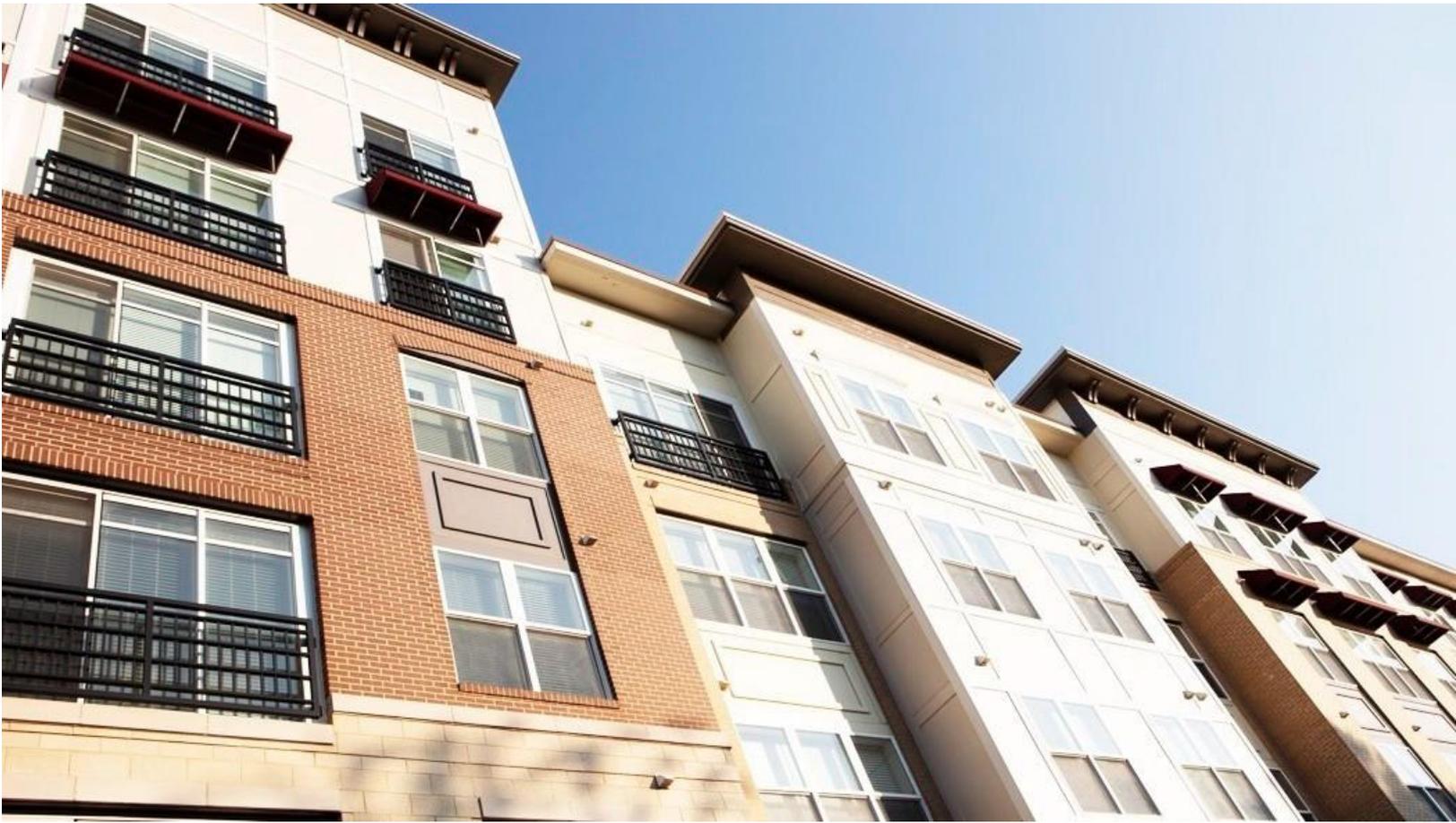




Fannie Mae™

Freddie Mac



LIBOR Transition Playbook

Single-Family Credit Risk Transfer (CRT)

