

Single Security

# Focus Group Discussions

*Lenders/Sellers/Serviceers and Investors*

Summer 2016



Fannie Mae

FreddieMac



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## Single Security



The Single Security is a mortgage-backed security with common features and disclosures, each of which will be issued and guaranteed by Fannie Mae or Freddie Mac. Products in scope are fixed-rate 30-year, 20-year, 15-year and 10-year securities.

The Single Security will be called the “Uniform MBS” or “UMBS.” Single Class re-securitizations of UMBS will be called “Supers.”

### Purpose:

- Strengthen the US mortgage market by expanding liquidity in the To-Be-Announced (TBA) market, thereby lowering the cost of housing finance and benefiting borrowers, taxpayers, and investors.
- Reduce the trading value disparities between Fannie Mae and Freddie Mac securities and help to reduce or eliminate the cost to taxpayers of subsidizing Freddie Mac’s securitization of single-family mortgage loans.
- Maintain TBA eligibility – the Enterprises will work with market participants to develop a single security that is compatible with the TBA market and subject to SIFMA’s good delivery guidelines.



## Single Security



<b>Security Issuer and Guarantee Structure</b>	<b>Each Single Security will be issued and guaranteed by either Fannie Mae or Freddie Mac</b>	
<b>Common Features</b>	Single Securities issued by either Enterprise will have key common features that largely align to Fannie Mae securities including the 55-day payment delay, and TBA prefixes CL, CT, CI, CN, ZL, ZT, ZI, ZN	
<b>Multi-Lender Pools</b>	The Single Security will continue to enable the formation of multiple-lender pools	
<b>Investor Remittance Date</b>	Payment date will be the 25 <sup>th</sup> (55-day delay) of the month for all product types; (unless the 25 <sup>th</sup> falls on a holiday or weekend, in which case the payment date will be the next business day after the 25th)	
<b>Re-Securitizations</b>	<p>Second-level securitizations (called re-securitizations) of Single Securities issued by either Enterprise can be backed by:</p> <p>In the case of Supers (similar to Megs and Giants):</p> <ul style="list-style-type: none"> <li>Single Securities (either issuances of one GSE or a commingling of both);</li> <li>Existing MBS and/or Megs issued by Fannie Mae; or</li> <li>Legacy PCs and/or Giants issued by Freddie Mac that have been exchanged</li> </ul>	<p>In the case of REMICs:</p> <ul style="list-style-type: none"> <li>Single Securities (either issuances of one GSE or a commingling of both);</li> <li>Existing/Legacy securities (either issuances of one GSE or a commingling of both); or</li> <li>Single Securities and existing/legacy securities issued by Fannie Mae and exchanged securities issued by Freddie Mac</li> </ul>
<b>Disclosures</b>	The disclosure framework for the Single Security will be closely aligned with the current Freddie Mac Participation Certificate (PC) loan- and security-level disclosures	
<b>Servicing and Selling Guides</b>	The Enterprises will maintain their separate Servicing and Selling Guides	
<b>Timeline</b>	In 2018, the Single Security will be implemented for both Fannie Mae and Freddie Mac upon each Enterprise's transition to the Common Securitization Platform. At least 12 months advance notice of the launch date will be provided to the market.	





### The Common Securitization Platform

- The CSP is a new single-family securitization technology and operational platform to be used by Fannie Mae and Freddie Mac to facilitate the back office operations relating to the issuance, disclosure and administration of single-family mortgage securities.
- CSS is an independent business entity, jointly owned by Fannie Mae and Freddie Mac, that will operate the CSP and the related business and operational processes.
- CSS will not interact with Fannie Mae and Freddie Mac customers; customers will continue to interact directly with the Enterprises.





### What Does the Single Security Mean to Me?

#### Lenders/Sellers

- Fannie Mae is the Issuer, Trustee, and Guarantor of its Single Security
- Freddie Mac is the Issuer, Trustee, and Guarantor of its Single Security
- Lenders/Sellers will still interact directly with Fannie Mae or Freddie Mac -- and will contact them for any pooling issues or customer service questions
- No change to Desktop Underwriter® and Loan Advisor Suite<sup>SM</sup> eligibility requirements
- No interaction directly with CSP or CSS
- No change in Fannie Mae selling contracts
- Changes will be made in Freddie Mac selling contracts
- Buy-up and buy-down grids will continue to be priced individually by the two Enterprises
- Lenders will still have the option to pool loans themselves and to deliver into multi-lender pools
- Fannie Mae and Freddie Mac continue to follow MISMO standards
- Minor Changes to pooling rules to align Fannie Mae and Freddie Mac
  - Note rate range requirements- Fixed-rate note rates must be between 25 basis points and 250 basis points over pool pass-through rate
  - Pooling terms for single- and multi-lender pools\*

