

Secured Overnight Financing Rate (SOFR) frequently asked questions

What is the Secured Overnight Finance Rate (SOFR)?

SOFR is based on actual overnight borrowings in the U.S. Treasury repo market. The U.S. Treasury repo market involves a wide set of financial firms, including many asset managers and other buy-side firms, not just banks. SOFR adheres to the IOSCO¹ Principles for Financial Benchmarks.

Who publishes SOFR?

SOFR is published daily at approximately 8 am (Eastern Time) on the Federal Reserve Bank of New York's (FRBNY) website.² The FRBNY has officially published [SOFR](#) since April 2018.

How is SOFR determined?

The daily published rate represents the rates on overnight repurchase transactions that were initiated the previous business day and are to be repaid on the current business day. For example, the rate published on April 15 is the rate charged for transactions started on April 14. For more information on how SOFR is determined, please refer to the FRBNY website for daily published rates ([Daily SOFR](#) and [SOFR Averages](#)).

What are the key differences between SOFR and LIBOR?

SOFR is an overnight, secured rate using actual transactions that are collateralized by Treasury securities and is considered a broad measure of the cost of borrowing cash overnight. LIBOR is an unsecured rate that ranges in term from overnight to one-year and is set by a panel of banks submitting estimates of borrowing costs.

Because of the unsecured nature, LIBOR includes an element of bank credit risk that may result in a higher rate than SOFR, particularly in times of severe market stress. In addition, Daily SOFR is calculated in arrears (backward-looking), which creates operational differences from forward-looking rates (e.g. LIBOR and Term SOFR) set at the beginning of the interest period.

How is Daily Simple SOFR used to calculate interest?

Using SOFR as reported by the FRBNY and simple interest methodology, interest is calculated on a daily basis over the interest payment period.

What is Average SOFR?

30/90/180-Day Average SOFR are also reported daily by the FRBNY. These rates represent the compound average of SOFR of the respective time periods. For example, 30-Day Average SOFR is the compounded interest rate of the preceding 30 days as reported by the FRBNY. Similarly, 90-Day Average SOFR and 180-Day Average SOFR are the reported compounded interest rates of the preceding relevant period.

How are Average SOFR rates used to calculate interest?

The interest rate is determined at the start of each interest period (this is referred to as "in advance") using the applicable 30-, 90-, or 180-Day Average, as reported by the FRBNY. Using simple interest methodology, interest accrues on a daily basis at the rate over the interest period.

¹ The International Organization of Securities Commission (IOSCO) is an association of organizations that regulates the world's securities and futures markets.

² The FRBNY has noted that the published rate may be subject to intraday corrections up until 2:30pm EST. While expected to be a rare occurrence, if an intraday adjustment occurs, the Bank's systems will be adjusted centrally.

How does 30-Day Average SOFR compare to 1-month LIBOR?

They are similar in that the rate is set at the beginning of the interest period; however, the basis for determining the rate is not the same. 30-Day Average SOFR is based upon the average daily SOFR rates for the preceding 30 days and when used in advance is like LIBOR in that it is set at the beginning of the interest period. 1-month LIBOR is a forward-looking rate based on estimated borrowing rates submitted by panel banks and is set at the beginning of the interest period.

What is Term SOFR?

Term SOFR is a rate based on market expectations for the future performance of SOFR and as such is appropriate for use as a forward-looking rate to set at the beginning of each interest period. [Term SOFR](#) rates are reported each business day by CME Group for 1/3/6/12-month tenors.

How are Term SOFR rates used to calculate interest?

The interest rate is determined at the start of each interest period (this is referred to as "in advance") using the applicable 1-, 3-, 6-, or 12-month period as reported by CME Group, and interest accrues on a simple interest basis.

How does Term SOFR compare to LIBOR?

They are similar in that, like LIBOR, Term SOFR is a forward-looking rate known in advance of the interest period; however, they are different in that all forms of SOFR are risk-free, whereas LIBOR is an unsecured rate.

Which SOFR rates are available at Truist?

Truist currently offers all forms of SOFR. If you have questions about rate alternatives available for loans or derivatives transactions, please contact your relationship manager.

[Truist.com](https://www.truist.com)

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