

## LIBOR Transition FAQs

### Single-Family Credit Risk Transfer (CRT)

Under the guidance of FHFA, Fannie Mae and Freddie Mac are providing jointly prepared answers to frequently asked questions related to the GSEs' respective transitions 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/MBS, Credit Risk Transfer transactions, Multifamily adjustable-rate mortgages and securities, Credit Risk Transfer transactions, and Collateralized Mortgage Obligations.\*

Please be aware that the federal Adjustable Interest Rate (LIBOR) Act (LIBOR ACT) became law on March 15, 2022. As required by the Act, the Board of Governors of the Federal Reserve System (Federal Reserve Board) published regulations identifying benchmark replacement rates based on SOFR on December 16, 2022. The regulations published by the Federal Reserve Board were used as guidance for the answers provided by Fannie Mae and Freddie Mac in this document.

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# Single-Family Credit Risk Transfer (SF CRT)

## **Q1. When did the GSEs adopt ARRC recommended fallback language in new issuance CRT deals?**

The GSEs support the ARRC recommended fallback language. Each GSE has adopted the recommended securitization fallback language, beginning with the applicable transaction listed below:

Fannie Mae: CAS 2020-SBT1 transaction in March 2020

Freddie Mac: STACR 2020-HQA2 transaction in March 2020

Fallback language has evolved slightly over time, so investors should read the offering documents associated with their securities.

## **Q2. When did the GSEs start to issue non-LIBOR based SF CRT deals?**

Reducing LIBOR exposure for both the GSEs and investors is very important to us. Freddie Mac moved its Credit Risk Transfer program to SOFR based CRT issuance in October 2020. Fannie Mae moved its Single-Family Credit Risk Transfer program to SOFR based issuance in October 2021.

## **Q3. What benchmark index are the GSEs using in SF CRT deals?**

The GSEs have structured and plan to continue to structure SOFR-indexed CRT transactions so that they use 30-day Average SOFR (published by the New York Fed) as the reference rate, with a determination date of 2 business days (2BD) prior to the beginning of the accrual period.

## **Q4. What were the key considerations for the GSEs when they moved 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. Fannie Mae issued its first SOFR-based CAS transaction (CAS 2021-R01) in October 2021.

The successful transition to SOFR-indexed CRT issuance required 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 included the development of the SOFR market, and the breadth and depth of the SOFR-indexed derivatives and financing market.

## **Q5. Are Fannie Mae’s CAS and Freddie Mac’s STACR programs aligned for SOFR-based issuance?**

Yes, Freddie Mac and Fannie Mae are generally aligned on SOFR-based methodologies and conventions for SF CRT deals. Specifically, both Freddie Mac and Fannie Mae have been using, and will continue to use the 30-day Average SOFR (as published by the New York Fed), with a determination date of 2 business days (2BD) prior to the beginning of the accrual period. Please see the most recent CAS and STACR offering documents for details of the convention (including payment date, benchmark adjustment date, accrual period, day count, cap/floor, etc.).

## **Q6. For legacy SF CRT deals, what benchmark index will the GSEs use when LIBOR is no longer available or no longer representative?**

The Federal Reserve Board has implemented the Adjustable Interest Rate (LIBOR) Act which was signed into

law in March 2022. The final regulations on the replacement rates were announced by the Federal Reserve Board on December 16, 2022. Consistent with the Federal Reserve Board's regulation, the GSEs will transition to the 30-day Average SOFR rate published by the Federal Reserve Bank of New York, plus an applicable tenor spread adjustment. The transition will occur immediately following the June 30, 2023, cessation of the publication of all remaining tenors of USD LIBOR by ICE Benchmark Administration Limited. Refer to the table in Q12 of the Enterprise section for more details.

**Q7. Will the new issue SOFR-indexed CRT deals transition from 30-day Average SOFR to Term SOFR?**

New-issue CRT deals indexed to NY Fed published 30-day Average SOFR will not include language allowing an optional transition to Term SOFR. Outstanding CRT deals indexed to NY Fed published 30-day Average SOFR that include optional transition language will also not transition to Term SOFR.

**Q8. When is the last time that the GSEs will use the 1-month LIBOR benchmark for the CRT transactions?**

The benchmark adjustment dates for the GSE CRT transactions are on the second business day prior to the start of the accrual period. The accrual period begins on the prior Payment Date and ends on the day preceding the current Payment Date. The Payment Date for each month is the 25th day of each month (or the next Business Day). LIBOR will continue to be published through June 30, 2023. Therefore 6/22/2023 will be the last date on which the 1-month LIBOR benchmark will be used for calculating accrued interest during the 6/26/2023 – 7/24/2023 Accrual Period, and the payments will be made to bondholders on the 7/25/2023 Payment Date.

