

What's the difference between SOFR and Term SOFR?

It seems everyone's asking this question recently.

- "SOFR" is more technically Overnight SOFR (today, 0.05%)
- "Term SOFR" aka CME Term SOFR is a forward-looking rate based on SOFR futures (today, 0.27%)

Overnight SOFR is a retroactive rate, which means it tends to move *after* a Fed hike. Think Prime or Fed Funds.

Term SOFR is a proactive rate, meaning it moves *in anticipation* of a Fed hike. Think LIBOR.

Thanks For Clearing That Up...

But what about Compounded SOFR (aka NY Fed) or simple average SOFR you ask? These versions are derived from Overnight SOFR, which is compounded *or* averaged over 30, 90, or 180 days, meaning they're also retroactive.

- Simple average SOFR is calculated in arrears meaning it reflects the Overnight SOFR resets during the actual accrual period.
- Compounded SOFR is generally reset in advance meaning that it's actually derived from the Overnight SOFR resets from the *previous* period.

Compounded SOFR in advance and Term SOFR tend to be the two most commonly used indices.

Clear as mud?

What does this mean for me?

If you're comparing a Compounded SOFR deal to a Term SOFR deal today, Term SOFR is 0.22% higher since it has already risen in anticipation of a March rate hike.

But since the hike hasn't occurred yet, Compounded SOFR is still hanging out around 0.05% and will take some time to catch up once Overnight SOFR moves.

This was one of the arguments against using Compounded SOFR reset in advance for loans. It's effectively last month's rate, so it lags Term SOFR in a rising rate environment. But at the same time, it would also lag Term SOFR in a decreasing rate environment. Therefore, over a period of a few years we'd anticipate the difference to average out such that a borrower is largely indifferent between one index and another.

Where can I find these rates?

The best quick resource for Overnight SOFR, Compounded SOFR (NY Fed), and Term SOFR is the quick rates section on the [Pensford.com](https://pensford.com) homepage. Alternatively, they can all be found on the CME's website [here](#).

What about forward curves?

The forward curve available on our website [here](#) includes SOFR. Since Term SOFR is based on implied market expectations, its forward curve is effectively the same as compounded SOFR, so we don't list separate curves.

Keeping Them Apart

One challenge with the transition from LIBOR to alternative rates has been that "SOFR" is used as a catchall that can mean one of several things.

For that reason, we put together a resource last year titled "The Different SOFR Rates" which includes a flowchart illustrating how the various rates relate. Check it out [here](#).

For more resources or help, check out [Pensford.com/SOFR](https://pensford.com/SOFR) or give us a shout.

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