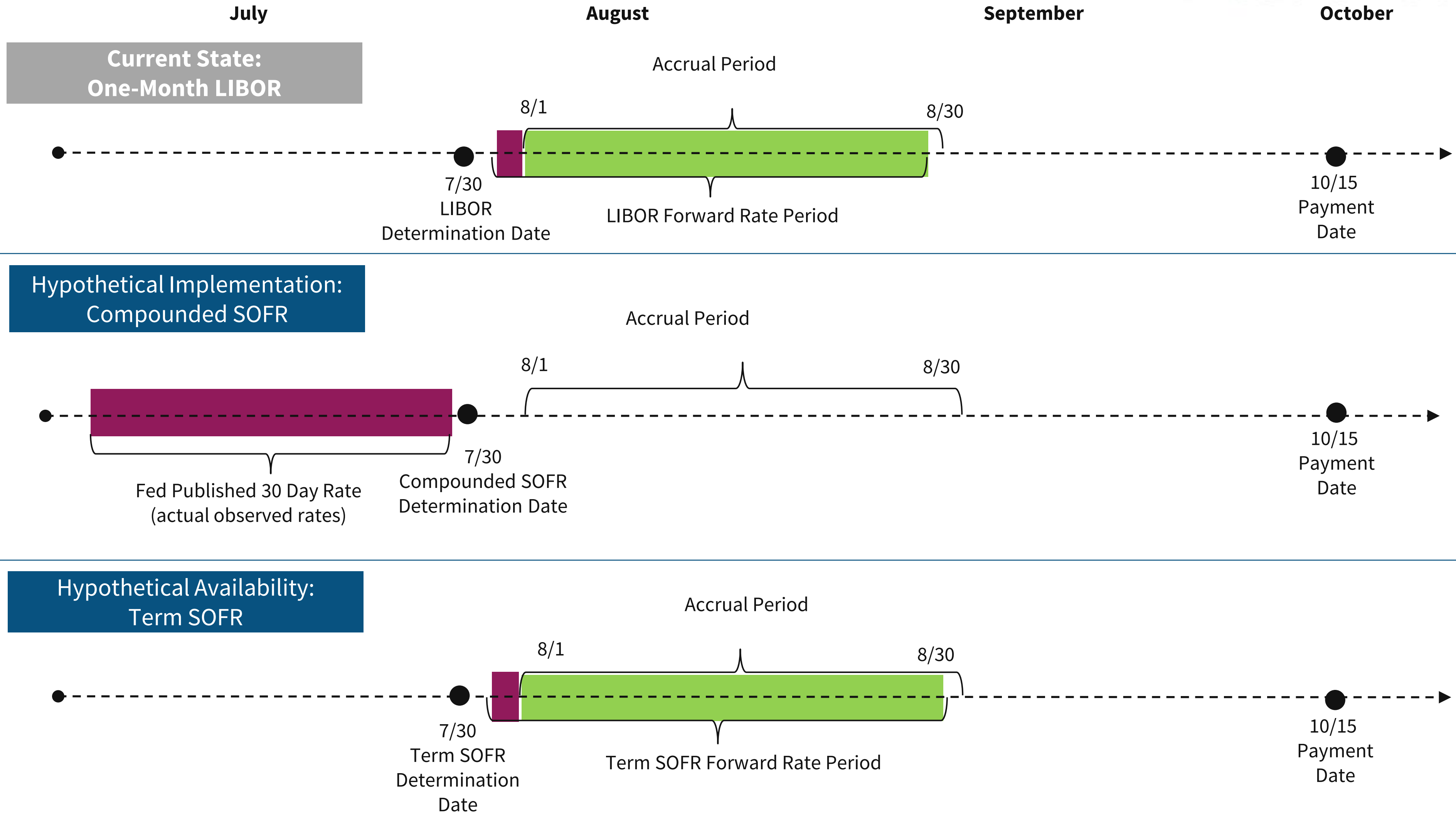
New Issue Delay

15th Pay/45-day Rate and Accrual Proposal



New Issue Delay

15th Pay/75-day Rate and Accrual Proposal



