



Buy-In Procedures for Mortgage-Backed Securities

Introductory Note: The version of The Bond Market Association's Buy-In Procedures for Mortgage-Backed Securities set forth below was published in July 2006. The previous version of these procedures was published in 1994, shortly after the U.S. Treasury Department first adopted regulations requiring dealers to close-out certain transactions in Mortgage-Backed Securities. The Association began revising the 1994 procedures in 2004, after significant levels of fails in certain Mortgage-Backed Securities highlighted some uncertainty among market participants as to how several elements of the procedures should be implemented, particularly for TBA transactions, which limited the procedures' use and effectiveness. The revised procedures are intended to better assist dealers in complying with the Treasury regulations relating to close outs by creating more transparent and effective guidelines for the buy-in process. In addition, the Association sought to ensure that the procedures offer a neutral process that does not systematically benefit either the failing seller or the buyer and that avoids any market disruptions. Input from all interested market participants was solicited during the revision of the procedures. It is expected, however, that these procedures may require further revision from time to time in light of practical experience. Suggestions for further improvements to these procedures may be directed to the Association's Uniform Practices Specialist at 646.637.9200.

These procedures are recommended guidelines only, and compliance with them is strictly voluntary.

Note that the Association has separate buy-in procedures for transactions in U.S. Government securities that are not Mortgage-Backed Securities. These procedures are available at: <http://www.bondmarkets.com/agrees/govsecbuyin.pdf>.

A. General

Capitalized terms used but not otherwise defined herein shall have the meanings given in Section B of these procedures. All time references in these procedures are references to New York time.

The U.S. Treasury Department's regulations implementing the Government Securities Act of 1986, as amended (the "Treasury regulations"), require certain government securities brokers and dealers (i) to take prompt steps to obtain possession or control of Mortgage-Backed Securities that are the subject of any Fully-Paid Fail and (ii) to close out any Sell Order Fail involving Mortgage-Backed Securities.

A broker or dealer that is an Originating Purchaser can satisfy its obligations under these regulations by receiving a substitution for, selling back, or buying in the Mortgage-Backed Securities in question, in the manner described below.

B. Definitions

The following capitalized terms shall have the meanings given when used in these procedures:

"Allocated TBA" means a TBA transaction for which the underlying pool or pools of Mortgage-Backed Securities have been specifically identified and assigned by the seller to the buyer.

"Comparable Securities" means (i) in the case of a Specified Transaction, Mortgage-Backed Securities of a similar kind, quality and quantity as the Mortgage-Backed Securities originally agreed to between a Seller and an Originating Purchaser or Retransmitting Party, as applicable, with respect to attributes including but not necessarily limited to weighted average coupon, weighted average maturity, final maturity and similar characteristics affecting the yield of such securities, and (ii) in the case of a TBA transaction, Mortgage-Backed Securities that would be acceptable for delivery with respect to that transaction, in accordance with industry custom and practice then in effect; provided, however, that if a buy-in is executed to close out a TBA transaction and the particular class or classes of TBA securities involved are not available in the market, then "Comparable Securities" shall have the same meaning as set forth in clause (i) of this definition.

“Customer” means “customer” as that term is defined in Rule 15c3-3 promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”).

“Fully-Paid Fail” means a transaction in Mortgage-Backed Securities included on a broker or dealer’s books or records as failed to receive for more than sixty (60) calendar days that the broker or dealer is required under the Treasury regulations to close-out through a buy-in procedure or otherwise in order to obtain possession or control of its Customers’ fully-paid or excess margin securities.

“Mortgage-Backed Securities” means all mortgage-backed securities that are included in the definition of “government securities” as set forth in Section 3(a)(42) of the Exchange Act (15 U.S.C. § 78c(a)(42)). Such securities include, but are not limited to, mortgage-backed securities issued or guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac.

“Originating Purchaser” means a broker or dealer having an obligation under the Treasury regulations to close out a Fully-Paid Fail or a Sell Order Fail.

“Retransmitting Party” means a party who retransmits a buy-in notice with respect to a Fully-Paid Fail or a Sell Order Fail.

“Seller” means a party from whom Mortgage-Backed Securities are due in order to close out a transaction.

“Sell Order Fail” means a transaction in Mortgage-Backed Securities resulting from the execution of a Customer’s sell order (which the Customer did not identify as a short sale to the broker or dealer) in which the broker or dealer has not obtained possession of the securities from the Customer within sixty (60) calendar days after the settlement date. For purposes of this definition, “Customer” shall not include a broker or dealer who maintains a special omnibus account in compliance with Regulation T.

