

# Single-Family Credit Risk Transfer (SF CRT) LIBOR Transition FAQs

Under the guidance of FHFA, Fannie Mae and Freddie Mac are providing jointly prepared answers to frequently asked questions related to the GSE’s transition away from LIBOR-indexed products to SOFR-indexed products. The Enterprise section answers high-level questions applicable to all products followed by Q&A sections specific to Single-Family adjustable rate mortgages and PCs/UMBs, Credit Risk Transfer transactions, Multifamily adjustable rate mortgages and securities and Collateralized Mortgage Obligations.

## Summary of Changes

The table below details the list of changes since the April 2021 version of the FAQs published on the Fannie Mae and Freddie Mac websites.

Section	Summary of change
<b>October 2021</b>	
Single-Family CRT	Q3. Added language that transition to one-month Term SOFR will also depend on ARRC recommendation that use of rate is appropriate for SF CRT.

# 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 has moved its Credit Risk Transfer program away from the LIBOR based CRT issuance in October 2020. Fannie Mae is on track to issue SOFR-based Single-Family and Multifamily CRT product offerings in the future.

## 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 and if the ARRC recommends that the use of such a rate is appropriate for securities such as SF CRT securities.
  - This subsequent transition would be made when 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.
  - A spread adjustment will not 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?

In October 2020, Freddie Mac successfully issued its inaugural SOFR-based STACR transaction (STACR 2020-DNA5) with broad support from all key CRT market participants.

A successful transition to SOFR-indexed CRT issuance requires 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.

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

Freddie Mac issued its first SOFR-based SF CRT deal in October 2020 and has ceased issuing LIBOR-based SF CRT deals. Currently, Fannie Mae has ceased issuing LIBOR-based CRT deals and will move to use SOFR as the new benchmark for any future CRT issuances. 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?**

Freddie Mac issued its first SOFR-based SF CRT deal in October 2020. For new issuance SOFR-based CRT deals, Fannie Mae intends 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.

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

Currently we do not plan to issue fixed-coupon SF CRT deals.

**Q8. What SOFR methodology/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 (including payment date, benchmark adjustment date, accrual period, day count, cap/floor, etc.). Links: <https://www.fanniemae.com/resources/file/libor/pdf/framework.pdf>  
[http://www.freddiemac.com/about/pdf/LIBOR\\_SOFRdeck\\_SF CRT.pdf](http://www.freddiemac.com/about/pdf/LIBOR_SOFRdeck_SF CRT.pdf)

**Q9. 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 STACR 2020-HQA2 offerings in March 2020.

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

**Q10. 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.

**Q11. The ICE Benchmark Administration (IBA) recently announced its intention to cease publication of 1 week and 2-month USD LIBOR at the end of 2021, and all other tenors after the last publication on June 30, 2023. Does this extension change the GSEs plans for LIBOR transition?**

Freddie Mac and Fannie Mae have ceased issuing LIBOR-based CRT deals. Regarding transition of legacy SF CRT deals, the GSEs are currently working on the legal analysis and expect to make further announcements in 2021. Please refer to related offering documents for contractual language.

**Q12. For legacy SF CRT deals, what benchmark index will the GSEs use when LIBOR is no longer available or no longer representative?**

The GSEs will continue to work with the ARRC, FHFA, and other industry partners on the transition of legacy SF CRT deals and will communicate details pertaining to them in advance to facilitate the legacy transition.

## Summary of Prior Changes

Section	Summary of change
<b>July 2020</b>	
Single-Family Credit Risk Transfer (SF CRT)	<p>Q 3. Added language to clarify the plan to use 30-day Average SOFR (published by the NY Fed) as the reference rate, and related conventions.</p> <p>Q 4. Added reference to the joint June 2020 Survey.</p> <p>Q8, Q9, Q10. Updated language to reflect most current information based on June’s survey</p> <p>Q 15. Added a link to the 7/29/20 CRT Deck to be posted on the LIBOR transition website.</p>
<b>October 2020</b>	
SF CRT	Q18. Updated language to note the GSE’s coordination with ARRC, FHFA and other industry partners on the transition of legacy SF CRT deals.
<b>December 2020</b>	
SF CRT	<p>Q2. - Q6. Updated for SOFR-based CRT issuance Removed Q8. - Q14. and consolidated SOFR market convention related questions to Q15. (now Q8.) Q18. (now Q11.) Updated to reference legacy announcement and spread adjustment Added Q12. - Q15. for legacy SF CRT</p>
<b>April 2021</b>	
SF CRT	Q11. Added to reflect IBA announcement