**Minimal change is expected in how lender/sellers and their vendors interact with Fannie Mae and Freddie Mac as a result of the Single Security Go Live.**

*\* 10-year: original terms no less than 85 months and no more than 120 months; 15-year: original terms no less than 85 months and no more than 180 months; 20-year: original terms no less than 181 months and no more than 240 months; 30-year: original terms no less than 181 months and no more than 360 months.*



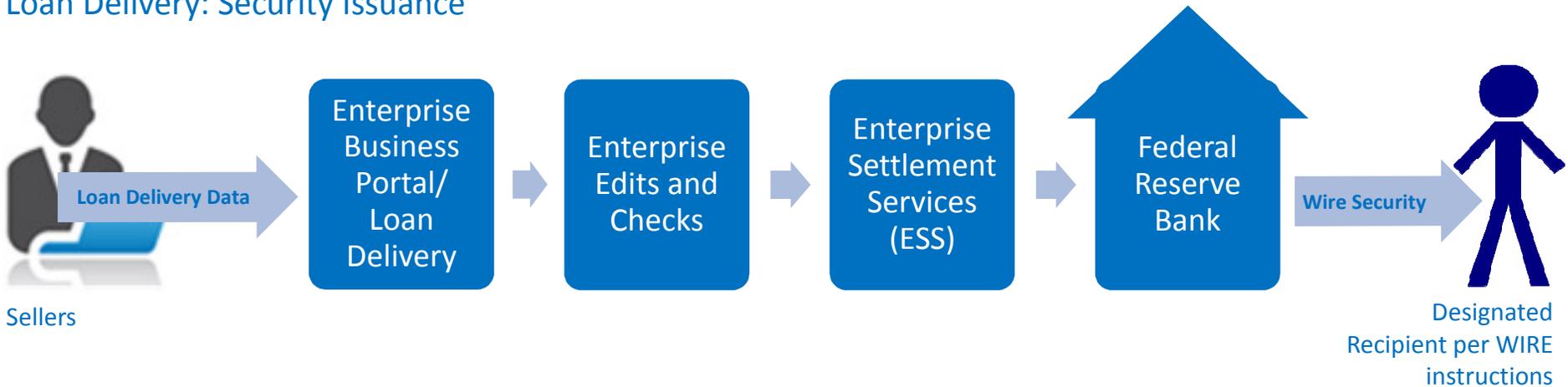
# Single Security



## Single Security -- Impact to Selling and Issuance Process

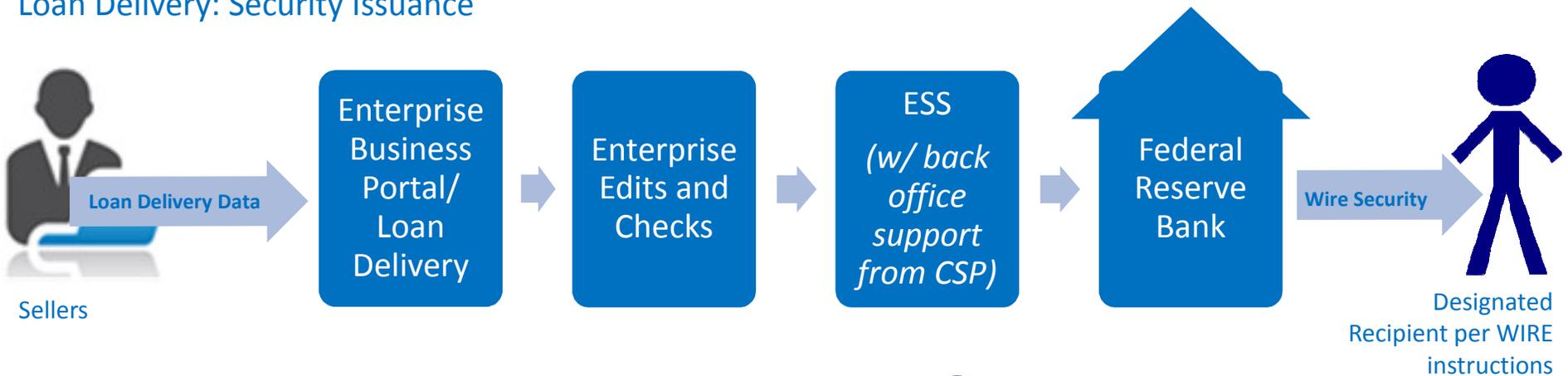
Current State: Pre-Single Security

Loan Delivery: Security Issuance



## Post State: Single Security Go Live

Loan Delivery: Security Issuance



Fannie Mae

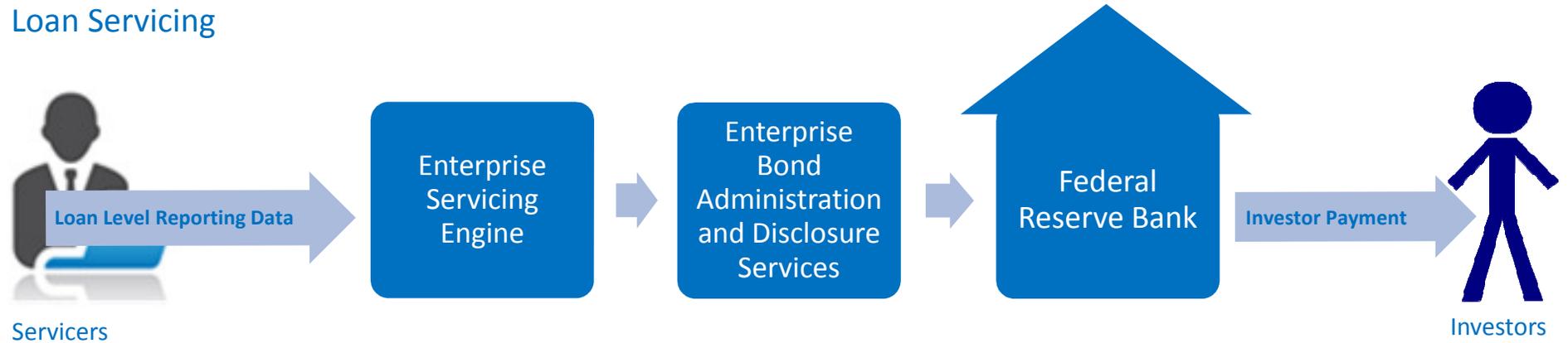
FreddieMac

# Single Security

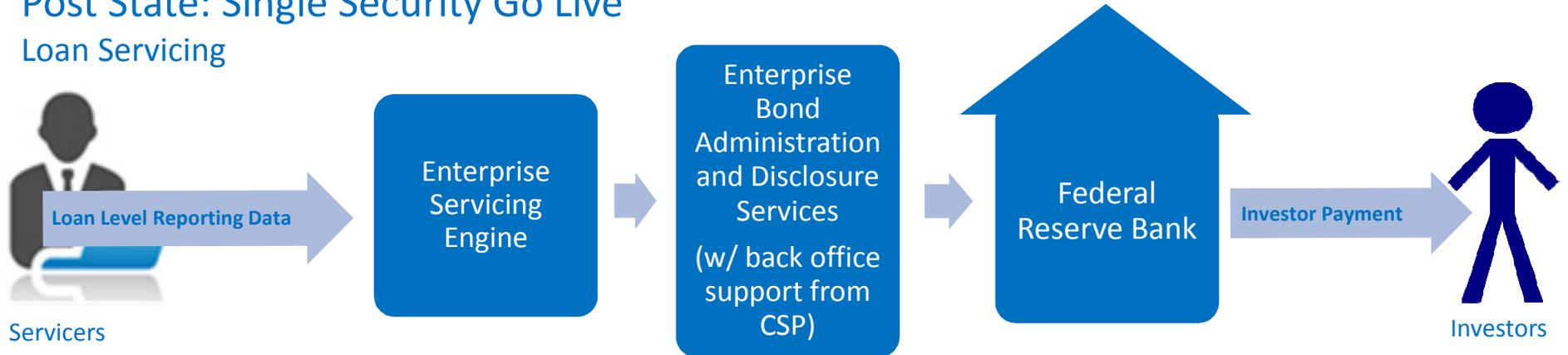


## Single Security -- Impact to Loan Servicing

Current State: Pre-Single Security  
Loan Servicing



Post State: Single Security Go Live  
Loan Servicing



Fannie Mae™

FreddieMac



### What does the Single Security Mean to Me?

#### Investors and Their Vendors

- Fannie Mae is the Issuer, Trustee, and Guarantor of its Single Security
- Freddie Mac is the Issuer, Trustee, and Guarantor of its Single Security
- Investors will receive payments in the same manner they do today
- Payment Day will be the 25th day for all Single Securities (or next business day if the 25th falls on a holiday or weekend)
- Disclosures for the Single Security will still be accessible on Fannie Mae's or Freddie Mac's portal
  - Release timing of disclosures will be aligned
  - File format will be a flat file
- Freddie Mac legacy PCs can be exchanged for a 55-day delay Single Security (not mandatory)
- Fannie Mae existing MBS do not need to be exchanged - considered Single Securities on Day 1
- Fannie Mae and Freddie Mac will continue to maintain their own seller/servicer guides and trust agreements but will continue to work to maintain alignment in areas that could impact prepayment speeds
- Commingling of Fannie and Freddie securities can occur as described in the previous slides -- the issuing enterprise of the second-level security (i.e., Supers security or REMIC) is the guarantor of such security

