Freddie Mac - Multifamily Floating Rate Loans and Securities

Q1. When will Freddie Mac Multifamily stop purchasing LIBOR-based floating-rate loans?

On February 5, 2020, we announced key dates for the LIBOR transition:

- September 30, 2020: Last date for applications for LIBOR-indexed floating-rate loans
- December 31, 2020: Last day to purchase LIBOR-indexed floating-rate loans, regardless of application date

Additionally, as of September 1, 2020, quote issuance for LIBOR-indexed loans has been discontinued; all new floating-rate quotes and SBL hybrid applications will be indexed to SOFR.

Q2. Why is Freddie Mac Multifamily using SOFR in its new floating-rate offering?

We are following the guidance from the ARRC. To better understand the ARRC’s position on SOFR and how it addresses the LIBOR issues, please see the ARRC’s LIBOR transition page.

Q3. What resources are available to learn more about SOFR?

Please visit our LIBOR Transition webpage for information, updates and links to recommended resources.

Additionally, we encourage you to send questions to our LIBOR transition team at MFLIBOR@freddiemac.com.

Q4. When will floating-rate loans based on SOFR be available for quoting and purchase?

On September 29, 2020, we purchased the first floating-rate loan that uses an index based on SOFR. We started quoting SOFR-indexed floating rate loans on September 1, 2020, and concurrently ceased issuance of new LIBOR-indexed quotes.

Q5. Will legacy LIBOR floating rate loans use the same index as the new SOFR-indexed loans?

We have not chosen a replacement index for any of our legacy LIBOR products.

Addressing what happens to legacy LIBOR floating rate loans is one of the largest remaining issues for the legislatures, regulators and the ARRC. Freddie Mac and Fannie Mae are working together under the guidance of our regulator to address these and other challenges. Freddie Mac is working with the ARRC on the legacy loan transition away from LIBOR; and we will provide guidance as work on these issues progresses.
Q6. What do Optigo® lenders and other Freddie Mac servicers need to do in preparation for newly originated SOFR-indexed loans?

Our objective is to minimize impacts to established reporting and remitting practices followed by our servicing community. SOFR readiness requires servicers to assess their internal processes and systems in order to ensure timely and effective implementation of a SOFR index rate.

Q7. Is SOFR volatility a concern?

Freddie Mac and other market participants intend to use a backward-looking SOFR compounded average, which is less volatile than single-day rates. To better understand the ARRC’s position on SOFR and its volatility, please see "About SOFR" on the ARRC's LIBOR transition page.

Q8. How will interest rate caps be affected by the transition to SOFR?

Third-party interest rate caps that reference a LIBOR-based index (whether now in place or purchased after the date of these FAQs) will transition to a SOFR-based index only in accordance with their governing documents and the loan documents.

As the market for third-party caps that reference a SOFR-based index continues to grow and mature, borrowers will be permitted, on a temporary basis, to purchase an initial LIBOR-based cap agreement instead of a SOFR-based cap agreement. These special LIBOR-based cap agreements include language that specifies the circumstances upon which the cap index will transition to SOFR. However, within the past month, two financial institutions began quoting and selling SOFR-based interest rate caps, and we expect most SOFR-based loan borrowers to purchase SOFR-indexed interest rate caps.

While Freddie Mac’s requirements for interest rate caps will not change if a SOFR-based cap agreement is purchased, additional requirements will apply if the borrower elects to purchase a LIBOR-based cap. The additional requirements have been outlined in section 6.2 of the LIBOR Transition Playbook.

Q9. Which SOFR index will be used for new loan and security offerings?

The initial index for our SOFR loans and securities will be the 30-day average SOFR. That index will be used for floating rate loans across all our product lines—Conventional, Targeted Affordable Housing and Small Balance Loans and will subsequently transition to a term SOFR rate endorsed by the ARRC when such transition becomes operationally, administratively, and technically feasible. Also, interest will accrue on a calendar-month basis, just as is currently done with existing LIBOR-based products.

Q10. Will Freddie Mac change the methodology for sizing floating-rate loans as part of the transition?

No, Freddie Mac’s methodology for sizing floating-rate loans will not change as part of the transition.

Q11. How will SOFR-indexed loan pricing compare with LIBOR? Will loan spreads increase?

Loan pricing is evaluated routinely to ensure alignment with market conditions; therefore, any changes will be market-driven and will not be a direct result of our transition to SOFR. Of note, spread hold periods will not be affected by the transition to SOFR.

Q12. How are Optigo lenders expected to access the index?
Optigo lenders can access the Federal Reserve Bank of New York’s website for published SOFR averages for 30, 90 and 180 days, as well as a SOFR index.