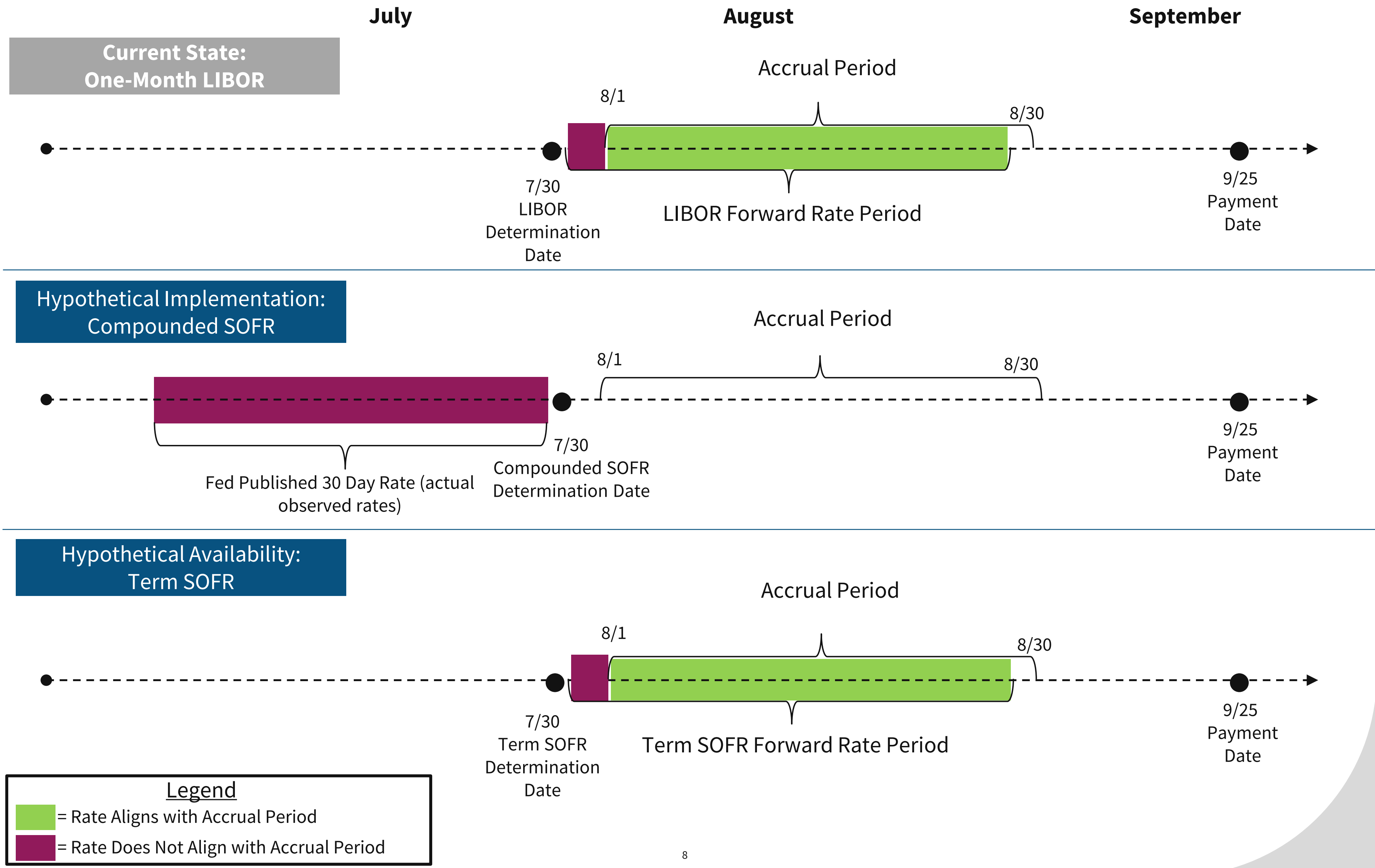
Legend

= Rate Aligns with Accrual Period

= Rate Does Not Align with Accrual Period

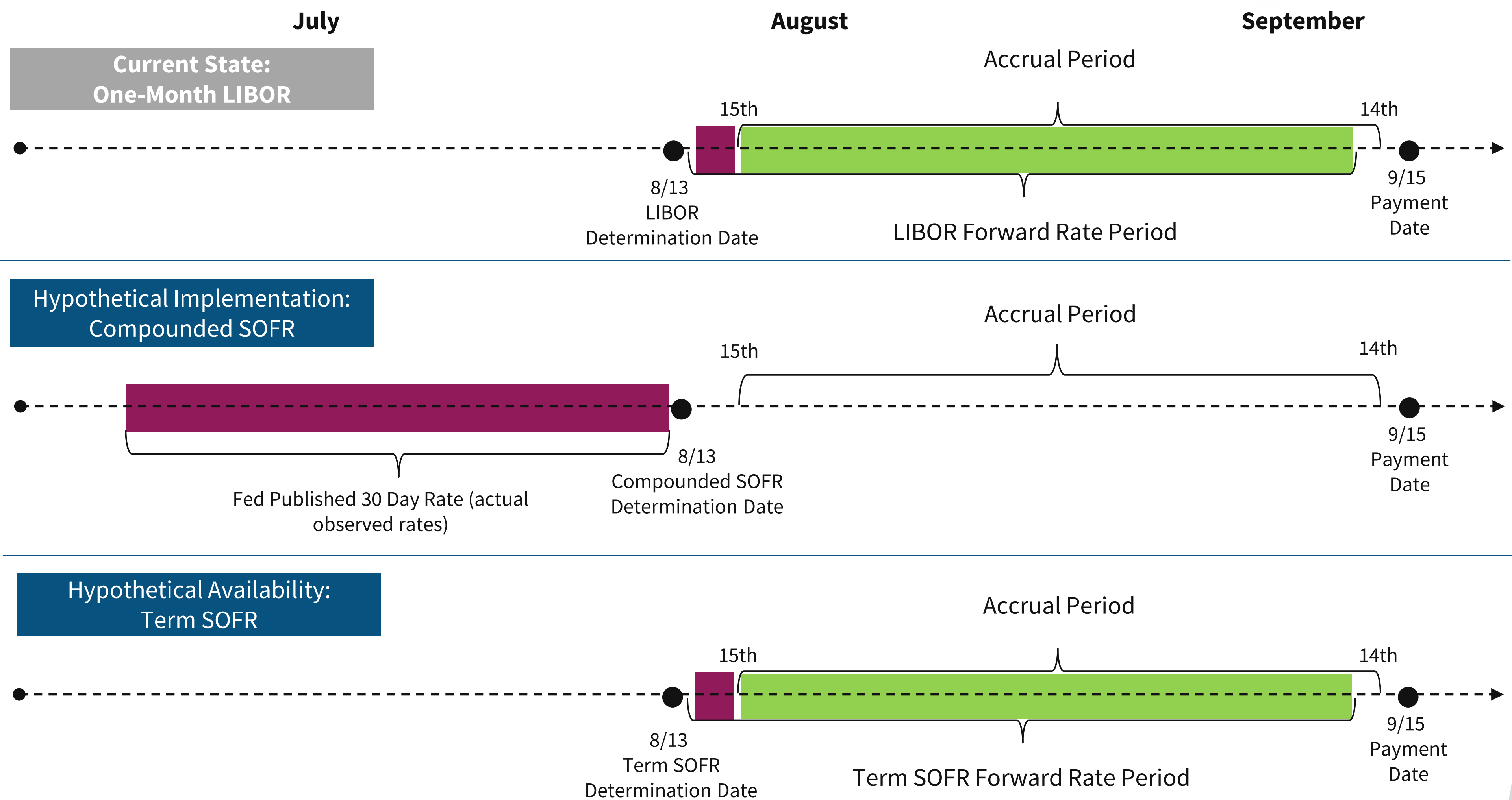
New Issue Delay

25th Pay/55-day Rate and Accrual Proposal



New Issue Non-Delay

15th Pay/45-day Rate and Accrual Proposal



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= Rate Aligns with Accrual Period