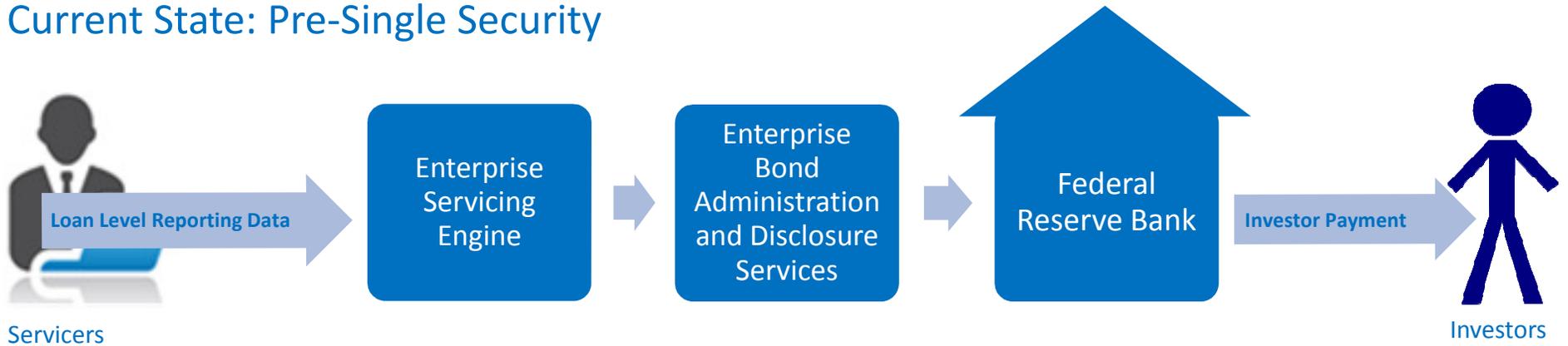


# Single Security

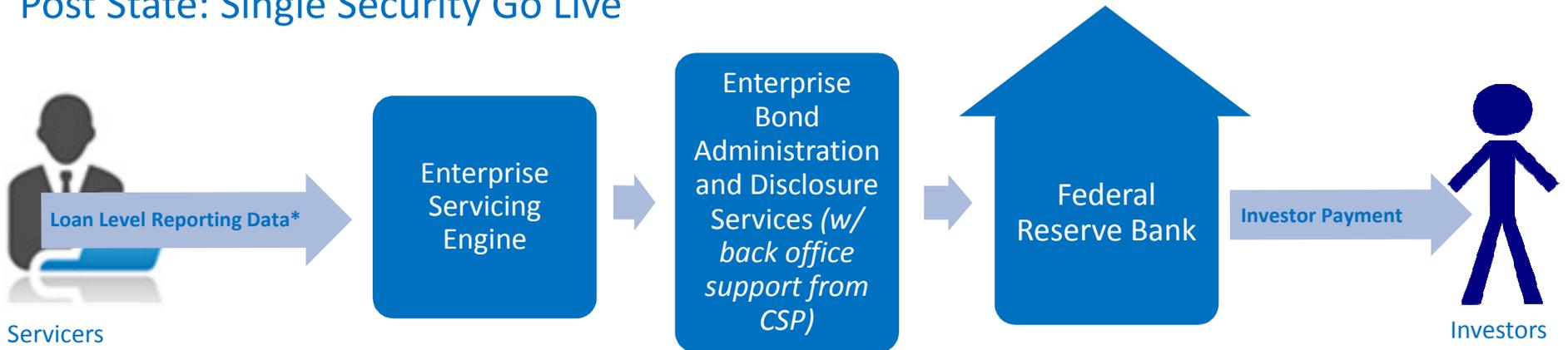


## Single Security -- Impact to Investor Payments

### Current State: Pre-Single Security



### Post State: Single Security Go Live



\* Other than alignment to the 25<sup>th</sup> payment day, no change is expected in how investors receive their payment from Fannie Mae and Freddie Mac as a result of the Single Security Go Live.

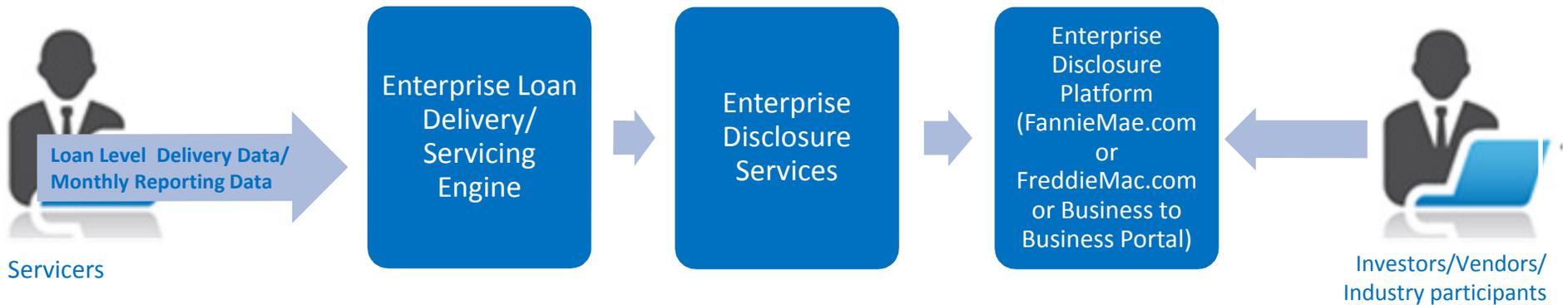


# Single Security

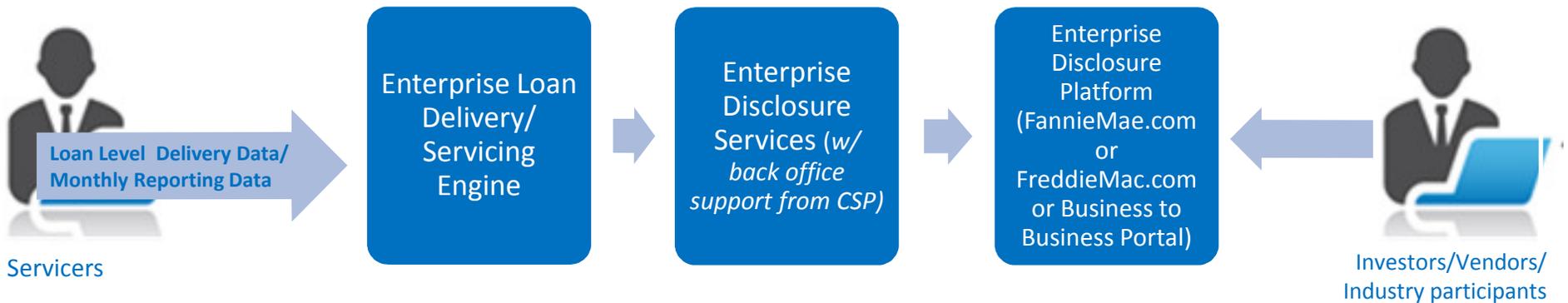


## Single Security -- Impact to Disclosure

### Current State: Pre-Single Security



### Post State: Single Security Go Live



\* Post Single Security Go Live, both Fannie Mae and Freddie Mac will have a Business-to-Business portal where investors and other industry participants can subscribe and be notified when the files are ready for consumption. In addition, market participants can access disclosures directly from Fannie Mae's and Freddie Mac's websites as they do today, although the URL is expected to change.





