LIBOR Transition FAQs – Single-Family Credit Risk Transfer

Single-Family Credit Risk Transfer (SF CRT)

Q1. **Will the GSEs adopt ARRC recommended fallback language in new issuance CRT deals?**

Yes. The GSEs support the ARRC recommended fallback language. Starting with the GSEs' respective transactions, they adopted the recommended securitization fallback language, as listed below:

Fannie Mae: CAS 2020-SBT1 transaction in March 2020
Freddie Mac: STACR 2020-HQA2 transaction in March 2020

Q2. **Are the GSEs planning to issue non-LIBOR based SF CRT deals?**

Reducing LIBOR exposure for both the GSEs and investors is very important to us. Freddie Mac plans to move its Credit Risk Transfer program away from the LIBOR based CRT issuance potentially in Q4 2020. Fannie Mae plans to move its Credit Risk Transfer program away from the LIBOR based CRT issuance potentially in Q1 2021. Issuance of non-LIBOR based CRT deals are subject to the readiness of key market participants for SOFR-indexed CRT (see #4 below), and in consultation with FHFA.

Q3. **What benchmark index will the GSEs use in non-LIBOR based SF CRT deals?**

The GSEs support the ARRC's recommendation of SOFR as the replacement for LIBOR benchmark. The GSEs currently plan to structure SOFR-indexed CRT transactions so that they would:

- Initially use 30-day Average SOFR (published by the NY Fed) 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

Q4. **What are the key considerations for the GSEs to decide when to move to SOFR-indexed SF CRT issuance?**

A successful transition to SOFR-indexed CRT issuance will require the entire "ecosystem" (e.g., the GSEs as the issuers, 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-indexed derivatives and financing market.

In June 2020, the GSEs jointly conducted a survey of investors and dealers in their CRT programs seeking feedback on SOFR index methodology and conventions for SOFR CRT issuance and gauging market readiness for the transition. Per the survey, the GSEs expect that most market participants will be ready for SOFR-indexed CRT transactions by the end of Q3 2020.

Q5. **Will the GSEs consider issuing both LIBOR-based and SOFR-indexed SF CRT deals at the same time?**

Currently, the GSEs plan to cease issuing LIBOR-based CRT deals once we move to use SOFR as the new benchmark. A full transition will help reduce the LIBOR exposure for both the GSEs and CRT investors and will be beneficial for the liquidity of the CRT programs.

Q6. **Will Fannie Mae's CAS and Freddie Mac's STACR programs be aligned for transitioning to non-LIBOR-based issuance?**

For new issuance CRT deals, Fannie Mae and Freddie Mac expect to align on (i) the selection and variant of SOFR as the benchmark index, (ii) the methodology and conventions for calculating interest, and (iii) the fallback triggers and waterfall language. The timing of starting to issue SOFR-indexed CRT deals may be different between the two GSEs depending on their respective operational readiness.

Q7. **Will the GSEs consider issuing fixed-coupon SF CRT deals?**

Currently we don't plan to issue fixed-coupon SF CRT deals.

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

The willingness and ability of the broker/dealers to support SOFR-based CRT primary issuance will be critical for a successful transition. Per the dealer survey in June, the GSEs expect that the vast majority of the broker/dealers can support the transition to SOFR-based CRT issuance.

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

Per the dealer survey in June, the GSEs expect that most broker/dealers will be able to provide similar level of support to the CRT secondary market when we move to SOFR, including making two-way markets in SOFR-based CRT securities.

Q10. **Currently I use LIBOR-based repo financing for the SF CRT investment. Will the broker/dealers be able to provide SOFR-based repo financing?**

Per the dealer survey in June, the GSEs expect that most broker/dealers will be able to provide SOFR-based repo financing in Q4 2020.

Q11. **What will be our business day convention?**

"Business day," means any day except for a Saturday, Sunday or a day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. Government Securities.

Q12. **Will bonds continue to be uncapped floaters?**

Yes, bond coupons will continue to be uncapped floaters with a floor of zero.

Q13. **At what point will the SOFR rate be determined as the basis for CRT deals?**

All SOFR-indexed CRT securities will have a determination date of 2 business days (2BD) prior to the beginning of the accrual period.

Q14. **What will be the day count convention?**

CRT securities will accrue interest based on the actual number of days in the accrual period divided by 360 (actual/360).

Q15. **What convention will be used for calculating and paying interest for Fannie Mae CAS and Freddie Mac STACR?**

CAS and STACR securities will calculate the index each month using 30-day Average SOFR (published by the NY Fed) as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period. Please see "Fannie Mae and Freddie Mac Credit Risk Transfer Index Framework" for details of the convention. Links:
https://www.fanniemae.com/resources/file/libor/pdf/framework.pdf
http://www.freddiemac.com/about/pdf/LIBOR_SOFRdeck_SFCRT.pdf

Q16. **What does the Fannie Mae CAS and Freddie Mac STACR fallback language say?**

Fallback language has evolved slightly over time, so investors should read the offering documents associated with their securities. In general, however, the GSEs have the obligation to select an alternative index once LIBOR is no longer viable or available. We must select a successor index based on general comparability and other factors.

The GSEs recently adopted new fallback, language based on the ARRC recommendations; each GSE started using this new language with Fannie Mae's CAS 2020-SBT1 and Freddie Mac's CRT 2020-HQA2 offerings in March 2020.

As with all LIBOR transition topics, we are and will coordinate with FHFA.

Q17. **Will the GSEs be aligned in the LIBOR transition for outstanding SF CRT deals that are LIBOR-based?**

The GSEs intend to align LIBOR transition strategy and implementation for SF CRT deals.

Q18. **For legacy SF CRT deals, what benchmark index will the GSEs use when LIBOR is no longer available or no longer representative**

The GSEs are currently working with FHFA on this topic. More information will be provided later this year.