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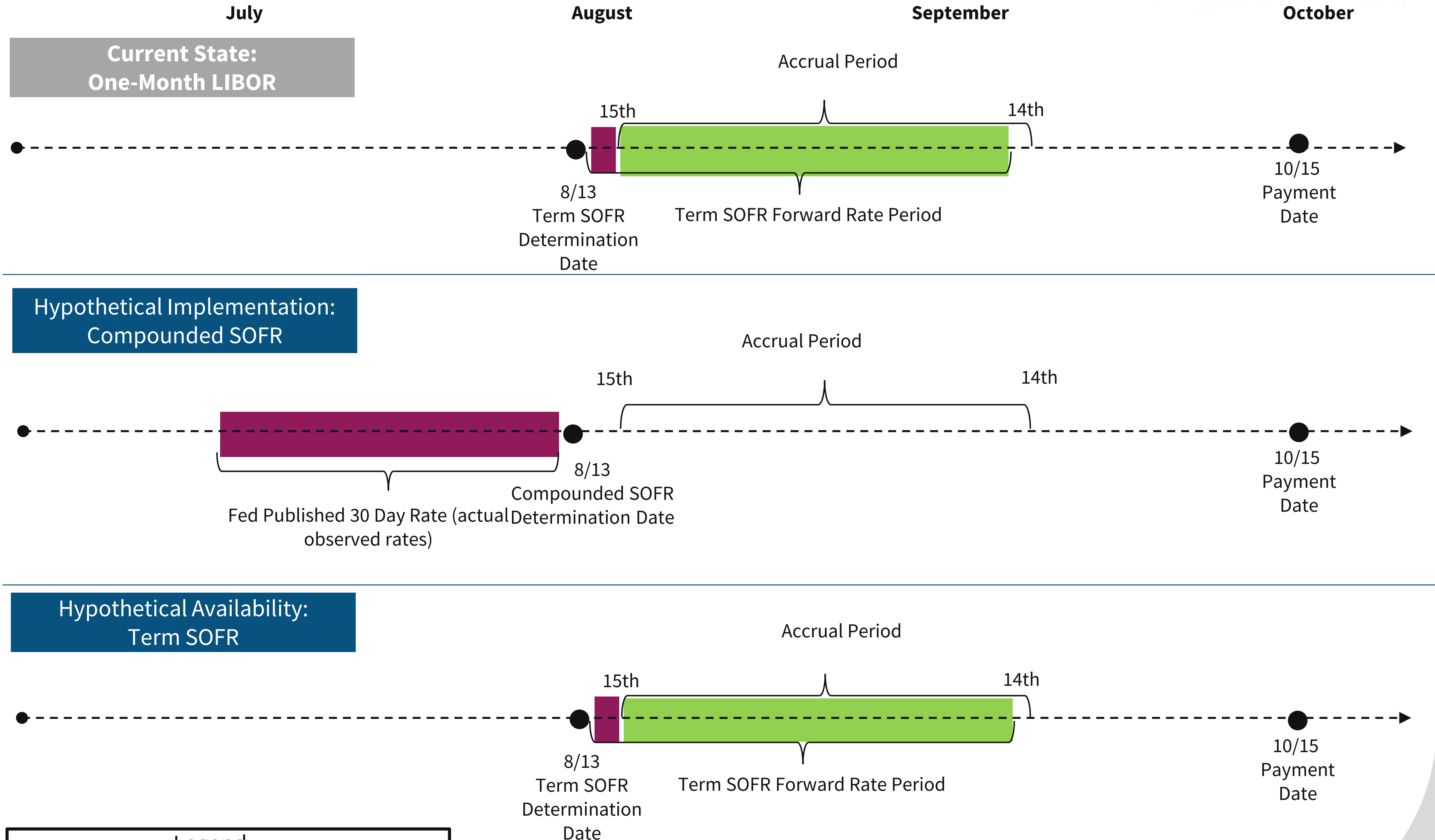
New Issue Non-Delay

