

Single Security Initiative Update





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Overview

Single Security Initiative

- New uniform mortgage-backed security
- Common features
- Single TBA market
- Issued by Fannie Mae and Freddie Mac

Issuer/Guaranty Structure

- Level 1: UMBS; Level 2: Supers
- Supports commingling in second-level resecuritizations
- Issuer of top level security is guarantor

Alignment

- 55-day payment delay
- Prefixes: use Fannie Mae FICC Clearing Code (01F)
- Disclosures: aligned to Freddie Mac new format

Timing

- Implementation in Q2 2019
- Trading activities, including optional exchange*, will begin several months in advance of implementation

* Freddie Mac 45-day TBA securities



Key Considerations – Investors

Documents & Policies

- Portfolio issuer concentration limits
- Investment guidelines
- Exchange approach and timing*
- Offering documents

Processes

- Hedging and best execution practices
- Forward trading and dollar rolls leading up to implementation
- Procedures, documentation, training

Systems

- Vendor development, testing, and implementation timelines
- Presentation and analysis: two TBA markets combining
- Accept Fannie or Freddie collateral for “FNCL” trade

Accounting, Tax, Regulators

- Investment limits, concentration risk
- Treatment for exchanged Freddie Mac securities*

* Freddie Mac 45-day TBA securities



Key Considerations – Dealers

Processes

- Forward trading and dollar rolls surrounding implementation
- Exchange: scheduling, settling, float compensation distribution*
- Disclosure file format and timing

Systems

- Vendor development, testing, and implementation timelines
- Presentation and analysis: two TBA markets combining
- Analytics, reports, data feeds

Customers

- Customer support surrounding go-live period
- Exchange* scheduling

* Freddie Mac Gold PC securities only



Key Considerations – Vendors

Processes

- Rate schedule for the 10-day delay compensation (exchange*)

Systems

- Prefix and pool number content and structure
- System labels and logic**
- Disclosure file format and timing
- Analytics, reports
- Display and reporting of transition to single TBA UMBS

Customers

- Communication: nature and timing of system changes
- Documentation, training
- Customer testing and support surrounding go-live period

* Freddie Mac 45-day TBA securities

** See Resources page for links



Key Considerations – Freddie Mac Sellers*

Processes

- New Freddie Mac cash contract products
- 10-year pricing
- Loan allocation to 0-2 WALA pools
- Loan age calculation

Systems

- Prefix and pool number content and structure
- Selling System Security Product IDs
- Analytics, reports
- Disclosure files

Contracts

- Security product name changes
- Freddie Mac new 10-year security products

* UMBS features will mimic Fannie Mae MBS; no new changes for Fannie Mae sellers to absorb with the implementation of the new UMBS market





Recommended Actions

Assess

- Review Market Adoption Playbook**
- Complete initial impact assessment
- Develop level of effort estimate

Plan

- Develop plan
- Identify and reach out to internal and external resources, coordinating with other internal divisions
- Identify key milestones to complete changes in 2018

Budget

- Submit and obtain funding, if needed
- Coordinate with other affected internal divisions

Keep Informed

- Sign up for initiative updates
- Participate in working group sessions, trade associations, conferences
- Look for Market Adoption Playbook and FAQ updates

** See Resources page for links

Questions





Resources

Fannie Mae

Website: www.fanniemae.com/singlesecurity

Technical:

Playbook: <http://www.fanniemae.com/resources/file/single-security/pdf/market-adoption-playbook.pdf>

Contact: single_security@fanniemae.com

Freddie Mac

Website: www.freddiemac.com/single_security

Technical: http://www.freddiemac.com/mbs/html/single_security_csp_platform/tech.html

Playbook: http://www.freddiemac.com/mbs/docs/Single_Security_Initiative_Market_Adoption_Playbook.pdf

Contact: single_security@freddiemac.com

Federal Housing Finance Agency (FHFA)

Website: www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Single-Security.aspx