“Specified Transaction” means a transaction for a specifically identified pool (or specifically identified pools) of Mortgage-Backed Securities.

“TBA” means “to be announced,” with reference to the announcement and allocation of pools of Mortgage-Backed Securities in a forward delivery contract for their purchase and sale. A TBA transaction may be either an Allocated TBA transaction or an Unallocated TBA transaction.

“Unallocated TBA” means a TBA transaction for which the underlying pool or pools of Mortgage-Backed Securities have not been specifically identified and assigned by the seller to the buyer.

C. Originating Purchaser’s Options

An Originating Purchaser must take one of the following actions to close out a transaction that is a Fully-Paid Fail or Sell Order Fail:

1. Fully-Paid Fails

Option (1): deliver to its fully-paid or excess margin Customer the same or such Comparable Securities as may (a) be agreed upon by such Customer and Originating Purchaser, in the case of a Specified Transaction, or (b) be acceptable for delivery in accordance with industry custom and practice then in effect, in the case of an Allocated TBA transaction;

Option (2): repurchase the Mortgage-Backed Securities from its fully-paid or excess margin Customer; or

Option (3): conduct a buy-in of the Mortgage-Backed Securities that are the subject of the Fully-Paid Fail pursuant to the procedures specified in Section D below.

2. Sell Order Fails

Option (1): accept from the Seller in satisfaction of the Seller's obligation under the original contract (which shall be concurrently canceled) the delivery of such Comparable Securities as may (a) be agreed upon by such Seller and Originating Purchaser, in the case of a Specified Transaction, or (b) be acceptable for delivery in accordance with industry custom and practice then in effect, in the case of a TBA transaction;

Option (2): sell the Mortgage-Backed Securities back to the Seller on terms which provide that the Seller pay an amount which includes accrued interest and bear the burden of any change in market value;

Option (3): conduct a buy-in of the Mortgage-Backed Securities that are the subject of the Sell Order Fail pursuant to the procedures specified in Section D below; or

Option (4): to the extent that the Seller's failure to deliver Mortgage-Backed Securities is caused by the Seller's failure to receive such securities from another counterparty, the Originating Purchaser may effect a cash settlement of its transaction with the Seller (such settlement representing the difference, if any, between the amount owed by the Seller to its failing counterparty and the amount owed to the Seller by the Originating Purchaser), and accept an assignment of the Seller's failure to receive such securities from such other counterparty.

D. The Bond Market Association Buy-In Procedures

1. General

The Bond Market Association recommends the following procedures to assist brokers and dealers in effecting buy-ins in order to comply with the Treasury regulations. Examples illustrating the application of these procedures are presented in Exhibit E.

2. Notice of Buy-In

Buy-in notices for Mortgage-Backed Securities may not be issued prior to the expiration of sixty (60) calendar days after the originally scheduled settlement date for the transaction in question. To initiate a buy-in, an Originating Purchaser shall deliver a written notice (which may, but need not, be transmitted by facsimile) of buy-in to the Seller no later than 12:00 noon, at least ten (10) business days before the proposed execution date of the buy-in specified in such notice. All buy-in notices shall further specify that if the Mortgage-Backed Securities described in the buy-in notice have not been delivered to the Originating Purchaser by 3:00 p.m. on the proposed execution date, the transaction may be bought in on such date (or thereafter) for the account of the Seller.

Any buy-in notice shall also state:

- the name, address and telephone number of the Originating Purchaser;
- the name and address of the Seller to whom the notice is being sent;
- the par or face value and specific description of the Mortgage-Backed Securities involved in the transaction to which the buy-in notice relates;
- the contract price of the transaction; and
- the trade date and original settlement date of the transaction to be closed.

A Model Notice of Buy-In is attached as Exhibit A. Only one notice per transaction may be issued at any given time.

The Seller receiving a buy-in notice shall acknowledge receipt by signing and returning a copy of the buy-in notice to the Originating Purchaser. Such acknowledgment may, but need not, be transmitted by facsimile. A Seller's failure to acknowledge a buy-in notice shall not preclude the Originating Purchaser from executing a buy-in.

If the proposed buy-in execution date is not a business day, the Originating Purchaser will not be required to transmit a new notice. Instead, the proposed execution date will simply default to the next business day.

