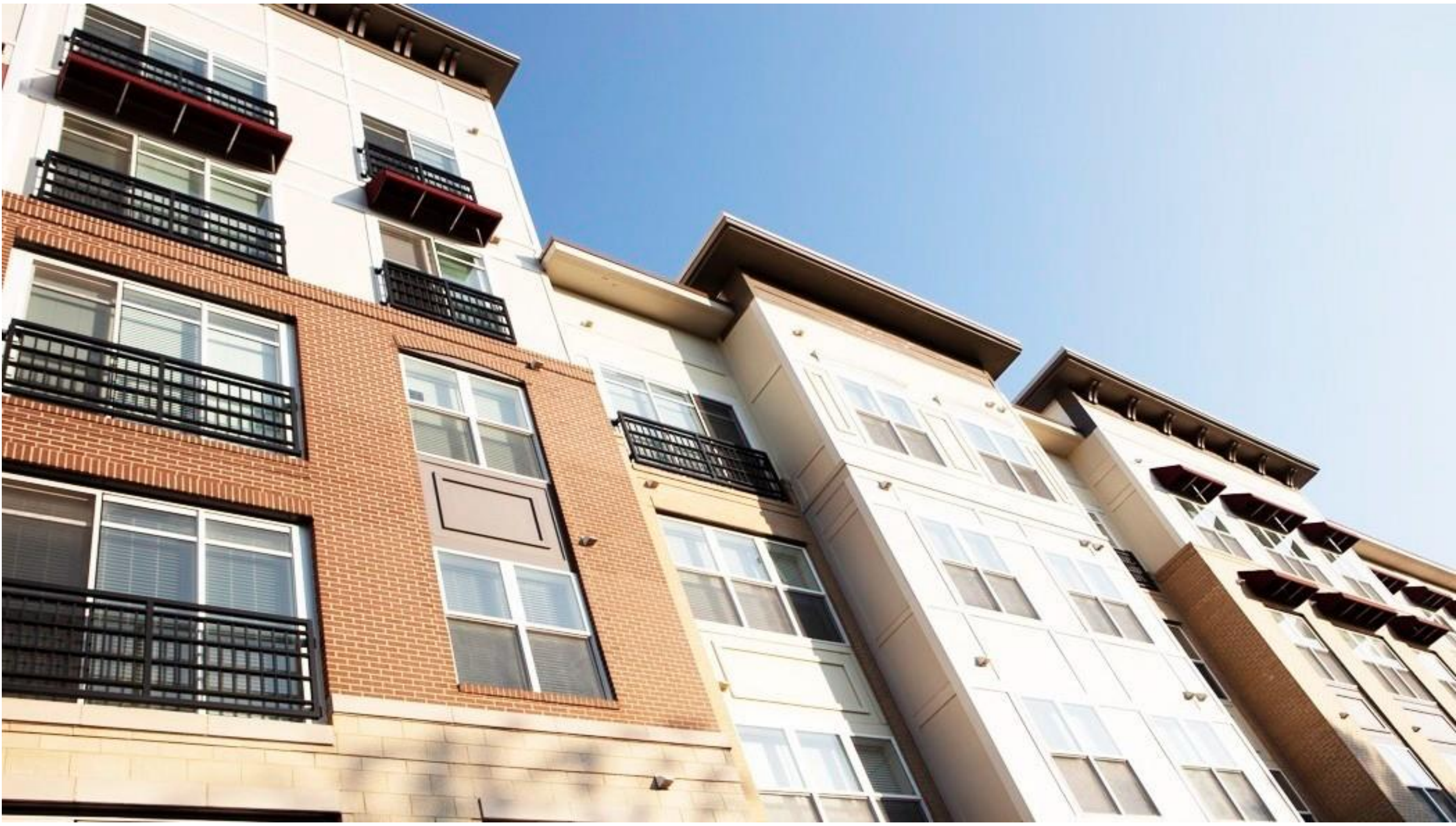


LIBOR Transition Playbook
Single-Family Credit Risk Transfer

August 2020

3 Single-Family Credit Risk Transfer (“SF CRT”) transactions

3.1 Introduction

The purpose of this chapter is to provide market participants guidance on new SOFR-indexed SF CRT issuances and the transition of legacy LIBOR-indexed SF CRT transactions in the future.

3.2 SOFR-indexed SF CRT new issuance

❖ Objectives

Freddie Mac will begin issuing SOFR-indexed SF CRT deals in Q4 2020, and Fannie Mae will begin issuing SOFR-indexed CRT deals in Q1 2021 (both subject to market conditions and investor and market readiness). Both GSEs will discontinue issuance of LIBOR-indexed SF CRT deals by the end of Q4 2020.

The move to SOFR-indexed SF CRT issuances is relatively simple for the GSEs from an operational perspective if there is a well-defined SOFR-based index to determine the coupon payments due on the notes. This is because GSE SF CRT programs use a synthetic reference pool.

❖ SOFR indices

Currently there is no Term SOFR available for use in SOFR-indexed CRT deals. However, the availability of Term SOFR is not critical for the issuance of the first SOFR SF CRT transaction.