### Single Security -- Impact to Disclosure (continued)

- Disclosures for Fannie Mae-issued Single Security and Freddie Mac-issued Single Security will be aligned
- File format will be flat file - disclosure specifications were made public in July 2016
- Freddie Mac will adopt the Single Security Disclosure format in Summer 2017
- Disclosures will be available from two sources:
  - File download from FannieMae.com or FreddieMac.com
  - Fannie Mae or Freddie Mac Business-to-Business portal - users can subscribe to notifications when files are ready to be retrieved
- Timing and Types
  - At-issuance files will be provided:
    - Up to 3x a day (current plan is 6:30 am, 11:30 am, 3:30 pm)
    - As one consolidated monthly report at month end (for issuances that month)
    - As correction files for each of the two months following the offering period
  - Ongoing files will be provided on the fourth business day
  - At-Issuance and Ongoing files will consist of:
    - Loan-Level File
    - Core File (factors)
    - Supplemental (Strats, Quartiles)
  - At-Issuance and Ongoing file formats will be the same
  - Fannie Mae and Freddie Mac will maintain separate files
- Testing with the Industry – there will be some period of testing before Go Live... more to come
- No interaction directly with CSP or CSS - All inquiries will be directed at and handled by the Enterprises
- Enterprises retain Master Servicing and Data Validation

**The Enterprises will give ample notice of exact location of disclosure files and details of the testing period.**





## Single Security Identifiers

- Freddie Mac and Fannie Mae will share the FICC TBA identifier of “01F” for Single Security (for trade netting).
- Freddie Mac will continue to use the FICC TBA identifier of “02R” for legacy 45-day delay
- Prefix/pool identifiers and approach will be transparent – Ticker discussion with Bloomberg still in progress
- Freddie Mac will adopt the following prefix values for Single Security:

Product	Single Security Pool Prefixes for UMBS	Reverse REMIC Pool Prefixes for Supers Securities
30 year	CL	ZL
20 year	CT	ZT
15 year	CI	ZI
10 year	CN	ZN

- The Enterprises have coordinated pool number assignment to eliminate duplicate pool numbers in the future.
- Freddie Mac has decided to convert non-TBA fixed-rate pools to a 55-day delay, which will follow similar prefix and pool number structures as Fannie Mae
  - For this population, Freddie Mac and Fannie Mae have agreed to identical prefix designations to avoid having the same prefix represent different non-TBA products (e.g. CQ = FHLMC Super Conforming and CQ= FNMA high LTV).
  - Freddie Mac will assign new prefixes to all 55-day delay non-TBA products using the Numeric + Alpha format; this will eliminate any Freddie Mac/Fannie Mae prefix overlap that may exist among 45-day delay securities.
  - Going forward, Freddie Mac will use the Numeric + Alpha format for all prefix assignments, but will exclude any Numeric + Alpha prefixes already in use by Fannie Mae.

