GSE Activity Report

Tuesday, July 19, 2022

Bedtime for a Benchmark

As noted earlier today, the Fed has finally brought forth its LIBOR-transition proposal specifying permissible benchmarks for legacy contracts without contractual fallback rates. We will shortly provide clients with an in-depth assessment of the Fed's proposal, but in very short, it tracks the law's tenor spreads related to SOFR based on contract maturity and then crafts additional requirements for non-derivative obligations.

These include cash "covered GSE contracts" – defined to include an array of multifamily obligations, CLOs, CRT, and FHLB advances. In general, tenor spreads apply also to these obligations, but legacy contracts with maturities of one year or less could adhere to FHFA's current new-contract benchmark – i.e., a thirty calendar day compounded SOFR average plus any required tenor spread.

In addition to views on the new framework, the Fed asks for comment on whether conforming legacy GSE-contract spreads to those for newly-issued obligations would enhance liquidity. Comments are due thirty days after *Register* publication to give the Fed a chance to avoid being so late with a final rule after the September 30 deadline as to disgrace itself.

Federal Financial Analytics, Inc.
2101 L Street, N.W., Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail : info@fedfin.com www.fedfin.com