HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Freddie is Making the Switch to The Secured Overnight Financing Rate (SOFR)

Freddie Mac is touting its readiness to transition from using the **London Interbank Offered Rate or LIBOR** to the Secured Overnight Financing Rate (SOFR) as a mortgage reference index. The end date for LIBOR may be extended (yet again) from the end of 2021 to mid-2023, but Freddie Mac says it remains committed to prepare for a final transition as soon as possible.

SOFR, which was specifically developed to replace LIBOR, is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. **Because, unlike LIBOR, it is collateralized, its rate tends to be lower.** Over the last month it has ranged between 0.05 and 0.09 percent. The New York Fed publishes the SOFR on its website each business day.

The company said it has **made significant progress in support of the move to the SOFR.** It has enabled single-family lenders to start underwriting SOFR-indexed adjustable-rate mortgages (ARMs) and seller/servicers to sell and securitize them. In November it began purchasing and securitizing those ARMs. Earlier it announced that December 31, 2020 would be the last date for LIBOR-indexed ARM purchases for mortgages originated on or before September 30, 2020. The company will continue developing liquidity in SOFR-based products.

"Freddie Mac's 2020 actions continued to prepare us for the future cessation of LIBOR," said Freddie Mac Interim President Mike Hutchins, executive sponsor of the company's LIBOR transition effort. "This was a complex project across the firm with an aggressive set of objectives."

Jason Wood
Mortgage Advisor & VA Loan Specialist, VA Loan Guy - American Mortgage Network
www.valoanguy.us
P: (760) 350-3989
M: (760) 217-0820
1185 LINDA VISTA DR
SAN MARCOS CA 92078
317293

Freddie Mac also worked with the Federal Housing Finance Agency (FHFA), Fannie Mae and other parties and participated on the Alternative Reference Rates Committee (ARRC) and its working groups on SOFR development and on transition issues.

"As an active member of the ARRC and many of its subcommittees, we worked with the industry to understand how different conventions of overnight SOFR can be used in our products and offerings," said Ameez Nanjee, Vice President, Asset Liability Management and Freddie Mac's official representative to the ARRC.

Other steps the company has taken or will take include:

- Quoting SOFR-indexed Multifamily Loans, with $647 million funded to date, and more than $11.2 billion in the firm pipeline.
- Ending issuance of LIBOR-indexed floating rate unsecured debt that matures beyond the end of 2021
- Issuing more than $144 billion in SOFR-indexed debt to date.
- Launching SOFR-indexed Collateralized mortgage obligations (CMOs) with $1.2 billion of issuance to date and announcing the end of LIBOR-indexed CMOs.
- Launching SOFR-indexed Small Business Loans with $1.2 billion in the pipeline.
- Settling the first SOFR-based Single-Family Credit Risk Transfer transaction, a $1.1 billion real estate mortgage investment conduit (REMIC).

The company said it will share additional information about its transition efforts and milestones once the parties in the United Kingdom finalize their plans for ending the LIBOR.