



Fannie Mae™

# **Fannie Mae and Freddie Mac Credit Risk Transfer Index Framework**

July 2020

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# Background

The Alternative Reference Rates Committee (ARRC) endorsed the Secured Overnight Financing Rate (SOFR) as its recommended alternative rate to LIBOR in anticipation of the potential cessation of LIBOR that may occur as soon as the end of 2021.

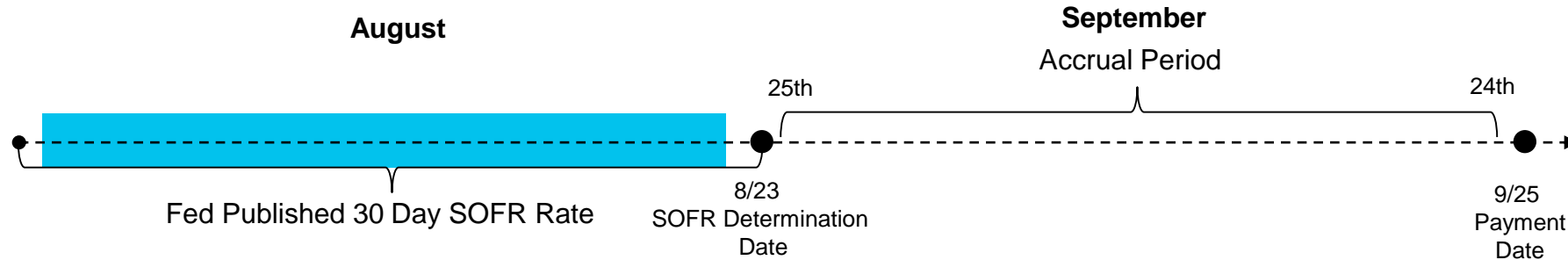
## New Issuance CRT: SOFR Method/Conventions

For new issuance CRT transactions (Freddie Mac, Q4 2020; Fannie Mae, Q1 2021, pending market conditions), Fannie Mae and Freddie Mac (jointly, “the Enterprises”) intend to:

- Initially use a **30-day Average SOFR** (compound average of SOFR, published by the NY Fed) as the reference rate, per market feedback (see slide 3 for more information)
- Subsequently transition to using an IOSCO compliant **forward-looking One-month Term SOFR** (see slide 4 for more information) at a later date, if the appropriate regulatory authority approves such a rate, and as soon as the One-month Term SOFR rate can be operationalized.
  - Such transition would include all previously issued SOFR-indexed CRT deals (with no anticipated spread adjustment) and any new issuance going forward
- Align CRT SOFR method/conventions for both Compounded SOFR and Term SOFR (if/when available)

# 30-day Average SOFR

**Setting In Advance:** SOFR rate determined two business days prior to the start of Accrual Period



**Legend** ■ Rate Aligns with Accrual Period ■ Rate Does Not Align with Accrual Period

Directly use 30-day Average SOFR rate\*, determined prior to the start of the accrual period

SOFR rate is known in advance and used for both daily and monthly accruals

- No impact on secondary trade settlement

SOFR determination date aligns with current CRT convention for LIBOR determination

Conversion to Term SOFR, if/when available, requires minimal change operationally

Same SOFR method as used by agency CMOs and Freddie MF K-series

SOFR rate is not aligned with the accrual period, potentially resulting in basis risk when financing/hedging is used

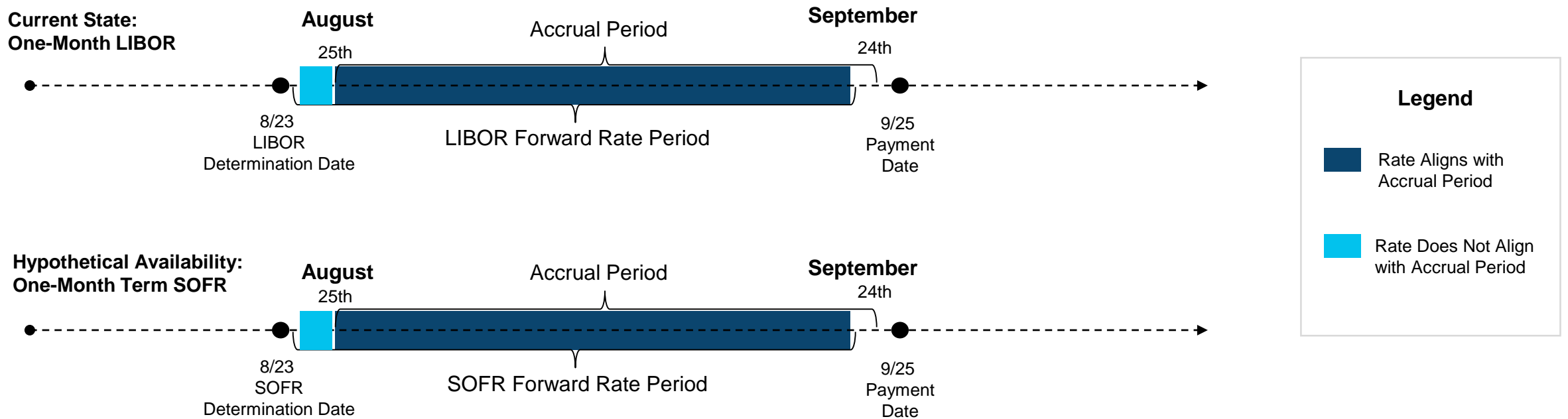
Could be “stuck” with this misalignment of the index to the accrual period if Term SOFR never becomes available or is significantly delayed

\*30-day average SOFR published by the NY Fed,  
<https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>.  
Bloomberg ticker: SOFR30A Index

# Term SOFR

## If/when available

- The Enterprises intend to solely use Term SOFR (if/when available) for CRT issuances
- Existing transactions indexed to 30-day Average SOFR will be converted to Term SOFR (with no anticipated spread adjustment)
- Term SOFR methodology will be similar to that of LIBOR today (see below)



# SOFR CRT Conventions

<b>Payment Date</b>	25th day of each month (or the following business day (BD))
<b>Benchmark</b>	30-day Average SOFR (published by the NY Fed) Transition to 1-month Term SOFR if/when available
<b>Benchmark Adjustment Date</b>	2 BDs prior to start of Accrual Period Same for 30-day Average SOFR and Term SOFR (no change in Benchmark Adjustment Date)
<b>Benchmark Adjustment Time</b>	3pm (ET)
<b>Accrual Period</b>	Beginning on and including the prior Payment Date, ending on and including the day preceding such Payment Date
<b>Day Counts in Accrual Period</b>	# of calendar days in Accrual Period
<b>Designated page</b>	NY Fed, 30-day Average SOFR, <a href="https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind">https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind</a> Bloomberg tickers: SOFR30A Index
<b>Day Count Convention</b>	Actual/360
<b>Benchmark Floored (Y/N)</b>	N
<b>Interest Rate Cap</b>	Not Capped
<b>Negative Interest Rates</b>	Coupon is floored at zero; benchmark is not floored

# Key Contacts



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## Website and Resources

[CRT.FreddieMac.com](http://CRT.FreddieMac.com) | [FannieMae.com/SFCRT](http://FannieMae.com/SFCRT)