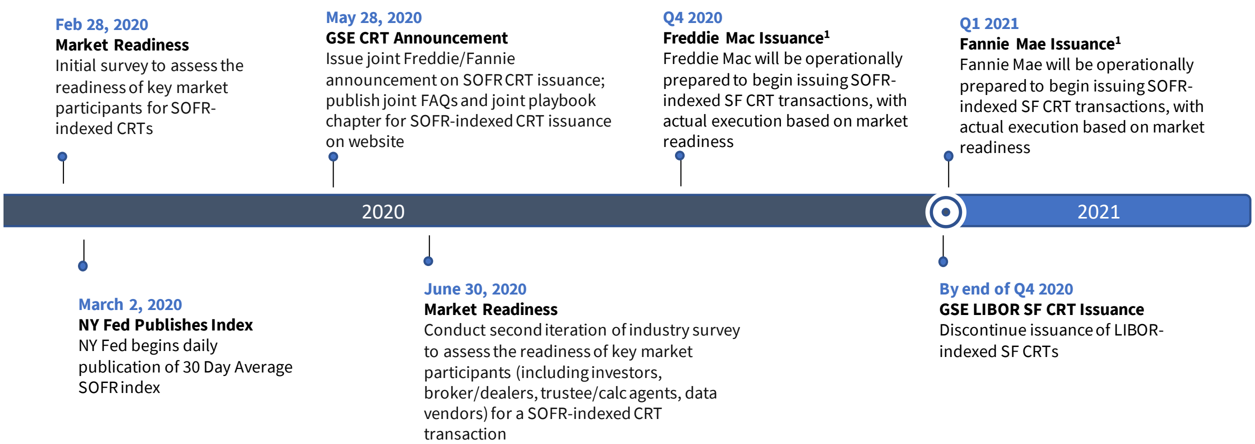
The GSEs currently plan to structure SOFR-indexed CRT transactions so that they would:

- 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 for CRT securities
- Subsequently transition to using an IOSCO compliant one-month Term SOFR at a later date, if the appropriate regulatory authority approves such a rate:
  - The 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.
  - The GSEs 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.

Once Term SOFR is operationalized and administratively feasible, the GSEs would cease any further new issuance using a compound average of SOFR and would solely utilize Term SOFR.

3.3 Timeline and milestones

The following timeline illustrates upcoming milestones related to issuing SOFR-indexed SF CRTs and ceasing to issue LIBOR-indexed SF CRTs. While the GSEs plan to be operationally ready to issue SOFR-indexed SF CRTs in Q4 2020 (Freddie Mac) and Q1 2021 (Fannie Mae), actual issuance timelines will depend on the readiness of investors, broker/dealers, trustees/global agents and data/analytics vendors to support or invest in SOFR-indexed CRT deals.



[1]**Actual issuance dates will be based on readiness timelines for investors, broker/dealers, trustees/global agents and data/analytics vendors**

❖ Related SOFR market development

SOFR market conventions:

- **SOFR market conventions**: Fed's calculator for computing compound averages of SOFR and a SOFR index became available on March 2, 2020.
- **Development of SOFR derivatives market:** The GSEs expect that the move to SOFR-based discounting by CME/LCH (expected October 2020) will significantly improve the liquidity of the SOFR derivatives market. This should help the issuance of SOFR SF CRT deals since the date of implementation is likely prior to the first SF CRT SOFR issuance.
- **SOFR term structure:** Currently there is no forward-looking Term SOFR available. With the development of the SOFR derivatives market, forward-looking Term SOFR (particularly one-month SOFR) could potentially become available in 2021. However, as noted above, the availability of a forward-looking term SOFR is not critical for the issuance of the first SOFR SF CRT transaction.

❖ GSE alignment

The GSEs are aligned on the choice of an ARR that will be utilized for future SF CRT securities. This alignment will ensure the SF CRT transitions are consistent between the GSEs and will minimize potential disruptions to the SF CRT market. Specifically, Fannie Mae's CAS program and Freddie Mac's STACR program will be aligned on the following:

- Selection of SOFR as the index for new issuance SF CRT deals
- SOFR index and methodology (e.g., 30-day Average SOFR or a forward-looking one-month Term SOFR)
- Fallback triggers and waterfall for SOFR new issuances

❖ Actions market participants should consider

The GSEs encourage all SF CRT market participants to conduct an internal operational readiness assessment and start any operational build needed to participate in SOFR-indexed SF CRT transactions as early as practicable. Investment guidelines and other key governance documentation should be reviewed to ensure that they can transact in SOFR. Please refer to section 1.3, Actions market participants should consider, for FAQs and other resources related to the SF CRT LIBOR transition.

3.4 Legacy SF CRT transition

❖ Objectives

As of June 30, 2020, Fannie Mae and Freddie Mac have $29.4 billion and $24.9 billion respectively of outstanding SF CRT notes that are indexed to one-month LIBOR. The GSEs are continuing to work with FHFA and the ARRC to define the timing and strategy for transitioning outstanding SF CRT notes to an ARR, and additional details will be released as the timeline and strategy are finalized.

In moving existing LIBOR-indexed SF CRT notes to an ARR, the GSEs will consider, among other things, the following:

- Maintaining the economics of the existing notes
- Minimizing negative impact to the liquidity of existing notes
- Transparency and consistency with industry solutions

❖ Trigger events in existing SF CRT deals

The GSEs have different contract language for their deals and expect to provide more updates later this year on the transition plan for legacy SF contracts. For more information on trigger events and fallback language for existing deals, refer to the following links for Fannie Mae and Freddie Mac.