If, prior to the execution of the buy-in, the Originating Purchaser receives from its Seller written notice stating that the Mortgage-Backed Securities are in transfer or in transit or are being shipped that day (and if physical certificates are being delivered, specifying the certificate number(s)), the buy-in execution date shall be extended to the third (3rd) business day (or, if the notice states that physical certificates are being delivered, the fifth (5th) business day) after the Originating Purchaser's receipt of such notice (if that is after the proposed buy-in execution date).

If, prior to the execution of the buy-in, the Originating Purchaser receives notice from its Seller of new or changed pool information for a TBA transaction and such notice is effective under the 48-Hour Rule¹ on or before the proposed buy-in execution date, the proposed buy-in execution date shall be extended until the second (2nd) business day after such notice is so effective (if that is after the proposed buy-in execution date).² A Seller may not obtain such an extension of the proposed buy-in execution date more than twice.

Examples:

Assume that the proposed execution date is Thursday.

- If a notice that the Mortgage-Backed Securities are in transit is given on Tuesday, the proposed buy-in execution date is extended until Friday.
- If a notice of new or changed pool information is effective on or before Tuesday, there will be no effect on the proposed buy-in execution date (since the second business day after the notice is effective is not after Thursday).
- If a notice of new or changed pool information is effective on Wednesday, the proposed buy-in execution date is extended until Friday.
- If a notice of new or changed pool information is effective on Thursday (and given before the execution of the buy-in), the proposed buy-in execution date is extended until Monday.

In the event that an extension of the proposed buy-in execution date is triggered by one of the circumstances described above, the Originating Purchaser is not required to transmit a new buy-in notice. The original notice remains valid for the duration of the extension.

3. Executing the Buy-In

If, by 3:00 p.m. on the proposed buy-in execution date (as such date may be extended in accordance with these procedures), the Mortgage-Backed Securities described in the buy-in notice have not been delivered to the Originating Purchaser and the transaction has not otherwise been closed out, the Originating Purchaser shall use commercially reasonable efforts to execute the buy-in. To buy in a transaction as provided herein, the Originating Purchaser shall buy in at the current market value all or any part of the same or Comparable Securities necessary to complete the transaction, for the account and liability of the Seller. Any buy-in accomplished in this manner will be allowed to settle, if applicable and at the option of the Originating Purchaser, on the next regularly scheduled settlement date for that particular class or pool of Mortgage-Backed Securities.

An Originating Purchaser may execute a buy-in from its long proprietary position, from customers' accounts maintained with it or from the street. Buy-ins must be executed at a price that reflects fair market value of the security purchased, given market conditions at the time of execution. In all cases, the Originating Purchaser must be prepared to defend the price at which the buy-in is executed relative to such market conditions at the time of execution.

¹ See The Bond Market Association's *Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities* (the "Uniform Practices"), Chapter 7. As of the publication of these procedures, notices of new pool information for Unallocated TBA transactions are generally effective on the day delivered if delivered by 3:00 p.m. (although different cutoffs may apply if one party is a dealer that does not participate in the Electronic Pool Notification system) and notices of changed information for Allocated TBA transactions are effective on the day delivered if delivered by 12:15 p.m.

² Any buy-in after such an announcement of new or changed pool information shall treat the transaction as an Allocated TBA and use such new or changed pool information. Note that a late change or announcement of pool information may require the Seller to pay additional compensation to the Originating Purchaser pursuant to the provisions regarding "Settlement of Premium TBA Fails Extending Over Factor Release Dates" in Section A.13 of Chapter 8 of the *Uniform Practices*.

4. Retransmitting Buy-In Notices

A Seller who receives a buy-in notice may, within one (1) business day of receipt, retransmit the buy-in notice to another Seller. No party may retransmit a buy-in notice unless its books and records show the securities as “failed to receive” for at least sixty (60) calendar days past the scheduled settlement date.

Any retransmitted notice shall state:

- the name, address and telephone number of the Retransmitting Party;
- the name of each previous Retransmitting Party (which, in the case of a Customer, need only indicate “Customer” and not the specific identity of that Customer);
- the name and address of the Seller to whom the notice is being retransmitted;
- the name, address and telephone number of the Originating Purchaser;
- the par or face value and specific description of the Mortgage-Backed Securities involved in the transaction to which the retransmitted notice relates;
- the contract price of the transaction;
- the trade date and original settlement date of the transaction to be closed; and
- the proposed execution date of the buy-in as it appears on the original buy-in notice.