15th Pay/75-day Rate and Accrual Proposal



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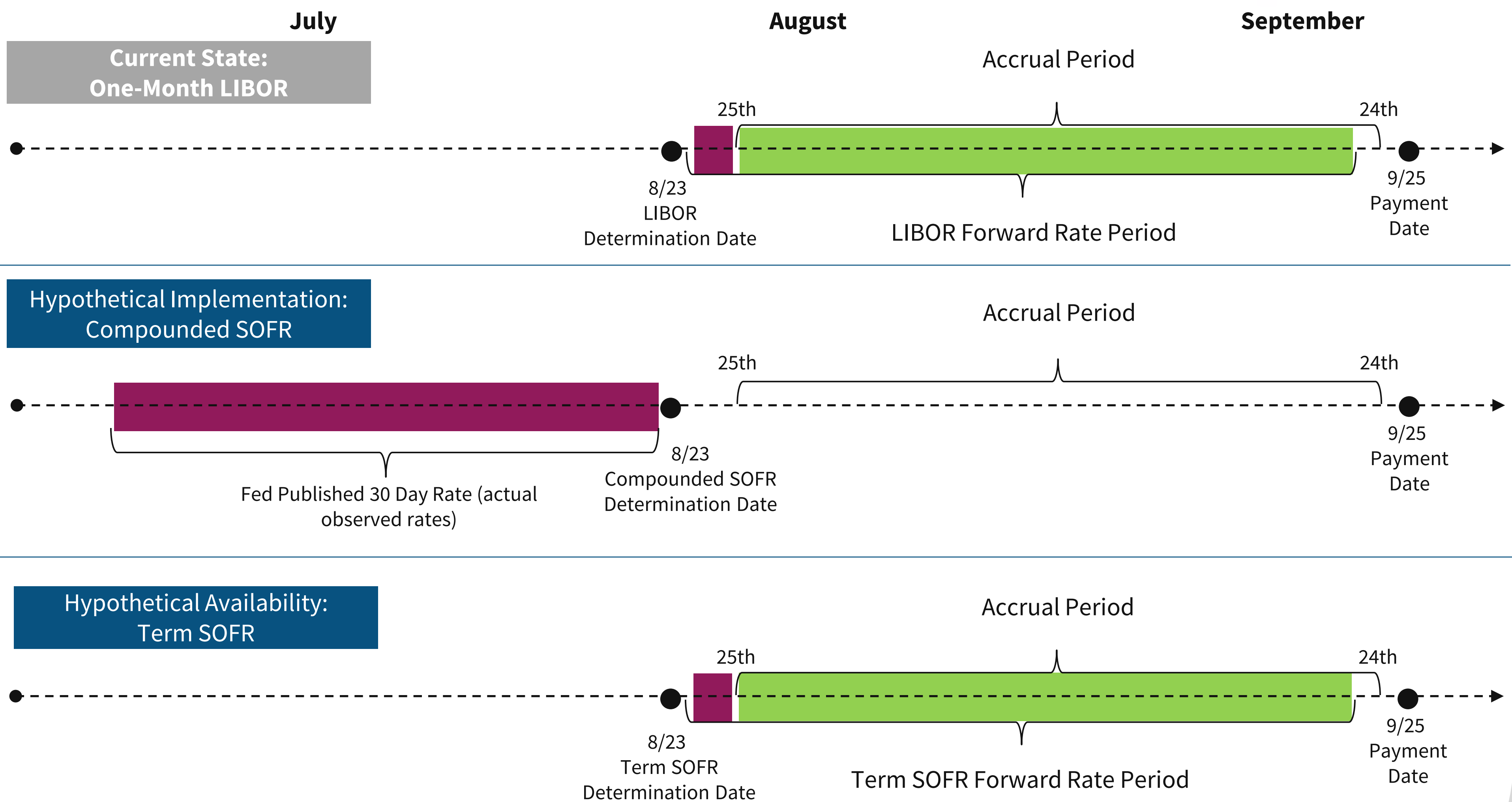
New Issue Non-Delay

25th Pay/55-day Rate and Accrual Proposal



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