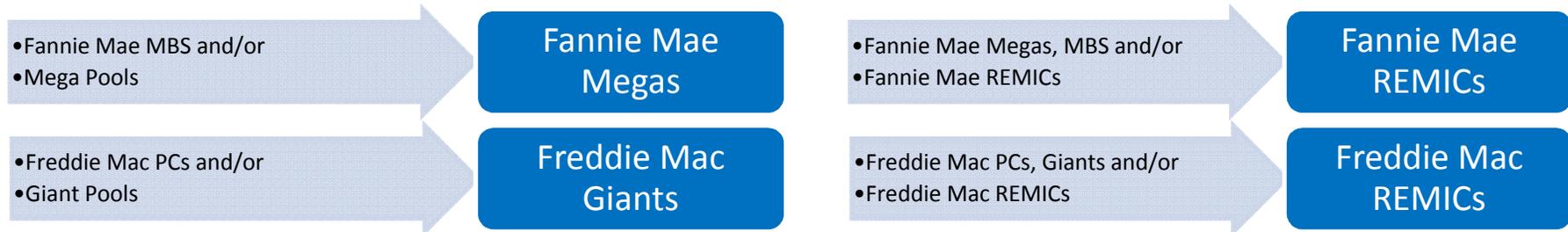


# Single Security

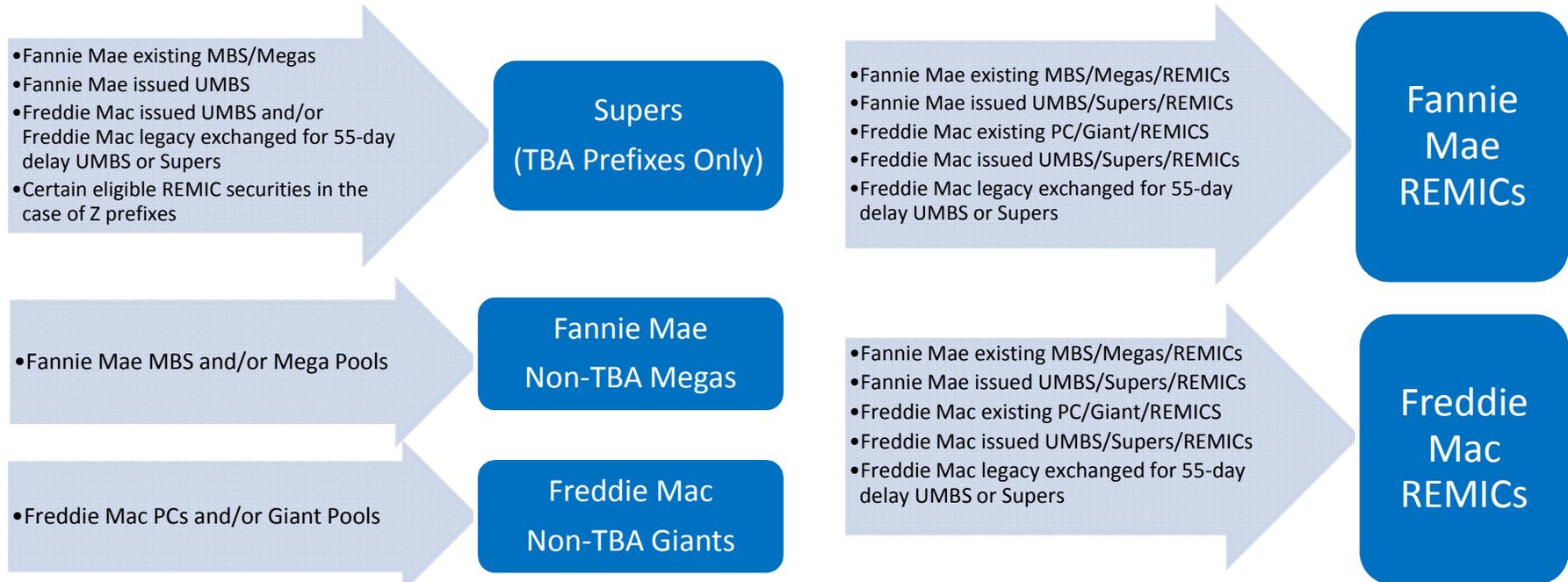


## Pre- and Post-Single Security Resecuritizations\*

### Pre-Single Security Enterprise Resecuritizations



### Post-Single Security Enterprise Resecuritizations



\* This is a basic description of how a majority of enterprise resecuritizations work. This diagram does not address other types of collateral sometimes seen in REMICs such as Ginnie Mae MBS.



Fannie Mae™

Freddie Mac



### Freddie Mac Legacy PC Exchange Overview

- Freddie Mac will offer an exchange that will be open to investors in legacy 45-day PCs. There will be no fee to exchange.
- All fixed-rate PCs that are not 100% committed to Resecuritization can be exchanged.
  - Holders of TBA securities will receive 55-day Single Securities (UMBS or Supers) after an exchange while holders of non-TBA securities will receive a Freddie Mac 55-day non-TBA security.
  - Investors will also receive compensation for the approximate fair value of 10 days of lost float.
- Exchanges will be conducted through a new Freddie Mac online portal.
- Exchange will open in concert with the introduction of the new Single Security product and will stay open for the foreseeable future.
- Freddie Mac will create mirror 55-day Single Securities and mirror non-TBA 55-day securities for all exchange eligible 45-day PCs.
  - Most security characteristics, such as issuance UPB and factor, of the new 55-day securities will mirror the corresponding 45-day PCs.
  - Mirror securities will appear on the Daily New Issue File the day they are created.
  - Freddie Mac will hold all mirror securities until an exchange for a given security is executed so exchange transactions will not increase the aggregate supply outstanding