A Model Notice of Retransmitted Buy-In for Mortgage-Backed Securities is attached as Exhibit B.

The Seller receiving a retransmitted buy-in notice shall acknowledge receipt by signing and returning a copy of the notice to the Retransmitting Party. Such acknowledgment may, but need not, be transmitted by facsimile. A Seller’s failure to acknowledge a buy-in notice shall not preclude the Originating Purchaser from executing a buy-in, nor the Retransmitting Party from passing the execution price through to such Seller.

In the event that a retransmitted buy-in notice is received less than two (2) business days prior to the proposed execution date (as such date may be extended in accordance with these procedures), the receiving Seller may contact the Originating Purchaser, who shall upon request be required to extend the execution date to a date that is at least two (2) business days after such Seller received the retransmitted buy-in notice.

A Seller who receives a retransmitted buy-in notice from a Retransmitting Party also may obtain an extension of the proposed buy-in date as described in Section D.2 of these procedures (i.e., where Mortgage-Backed Securities are in transfer or to provide new or changed pool information for a TBA transaction). In order for such extension to be effective, the Seller must (i) notify the Retransmitting Party in accordance with the timeframes and other requirements of Section D.2 (treating the Retransmitting Party as an Originating Purchaser for this purpose), and (ii) notify the Originating Purchaser of the extension (and the extended date) before it executes a buy-in. Each Retransmitting Party, as a Seller, may elect whether to pass the notice of transfer or pool information, as applicable, on to the party from whom it received a buy-in notice, provided that the timing requirements under Section D.2 for providing such notice are satisfied. If a Retransmitting Party receives notice of new or changed pool information but does not pass this notice to the party from whom it received a buy-in notice, such Retransmitting Party may not pass the buy-in execution price through to its Seller unless the Mortgage-Backed Securities bought in are the same as those that its Seller has specified.

Upon extending or being notified of an extension of the proposed buy-in execution date, the Originating Purchaser shall immediately thereafter notify by telephone (which notice shall promptly thereafter be confirmed in writing) the Seller to whom it retransmitted the

original buy-in notice of the extended execution date. Each Seller who receives notification of an extension of the proposed execution date shall immediately thereafter notify by telephone (which notice shall promptly thereafter be confirmed in writing) any other Seller to whom it retransmitted the buy-in notice of the extended execution date.

If the circulation of one or more retransmitted buy-in notices results in the identification of a round robin with respect to that transaction, every good-faith effort should be made by the parties involved to settle the round robin on mutually acceptable terms.³

5. Notice and Effect of Execution

An Originating Purchaser buying in a transaction shall, immediately upon execution, notify by telephone the Seller for whose account the Mortgage-Backed Securities were bought in, of the price of the purchased securities. Such telephonic notice shall then be confirmed in writing on the execution date. Model Notices of Execution of Buy-In for Mortgage-Backed Securities are attached as Exhibits C and D.

For Allocated TBA or Specified Transaction buy-ins, the net monies due should be calculated using the method outlined in Exhibit C. For Unallocated TBA buy-ins, the net monies due should be calculated using the method outlined in Exhibit D. Any monies so due shall be forwarded to the appropriate party no later than one (1) business day after the settlement date of the buy-in. The written notice of buy-in execution sent upon execution of the buy-in shall specify the net amount of any monies due in connection with the close-out of the transaction, if they are calculable on the execution date of the buy-in. If the calculations cannot be completed at the time the buy-in is executed (e.g., if the factors for the buy-in settlement date have not yet been released), the notice should include a notation to the effect that the net monies due in connection with the buy-in are to be determined. In such a case, a revised notice of buy-in execution showing the calculations of the net monies due in connection with the buy-in shall be sent promptly following the time when it becomes possible to complete the calculations (e.g., promptly following the release of the relevant factors).

For purposes of the preceding paragraphs in this Section D.5, a Retransmitting Party receiving notice that Mortgage-Backed Securities have been bought in for its account in accordance with the buy-in notice retransmitted by it shall be deemed to be an Originating Purchaser who has bought in such Mortgage-Backed Securities for the account of its Seller at the same price as the Mortgage-Backed Securities were bought in for the Retransmitting Party's account, unless these procedures specifically prohibit such Retransmitting Party from passing the execution price through to its Seller.