Q13. **Do legacy Freddie Mac floating-rate securities require certificate holder consent or a vote to determine the alternative index?**

Legacy floating-rate securities do not require certificate holder consent or a vote in order to change from LIBOR to an alternative index.
**Freddie Mac - Multifamily Credit Risk Transfer (MFCRT)**

**Q1. Will Freddie Mac Multifamily adopt ARRC recommended fallback language in new issuance multifamily credit risk transfer deals?**

Currently, we have not issued, nor do we plan to issue any LIBOR-based Multifamily credit risk transfer deals. To date, our only Multifamily CRT security offerings have been called “Structured Credit Risk (SCR) Notes.” We also have another CRT offering through reinsurance form, “Multifamily Credit Insurance Pool”, which will not be covered here due to the fixed insurance premium obligation nature without any LIBOR or floating-rate component.

**Q2. Is Freddie Mac Multifamily planning to issue non-LIBOR-based SCR deals?**

Reducing LIBOR exposure for both Freddie Mac Multifamily and our investors is very important to us. Freddie Mac Multifamily plans to have capability of issuing non-LIBOR-based SCR deals in Q4 2020, subject to the readiness of key market participants for SOFR-indexed SCR deals and in consultation with FHFA.

**Q3. Will Freddie Mac Multifamily consider issuing both LIBOR-based and SOFR-based SCR deals at the same time?**

No. We have not issued LIBOR-based SCR deals and we plan to issue only SOFR-based SCR deals for any new issuance, However, in the unlikely event that we believe market readiness and interest in Multifamily credit risk transfer floating rate securities cannot support a SOFR-based SCR deal, we expect the SCR deals will be LIBOR-based and will be structured in alignment with the latest LIBOR based STACR issuance.

**Q4. What benchmark index will Freddie Mac Multifamily use in non-LIBOR-based SCR deals?**

Freddie Mac currently plans to structure SOFR-indexed MF CRT transactions so that they would:

- Initially use 30-day Average SOFR as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period
- Subsequently transition to using an IOSCO compliant One-month Term SOFR at a later date, if the appropriate regulatory authority approves such a rate
  - This subsequent transition would be made as soon as One-month Term SOFR can be operationalized and is administratively feasible, and the transition would make use of the same Determination Date conventions mentioned for 30-day Average SOFR above.
  - We do not anticipate that a spread adjustment will be applied when this subsequent transition to term SOFR is made.
  - This subsequent transition could occur prior to the time LIBOR ceases or is declared to be non-representative

**Q5. What are the key considerations for Freddie Mac Multifamily to decide when to move to SOFR-based SCR issuance?**

A successful transition to SOFR-based SCR issuance will require the entire “ecosystem” (e.g., Freddie Mac Multifamily as the issuer, CRT investors, broker/dealers, trustees, calculation agents, rating agencies, data vendors, etc.) to be ready. Other key items include the development of the SOFR market, and the breadth and depth of the SOFR derivatives and financing market. Freddie Mac Multifamily will utilize various surveys conducted by Multifamily, Freddie Mac Corporate and Single-Family divisions on key constituents before we decide when to transition to SOFR-based SCR issuance. We will communicate the timing for
starting SOFR-based SCR issuance with sufficient time for the market to prepare.

Q6. Will Freddie Mac Multifamily’s SCR and Freddie Mac’s STACR programs be aligned for transitioning to non-LIBOR-based issuance?

Freddie Mac Multifamily and Single-Family intend to align the move to non-LIBOR-based CRT offerings, to ensure the credit risk transfer transitions are consistent across both types of credit risk transfer offerings as well as between the GSEs.

Q7. Will Freddie Mac Multifamily consider issuing fixed coupon SCR deals?

Though our previous SCR Notes deals are fixed-coupon-based, we don’t have current plans to issue additional fixed-coupon SCR deals.

Q8. Will the broker/dealers be able to support SOFR-based SCR primary issuance?

The willingness and ability of the broker/dealers to support SOFR-based SCR primary issuance will be critical for a successful transition. We will continue to engage the broker/dealers to ensure they can support SOFR-based SCR issuance capability.

Q9. Should I be concerned that SOFR-based SCR securities will become less liquid?

We expect that most broker/dealers will be able to provide a similar level of support to the general CRT secondary market when we move to SOFR, including making a two-way market in any SOFR-based CRT securities. The willingness and ability of the broker/dealer to do so will be one of the key factors for us to decide when to move to SOFR-based SCR issuance.

Q10. What happens to legacy SCR Notes deals after the LIBOR transition?

All previous Multifamily SCR Notes deals are fixed coupon based and will not be impacted by the LIBOR transition.