### Single Security Considerations

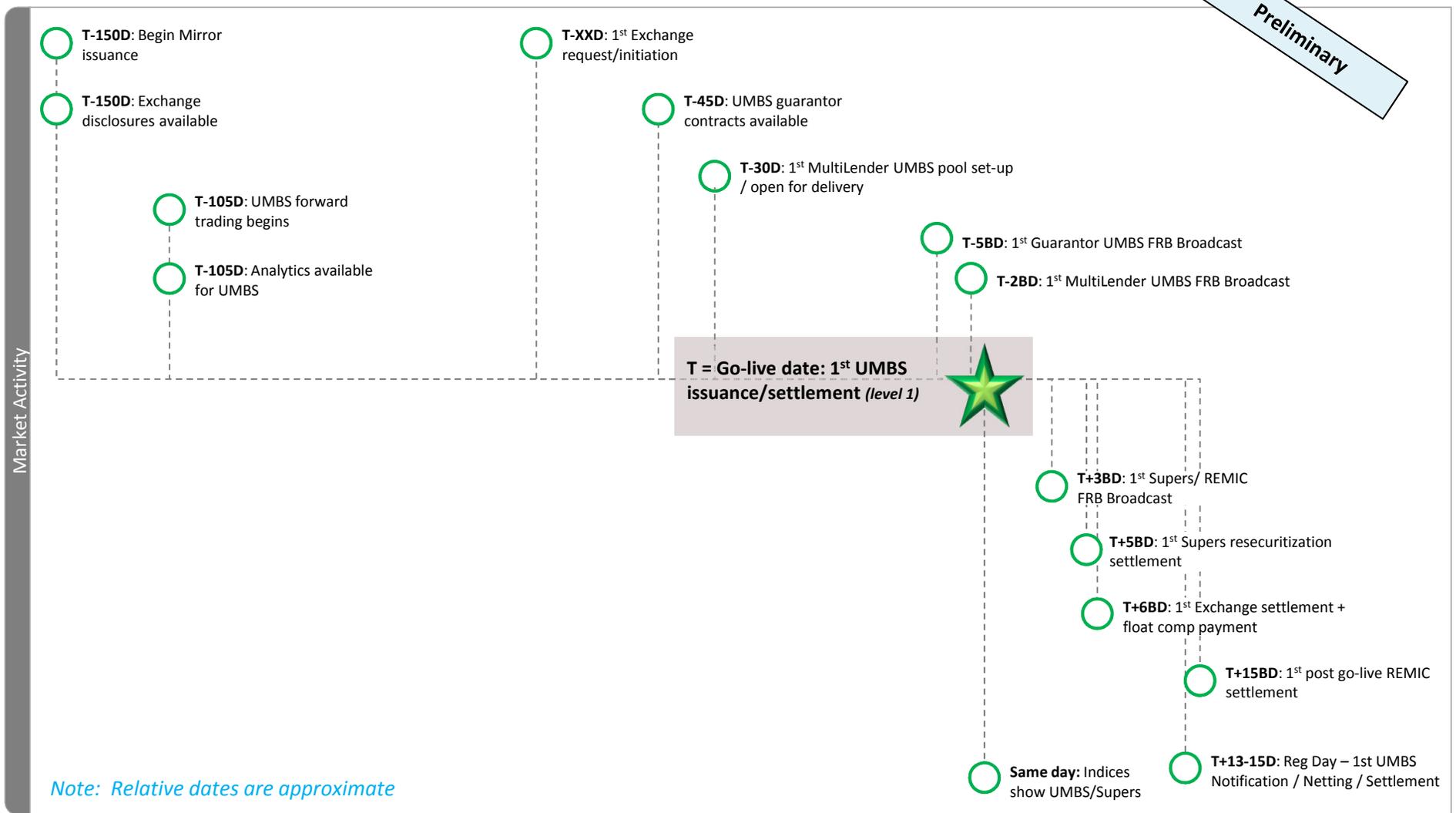
- Transition into the market
  - Freddie Mac PC Exchange (Accounting and tax treatment)
  - Updated TBA good delivery guidelines
  - Dollar Rolls
  - Two TBA markets to one
- Legal and regulatory implications
- Hedging and best execution practices
- Nomenclature
  - First-level securities: Uniform MBS
  - Second-level securities: Supers securities



# Single Security

## Single Security -- Sample Transition Dates & Relative Timing

Preliminary



Note: Relative dates are approximate





### Additional Resources

Fannie Mae Website:

[www.fanniemae.com/singlesecurity](http://www.fanniemae.com/singlesecurity)

Freddie Mac Website:

[www.freddiemac.com/single\\_security](http://www.freddiemac.com/single_security)

Federal Housing Finance Agency (FHFA) Website:

<http://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Single-Security.aspx>



# Single Security



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