An Originating Purchaser who sent a buy-in notice to its Seller and receives a buy-in notice from a party to whom it has sold the same Mortgage-Backed Securities may elect to retransmit the buy-in notice it received to its Seller in substitution of the buy-in notice it previously provided such Seller, and thereafter be deemed a Retransmitting Party. If such Originating Purchaser does not retransmit the buy-in notice it receives to its Seller, it may nevertheless pass along to its Seller the price at which it has been bought in, but only if the buy-in was executed on a day on which the Originating Purchaser would be permitted to buy-in its Seller under these procedures.

6. Noncompletion of Buy-In

If a transaction is not bought in pursuant to these procedures by the end of the second (2nd) business day following the proposed execution date specified in the applicable buy-in notice (as such date may have been extended in accordance with these procedures), such notice shall expire, at which time the Originating Purchaser shall be required to transmit a new buy-in notice in order to execute a buy-in with respect to that transaction.

³ See the provisions regarding "Round Robin Settlement" in Section A.14 of Chapter 8 of the Uniform Practices.

Exhibit A
The Bond Market Association
Model Notice of Buy-In for Mortgage-Backed Securities

To: _____
(Seller Name) (Address / Fax)

From: _____
(Originating Purchaser Firm Name) (Address)

(Originating Purchaser Contact Name) (Phone) (Fax)

Date: _____

Re: Buy in on _____ of _____ .
(Buy-In Execution Date) (Par / Face Value)

of _____ which are due from you to us on
(Description of Securities)

a contract made on _____ at _____
(Trade Date) (Contract Price)

for settlement on _____
(Settlement Date)

We hereby notify you in accordance with The Bond Market Association Buy-In Procedures for Mortgage-Backed Securities that, unless the securities described above have been delivered to us by 3:00 p.m. on the Buy-In Execution Date specified above, the securities will be bought in for your account in fulfillment of our obligation under Part 403 of the regulations implementing the Government Securities Act of 1986.

Please acknowledge receipt of this notice by signing in the space provided below and returning to us a copy of this notice.

Note: If some or all of the foregoing securities are due to you from another party, you may be permitted to retransmit this notice to that party within one business day of your receipt of this notice.

Acknowledged:

By: _____

Phone: _____ Fax: _____

Exhibit B
The Bond Market Association
Model Notice of Retransmitted Buy-In for Mortgage-Backed Securities

To: _____
(Seller Name) (Address / Fax)

From: _____
(Retransmitting Party Firm Name) (Address)

(Retransmitting Party Contact Name) (Phone) (Fax)

Date: _____

Re: Buy in on _____ of _____ .
(Buy-In Execution Date) (Par / Face Value)

of _____ which are due from you to us on
(Description of Securities)

a contract made on _____ at _____
(Trade Date) (Contract Price)

for settlement on _____
(Settlement Date)

Originating Purchaser: _____

Previous Retransmitting Parties: 1. _____ 2. _____

3. _____ 4. _____ 5. _____

6. _____ 7. _____ 8. _____

This buy-in notice was originated by the above-referenced Originating Purchaser in accordance with The Bond Market Association Buy-In Procedures for Mortgage-Backed Securities (the "Procedures") in order to fulfill its obligations under Part 403 of the regulations implementing the Government Securities Act of 1986.

We hereby notify you in accordance the Procedures that, unless the securities described above have been delivered to us by 3:00 p.m. on the Buy-In Execution Date specified above, the securities will be bought in for your account.

Please acknowledge receipt of this notice by signing in the space provided below and returning to us a copy of this notice.

Note: If some or all of the foregoing securities are due to you from another party, you may be permitted to retransmit this notice to that party within one business day of your receipt of this notice.

Acknowledged:

By: _____

Phone: _____ Fax: _____

Exhibit C
The Bond Market Association
Model Notice of Execution of Buy-In for Mortgage-Backed Securities
(Allocated TBA or Specified Transaction)

To: _____
(Seller Name) (Address / Fax)

From: _____
(Originating Purchaser Contact Name) (Address)

(Originating Purchaser Contact Name) (Phone) (Fax)

Date: _____

Re: _____ of _____
(Par / Face Value) (Description of Securities)

which were due from you to us on a contract made on _____
(Trade Date)

at _____ for settlement on _____
(Contract Price) (Settlement Date)

Since the above-referenced securities were not delivered by you to us by 3:00 p.m. (New York time) on _____ as required by a buy-in notice sent to you on _____,
(Proposed Buy-In Execution Date) (Notice Date)

the following securities have been bought in for your account:

