FARMER MAC

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July 6, 2020

Via email to the Department of the Treasury at: govsecreg@fiscal.treasury.gov
Subject: TREAS–DO–2020–0007

Re: Notice and Request for information of the Department of the Treasury regarding the Development and Potential Issuance of Treasury Floating Rate Notes ("FRNs") Indexed to the Secured Overnight Financing Rate ("SOFR") ("Notice")

The Federal Agricultural Mortgage Corporation ("Farmer Mac") appreciates the opportunity to respond to the Treasury's Notice. Farmer Mac's responses ("Responses") to select questions in the Notice are set forth below. The Responses reflect the views and opinions of members of Farmer Mac's management, which should not be imputed to Farmer Mac's Board of Directors or shareholders. The Responses are limited by the facts and circumstances currently known to such members of Farmer Mac's management, and Farmer Mac makes no representation or warranty regarding the accuracy or completeness of the Responses, either as to the questions posed in the Notice or otherwise. For your convenience, the Responses have been placed in the order in which the selected questions were presented, and the text of each question is presented in italics before the associated Response. Capitalized terms used herein and not defined have the meanings set forth in the Notice.

About Farmer Mac
Farmer Mac is a vital part of the agricultural credit markets and was created to increase access to and reduce the cost of capital for the benefit of American agricultural and rural communities. As the nation's secondary market for agricultural credit, we provide financial solutions to a broad spectrum of the agricultural community, including agricultural lenders, agribusinesses, and other institutions that can benefit from access to flexible, low-cost financing and risk management tools. Farmer Mac's customers benefit from our low cost of funds, low overhead costs, and high operational efficiency.

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Question 3.1: *What are the primary considerations Treasury should evaluate when structuring a Treasury SOFR-indexed FRN? How would different potential security structures affect investment decisions by market participants, including with respect to activity in derivatives markets?*

Response: As a frequent issuer of SOFR-indexed bonds, Farmer Mac recommends that Treasury consider the following factors when structuring a SOFR-indexed FRN:

- SOFR-indexed FRN investor feedback on structures, especially from the money market funds and municipalities which are Farmer Mac's largest buyers of SOFR-indexed FRNs
- Government-Sponsored-Enterprises (GSEs) SOFR-indexed FRN structures
    - Largest issuers of SOFR-indexed FRNs
    - We believe most potential interest in a Treasury SOFR-indexed will derive from buyers of GSE SOFR-indexed FRNs
- Current secondary market liquidity and trading for SOFR-indexed FRN structures
- Payment processing system capabilities (*e.g.*, can systems calculate and transfer funds)
- Accounting issues and nuances

Farmer Mac is an end user of derivatives and has entered into SOFR-indexed derivatives. Based on our experience we recommend that the Treasury prioritize investor considerations over derivative market conformity. Given its role in the fixed income market, the Treasury's structure will likely become the SOFR-indexed FRN standard upon issuance. Current and potential SOFR-indexed investor feedback is crucial for market acceptance and liquidity.

Question 3.5: *Should interest on Treasury SOFR-indexed FRNs be calculated based on a simple average or a compounded average of SOFR? Should Treasury consider indexing the security to an average rate based on SOFR, such as those recently published by FRBNY as administrator for SOFR? If so, what would be the optimal averaging period for a SOFR-indexed FRN?*

Response: While the compounded rate of interest more accurately reflects the time value of money than a simple average, we found, based on discussions with investors and dealers, SOFR-indexed FRN investors resistant to its use over simple-average. Farmer Mac recommends the Treasury to prioritize SOFR-indexed FRN investor feedback in deciding between compounded and simple average.

Additionally, most SOFR-indexed FRN issuances are using an "in arrears" calculation methodology and averaging over a quarterly interest period. Farmer Mac recommends that Treasury conform to this methodology.

Question 3.6: *What coupon frequency should be used for a Treasury SOFR-indexed FRN? Note that the existing 13-week T-bill FRN pays coupons quarterly. Would a semi-annual, or other coupon frequency be preferred? When during the month should coupon and principal payments be made?*

Response: Along with other GSE issuers, Farmer Mac SOFR-indexed FRN issuances have been quarterly coupons and Farmer Mac recommends Treasury use a quarterly coupon.

Question 3.7: *Should the index rate for a Treasury SOFR-indexed FRN reset daily, weekly, or at some other frequency?*

Response: Farmer Mac, along with most SOFR-indexed issuers, has used daily resets (on U.S. Government Securities Business Days. Therefore, Farmer Mac recommends daily resets

Question 3.8: *Should a Treasury SOFR-indexed FRN incorporate a lockout (i.e., last k rates for an interest period set at SOFR k days before the period ends), a lookback or "lag" (i.e., for every day in the interest period, use SOFR from k days earlier), or a payment delay (i.e., coupon and principal payments made k days after the end of the interest period) in its structure? If so, what values would be appropriate for each attribute? Please explain relevant considerations for these features.*

Response: Farmer Mac, along with other GSE issuers, have used a lockout based on investor feedback. Farmer Mac recommends that Treasury prioritize SOFR-indexed FRN investor feedback in deciding between a lockout, lookback, or payment delay.

Question 3.9: *In light of FRBNY's data contingency procedures for the publication of SOFR, what contingency measures should Treasury consider incorporating into the terms of a SOFR-indexed FRN if SOFR, or an average rate based on SOFR, is temporarily unavailable or revised?*

Response: Farmer Mac recommends that the Treasury use recommended fallback language from the Alternative Reference Rates Committee (ARRC).

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Question 5.1: *What proportion of likely investors is currently operationally ready to purchase Treasury SOFR-indexed FRNs? For those investors that are not ready, what are the main impediments? How much lead time and investment would be required for additional investors to become operationally ready to purchase Treasury SOFR-indexed FRNs? Would any of the security structure choices mentioned in Section 3 above affect the operational readiness of likely investors?*

Response: Based on our investor feedback, the most difficult adjustments for investors moving to SOFR are the lack of a term rate and no credit component. We have had very few investors complain about operational readiness for a SOFR-indexed FRN, using either a term rate or a simple average of SOFR.

Question 5.2: *To what extent would Treasury's issuance of SOFR-indexed FRNs advance the overall market transition away from U.S. dollar LIBOR? How would different market segments (e.g., FRNs, derivatives, business loans, consumer products) be affected by Treasury's decision to issue SOFR-indexed FRNs? What effect would Treasury's issuance of SOFR-indexed FRNs have on the overall market transition away from LIBOR beyond that caused by current issuance of SOFR-indexed FRNs by other issuers? Please provide specific details of the cause and effect relationships you expect.*

Response: We believe that a Treasury SOFR-indexed FRN would help move the general investment community, beyond money market funds, to accept SOFR.

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Farmer Mac appreciates your consideration of these comments and welcomes the opportunity to discuss further. If you have any questions about this matter, please contact rowens@farmermac.com.