Figure 1.1.1. Example of the Real Estate Investment Trust Maturity Transformation Process

1. A broker-dealer executes a short-term, collateralized reverse repo with a liquidity-rich entity, typically through a triparty clearing bank for a small fee (owing to the conservative nature of the transaction).

   **MMMF short-term cash investor**
   Terms of transaction:
   * Overnight
   * 20 basis point repo rate
   * 2 percent haircut

   **REIT short-term cash borrower**
   Terms of transaction:
   * Term
   * 50 basis point repo rate
   * 5 percent haircut

2. The broker-dealer uses the cash to execute a bilateral repo with a REIT with a longer maturity and higher haircut, at a higher repo rate (owing to the longer tenor and higher counterparty risk), earning a spread on the difference in rates of the two legs.

   **Tri-party clearing bank**
   Intermediated by securities dealers
   Mortgage-backed securities

3. The REIT then invests the short-term cash obtained from the repo in long-dated MBS, earning a spread between the two rates.

   **Mortgage-backed securities**

Sources: Company statements; Fitch Ratings; and IMF staff.
Note: MBS = mortgage-backed security; MMMF = money market mutual fund; REIT = real estate investment trust. Transaction terms relate to intermediating securities dealers.