October 2021



Changes Summary

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

Section	Summary of changes
3. Single-Family (“SF”) Credit Risk Transfer	<ul style="list-style-type: none"> ▪ 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



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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 began issuing SOFR-indexed SF CRT deals in October 2020 and discontinued issuing LIBOR-indexed SF CRT deals at the same time. Fannie Mae has the capability to issue SOFR-indexed CRT deals and discontinued issuance of LIBOR-indexed SF CRT deals at 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

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 2 Business Days (2BD) prior to the beginning of the accrual period for CRT securities
- If the ARRC were to endorse 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 for 30-day Average SOFR above.
 - 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 recently published benchmark replacement recommendations under which compounded, rather than Term, SOFR is recommended for most securitization transactions. These and future ARRC recommendations, in conjunction with other future events or regulatory requirements, directives or pronouncements, could lead to a determination that Term SOFR is not administratively feasible.

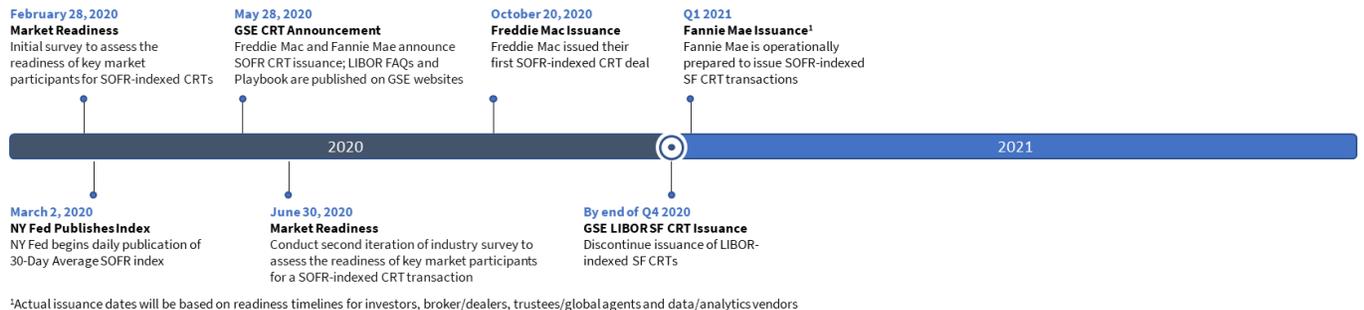
3.3 Timeline and milestones

Figure 3-1 illustrates upcoming milestones related to issuing SOFR-indexed SF CRTs and ceasing to issue LIBOR-indexed SF CRTs. Freddie Mac issued its first SOFR-indexed STACR transaction (STACR 2020-DNA5) in October 2020, and Fannie Mae is operationally ready to issue SOFR-indexed SF CRTs in



2021.

Figure 3-1: SF CRT Transition Timeline



❖ **Related SOFR market development**

- 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 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 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, 2021, Fannie Mae and Freddie Mac have \$22.9 billion and \$19.5 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 (i.e., SOFR), 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:



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- 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 for [Fannie Mae](#) and [Freddie Mac](#).



9. Summary of Prior Changes

Section	Summary of changes
July 2020	
3. Single-Family Credit Risk Transfer (“SF CRT”) transactions	Specified that the Determination Date will be 2 Business Days (2BD) prior to the beginning of the accrual period for CRT securities
November 2020	
3. SF CRT transactions	<p>Updated language to indicate Fannie will have the capability to issue SOFR-indexed CRT deals in Q1 2021</p> <p>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)</p> <p>Updated the language and SF CRT timeline to indicate the issuance of Freddie Mac’s SOFR-indexed CRT</p>
April 2021	
3. SF CRT transactions	<ul style="list-style-type: none"> ▪ 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