LIBOR Transition Playbook
Single-Family Credit Risk Transfer

June 2022
Summary of Changes

The table below details the list of changes since the October 2021 version of the LIBOR Transition Playbook was published on the Fannie Mae and Freddie Mac websites.

<table>
<thead>
<tr>
<th>Section</th>
<th>Summary of changes</th>
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| 3. Single-Family Credit Risk Transfers | ▪ Updated to reflect Fannie Mae beginning to issue SF SOFR-indexed CRTs  
                                         ▪ Updated timeline to include year 2022 and tentative plans for a final legacy transition strategy announcement |
Legal information and disclaimer

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Please be aware that the federal Adjustable Interest Rate (LIBOR) Act (the “LIBOR Act”) became law on March 15, 2022. The LIBOR Act requires the Board of Governors of the Federal Reserve System (“Board”) to publish regulations identifying a Board-selected benchmark replacement based on the Secured Overnight Financing Rate (“SOFR”). The timing and content of the regulations published by the Board may have a significant impact on steps that the GSEs may take in connection with the transition from LIBOR-indexed products to SOFR-indexed products. The information provided by the GSEs in this document may not reflect potential impacts of the LIBOR Act or the forthcoming implementing regulations of the Board.
3. Single-Family Credit Risk Transfer 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 discontinued issuing LIBOR-indexed SF CRT deals and began issuing SOFR-indexed SF CRT deals in October 2020. Fannie Mae discontinued issuing LIBOR-indexed SF CRT deals in December 2020 and began issuing SOFR-indexed SF CRT deals in October 2021.

Since there is a well-defined SOFR-based index to determine the coupon payments due on the notes, the move to SOFR-indexed SF CRT issuances has been relatively simple from an operational perspective.

❖ SOFR indices

The GSEs currently are structuring SOFR-indexed CRT transactions so that:

- They initially use 30-day Average SOFR (published by the NY Fed) as the reference rate, with a Determination Date of two business days (“2BD”) prior to the beginning of the accrual period for CRT securities
- If the Board endorses a one-month Term SOFR rate for this type of product, and if Term SOFR is administratively and operationally feasible, the index would subsequently transition to using an IOSCO-compliant one-month Term SOFR
  - Any such transition would make use of the same Determination Date conventions mentioned above for 30-day Average SOFR
  - The GSEs do not anticipate that a spread adjustment would be applied when any such subsequent transition to Term SOFR is made
  - Any such subsequent transition could occur prior to the time LIBOR ceases or is declared to be non-representative

In determining administrative feasibility of Term SOFR, the GSEs will take into account, among other things, technical and operational issues, as well as any regulatory requirements, directives or pronouncements affecting their actions. It is possible that Term SOFR will be determined not to be administratively feasible even if it becomes technically or operationally available in the future. Furthermore, the ARRC published benchmark replacement recommendations under which compounded, rather than Term, SOFR is recommended for most securitization transactions.

3.3 Timeline and milestones

Figure 3-1 illustrates milestones related to the issuance of SOFR-indexed SF CRTs and discontinued issuance of LIBOR-indexed SF CRTs. Freddie Mac issued its first SOFR-indexed STACR transaction (STACR 2020-DNA5) in October 2020 and Fannie Mae issued its first SOFR-indexed SF CAS transaction (CAS 2021-R01) in October 2021.
Related SOFR market development

- **SOFR market conventions**: On March 2, 2020, the NY Fed began publishing a SOFR index and a calculator for computing compound averages of SOFR
- **Development of SOFR derivatives market**: The move to SOFR-based discounting by CME/LCH should significantly improve the liquidity of the SOFR derivatives market

GSE alignment

The GSEs are aligned on the choice of SOFR indexes 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 issuances of 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 new SOFR 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 December 31, 2021, Fannie Mae and Freddie Mac have $18.1 billion and $20.2 billion of outstanding SF CRT notes indexed to one-month LIBOR, respectively. The LIBOR Act requires the Board to publish regulations identifying a Board-selected benchmark replacement based on SOFR. The GSEs will continue to monitor developments from the Board and will work with their conservator and regulator to define the timing and strategy for transitioning legacy SF CRT notes to a SOFR index.
The GSEs expect to release an announcement on their transition strategy for legacy SF CRT notes and give additional relevant details no later than six months prior to the LIBOR cessation event.

In moving existing LIBOR-indexed SF CRT notes, 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 and applicable laws/regulations

❖ Trigger events in existing SF CRT deals

The GSEs have different contract language for their deals and expect to provide more updates in 2022 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: [Fannie Mae](#), [Freddie Mac](#).
## 9. Summary of Prior Changes

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<tr>
<td><strong>July 2020</strong></td>
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<td>3. Single-Family Credit Risk Transfer transactions</td>
<td>▪ Specified that the Determination Date will be 2 Business Days (2BD) prior to the beginning of the accrual period for CRT securities</td>
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<tr>
<td><strong>November 2020</strong></td>
<td></td>
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| 3. Single-Family Credit Risk Transfer transactions | ▪ Updated language to indicate Fannie will have the capability to issue SOFR-indexed CRT deals in Q1 2021  
▪ Updated outstanding SF CRT notes that are indexed to one-month LIBOR as of September 30, 2020 at Fannie Mae ($25.6 billion) and at Freddie Mac ($27.5 billion)  
▪ Updated the language and SF CRT timeline to indicate the issuance of Freddie Mac’s SOFR-indexed CRT |
| **March 2021** | |
| 3. Single-Family Credit Risk Transfer | ▪ Updated figures to reflect the GSEs’ current outstanding legacy SF CRT notes  
▪ Updated language around the discontinuation of LIBOR-indexed SF CRT deals at the end of Q4 2020 and current structure of SOFR-indexed CRT transactions |
| **October 2021** | |
| 3. Single-Family Credit Risk Transfer | ▪ 3.2 SOFR-indexed CRT new issuance: Updated language to reflect the availability of Term SOFR, the issuance of SOFR-Indexed CRT transactions, and added language about the determination of the administrative feasibility of Term SOFR  
▪ Figure 3-1: Updated timeline to reflect Fannie Mae’s operational readiness for SOFR-Indexed SF CRT issuance  
▪ 3.3 Timeline and milestones: updates to reflect availability of Term SOFR  
▪ 3.4 Legacy SF CRT transition: Updated estimates of outstanding SF CRT notes indexed to one-month LIBOR |