**Q9. When is the first time that the GSEs will use the spread-adjusted 30-day Average SOFR rate as a replacement for the LIBOR benchmark for legacy CRT transactions?**

7/21/2023 will be the first date on which the spread-adjusted 30-day Average SOFR rate will be used as the replacement rate for such transactions. The replacement rate will be used for calculating accrued interest during the 7/25/2023– 8/24/2023 Accrual Period, and the payments will be made to bondholders on the 8/25/2023 Payment Date.

**Q10. With the transition of the legacy CRT transactions after 6/30/2023, will there be any other changes regarding how the accrued interest will be calculated and paid in the future, such as the benchmark adjustment date, accrual period, payment date, and day count convention, etc.?**

After the transition, the benchmark adjustment date, accrual period, payment date, and the day count convention will stay the same. The GSEs will change the time at which the benchmark will be determined. On a benchmark adjustment date, the time that the spread-adjusted 30-day Average SOFR rate is determined will be 3:00 pm (New York City time), instead of 11:00 am (London time) as for 1-month LIBOR. This would make it consistent with the time at which the 30-day Average SOFR rate is determined for existing SOFR-indexed CRT transactions.

**Q11. What spread adjustment will be used for the legacy CRT transactions after LIBOR cessation on 6/30/2023?**

Per the LIBOR Act and Fed's final rule, the spread adjustment will be 11.448 bps for the 1-month tenor, thus the spread adjustment will be fixed at 11.448 bps for legacy CRT transactions after 6/30/2023. After transition, the spread-adjusted 30-day Average SOFR rate will replace the 1-month LIBOR benchmark for legacy CRT transactions.

## Summary of Prior Changes

Section	Summary of change
<b>July 2020</b>	
SF CRT	<p>Q3. Added language to clarify the plan to use 30-day Average SOFR (published by the New York Fed) as the reference rate, and related conventions.</p> <p>Q4. 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>Q15. Added a link to the 7/29/20 CRT Deck to be posted on the LIBOR transition website.</p>
<b>October 2020</b>	
Single-Family Credit Risk Transfer (SF CRT)	<p>Q18. Updated language to note the GSE's coordination with ARRC, FHFA and other industry partners on the transition of legacy SF CRT deals.</p>
<b>December 2020</b>	
SF Credit Risk Transfer	<p>Q2, Q3, Q4, Q5 and Q6. Updated for SOFR-based CRT issuance</p> <p>Removed Q8, Q9, Q10, Q11, Q12, Q13 and Q14. and consolidated SOFR market convention related questions to Q15. (now Q8.)</p> <p>Q18. (now Q11.) Updated to reference legacy announcement and spread adjustment</p> <p>Added Q12, Q13, Q14 and Q15. for legacy SF CRT</p>
<b>April 2021</b>	
SF CRT	<p>Q11. Added to reflect IBA announcement</p>
<b>October 2021</b>	
Single-Family CRT	<p>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.</p>
<b>June 2022</b>	
Single-Family CRT	<p>Q2. Updated to reflect that Fannie Mae moved its SF CRT program to SOFR-based issuance in October 2021.</p> <p>Q3. Updated to incorporate that the GSEs will have to determine the administrative feasibility of Term SOFR.</p> <p>Q5. Updated to reflect that Fannie Mae moved its SF CRT program to SOFR-based issuance in October 2021.</p>
<b>January 2023</b>	
Single Family CRT	<p>Q3. Updated to revise language regarding a potential subsequent transition of SF CRT products from 30-day average SOFR to Term</p>

Section	Summary of change
	<p>SOFR.</p> <p>Q5 (previous version). Deleted. The GSEs will not issue LIBOR-based and SOFR-indexed SF CRT deals at the same time.</p> <p>Q6. Updated to state the GSEs' legacy LIBOR replacement rate selections for SF CRT products.</p> <p>Q7 (previous version). Deleted. The GSEs will not issue fixed coupon SF CRT deals.</p> <p>Q9-Q11 (previous version). Deleted due to outdated content.</p>
<b>April 2023</b>	
Single-Family CRT	<p>Q8. FAQ added: “When is the last time that the GSEs will use the 1-month LIBOR benchmark for the CRT transactions?”</p> <p>Q9. FAQ added: “When is the first time that the GSEs will use the spread-adjusted 30-day Average SOFR rate as a replacement for the LIBOR benchmark for legacy CRT transactions?”</p> <p>Q10. FAQ added: “With the transition of the legacy CRT transactions after 6/30/2023, will there be any other changes regarding how the accrued interest will be calculated and paid in the future, such as the benchmark adjustment date, accrual period, payment date, and day count convention, etc.?”</p> <p>Q11. FAQ added: “What spread adjustment will be used for the legacy CRT transactions after LIBOR cessation on 6/30/2023?”</p>