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Outline of Revisions to 1994 MBS Buy-In Procedures

- I. The primary purpose of revising the procedures was to address the effects of amortization in the context of both Unallocated TBAs and Allocated TBAs (or Specified Transactions) on both the quantity of securities to be bought in and the calculation of settlement amounts payable in respect of a buy-in, in a manner designed to avoid unduly benefiting either party to a buy-in.
 - Separate “Model Notices” have been created for Specified Transactions/Allocated TBAs (Exhibit C) and Unallocated TBAs (Exhibit D) with attached worksheets specifying the calculation of settlement amounts due in connection with the buy-in.
 - Under the procedures, the Originating Purchaser buys in the amortized principal amount of a Specified Transaction or Allocated TBA, but the unamortized principal amount of an Unallocated TBA (since the amortization of an Unallocated TBA is not known).
 - The settlement amounts include the following components:
 - The difference between the buy-in settlement amount and the original settlement amount.
 - This difference may be to the benefit of the Original Purchaser or to the Seller, depending on changes in prices between the original trade date and the buy-in.
 - For purposes of calculating the buy-in settlement amount on an Allocated TBA or Specified Transaction, the buy-in price is used together with the actual amortization factors for the pool(s) the Seller failed to deliver.
 - For purposes of calculating the buy-in settlement amount on an Unallocated TBA, the buy-in price is used together with an amortization factor of 1.0 (*i.e.*, as noted above, the principal amount bought in is the par amount of the TBA trade).
 - Accrued Coupon Interest will be owed to the Originating Purchaser, which is due interest paid after the original settlement date of the failed transaction.
 - For an Allocated TBA or Specified Transaction, the actual interest payments on the relevant pool(s) are used.
 - For an Unallocated TBA, the interest payments are calculated using a generic monthly amortization factor for the relevant TBA

cohort. The generic monthly factors can be obtained from a new Bloomberg screen created as part of the revision process.

- Principal Amortization:
 - Amortized principal will be owed to the Originating Purchaser in Allocated TBAs or Specified Transactions.
 - No amortized principal will be owed in an Unallocated TBA since the entire par amount of the original transaction is bought in.
 - As a consequence, the Originating Purchaser ends up with more securities than it would have if the Seller had made delivery on the original settlement date, since those securities would have amortized between the original settlement date and the buy-in settlement date (leaving the Originating Purchaser with more cash and less securities).
 - If the securities trade above par, the absence of amortization would benefit the Originating Purchaser (since the securities it buys in are worth more than the cash principal payments it would have received); if the securities trade below par, the absence of amortization would harm the Originating Purchaser.
 - An economic adjustment is made using the generic amortization factor to eliminate any benefit or harm to the Originating Purchaser from the absence of amortization.
- In certain cases, it will not be possible to calculate immediately the net amount due in connection with a buy-in (e.g., where the amortization factors or the interest rate for the settlement date are not known on the buy-in execution date). In these cases, a preliminary notice of buy-in will be sent on the buy-in execution date to be followed as soon as possible by a revised notice calculating the amount payable.

II. Various other changes were made to make the procedures more concise, clear, and practicable for participants in the MBS markets, including:

- Clarified that buying-in on the proposed buy-in execution date is not optional – if the transaction has not been closed out by 3:00 p.m. on such date, the Originating Purchaser must use commercially reasonable efforts to execute a buy-in.
- Clarified definitions of “Fully-Paid Fail”, “Originating Purchaser”, and “Sell Order Fail”. Added definition for “Specified Transaction”.
- Added language that “a Seller’s failure to acknowledge a buy-in notice shall not preclude the Originating Purchaser from executing the buy-in” to close a theoretical loophole found in the original procedures.
- Reduced the delay of the buy-in execution date upon notification that the securities subject to the buy-in are “in-transit” to the Originating Purchaser from 7

calendar days from the proposed execution date to 3 business days (or 5 business days if certificates being delivered) from the date of such notification.

- Clarified the interaction between the procedures and the 48-hour rule followed for TBA settlement¹ (which requires two business days between the effectiveness of a notification of pool information and the settlement of those pools). This change will result in an extension of the buy-in date if a seller provides new or changed pool information that is effective under the 48-hour rule on or prior to the buy-in execution date.
- Clarified procedures for retransmitting a buy-in notice, including with respect to the notification of pool information or that securities are in transit by a Seller back in the chain or Retransmitting Parties.
- Shortened the expiration of the buy-in notice from the end of the third to the end of the second business day following the proposed execution date.
- Conformed the examples at the end of the Procedures to the changes made in the Procedures.

¹ See TBMA's [Uniform Practices Manual](#), Chapter 7