_____ of _____
(Par / Face Value) (Description of Securities)

at _____ for settlement on _____
(Contract Price) (Settlement Date)

Net monies due upon completion of buy-in:

Difference between buy-in settlement amount and pool fail settlement amount \$_____ (A)

Principal amortization from prior months \$_____ (B)

Accrued coupon interest from prior months \$_____ (C)

Total: \$_____

(See attached worksheet for calculations of A, B and C above)

Exhibit C: Attachment (Allocated TBA or Specified Transaction)

For an Allocated TBA or Specified Transaction, the current face value of the securities bought in should be equal to the actual remaining principal balance (according to the latest factor released on or before the buy-in execution date) of the securities that were allocated to, or specified for, such transaction. This amount can be calculated using Formula 1 below:

Formula 1:

$$\frac{\text{(Original Face Value of Pool Fail)}}{\text{(Latest factor Released as of Buy-in Execution Date)}} \times \frac{1}{\text{(Actual Remaining Principal Balance)}} = \frac{\text{(Current Face Value of Securities Bought-In)}}{\text{(Current Face Value of Securities Bought-In)}}$$

Monthly factors for each security can be found on Bloomberg. Use the following command to look up the security and to access the appropriate payoff information page:

{Pool Ticker} {Pool Number} <MTGE> PDI <GO>

A Difference between buy-in settlement amount and pool fail settlement amount:

The following worksheet should be used when calculating the net monies due upon completion of the buy-in. Values calculated here should be included on the notice of execution of buy-in as indicated in Exhibit C. If the calculations cannot be completed at the time the buy-in is executed (e.g., if the factors for the buy-in settlement date have not yet been released), the notice of buy-in execution sent upon execution of the buy-in should include a notation to the effect that the net monies due in connection with the buy-in remain to be determined. In such a case, a revised notice of buy-in execution that shows the calculation of the net monies due in connection with the buy-in shall be sent promptly following the time when it becomes possible to complete such calculations (e.g., promptly following the release of the relevant factors).

Formula 2:

$$\frac{\text{(Buy-In Settlement Amount)}^1}{\text{(Buy-In Settlement Amount)}^1} - \frac{\text{(Pool Fail Settlement Amount)}^2}{\text{(Pool Fail Settlement Amount)}^2} = \frac{\text{(Difference in Settlement Amounts)}}{\text{(Difference in Settlement Amounts)}} \quad (\text{A})$$

¹ Calculate the Buy-In Settlement Amount in accordance with *Uniform Practices: Standard Formulas*, using (i) the original face amount of the securities that were allocated to, or specified for, the failing transaction, (ii) the price from the buy-in transaction, (iii) the factor for such securities as of the buy-in settlement date, and (iv) interest accrual on such securities through the buy-in settlement date. Note that, in the event there is a factor release between the execution and settlement of the buy-in transaction and the securities bought in were different from the pool specified for the failing transaction (whether because the buy-in was executed on a TBA basis or because Comparable Securities were bought in), the Buy-In Settlement Amount calculated for purposes of determining the net monies due upon completion of the buy-in may differ from the actual settlement amount payable by the Originating Purchaser in connection with the buy-in transaction.

² Calculate the Pool Fail Settlement Amount in accordance with *Uniform Practices: Standard Formulas*, using (i) the original face amount of the securities that were allocated to, or specified for, the failing transaction, (ii) the original price from the failing transaction, (iii) the factor for such securities as of the original settlement date, and (iv) interest accrual on such securities through the original settlement date.

B. Principal amortization from prior months:

In order to determine the amount of principal amortization from prior months, subtract the principal amount as of the buy-in settlement date of the securities allocated to, or specified for, the failing transaction from the principal amount of such securities as of the original settlement date (Formula 3 below).

Formula 3:

$$\left(\frac{\text{(Original Face Amount of Pool Fail)}}{\text{(Factor as of Original Settlement Date)}} \right) - \left(\frac{\text{(Original Face Amount of Pool Fail)}}{\text{(Factor as of Buy-In Settlement Date)}} \right) = \text{(Principal Amortization from Prior Months)} \quad (B)$$

C. Accrued coupon interest from prior months:

Coupon interest payments should be calculated on a monthly basis. The monthly interest payments should then be aggregated to find the total accrued coupon interest.

Months should be counted from factor date to factor date. One interest payment should be included for each record date occurring between the original trade settlement date and the buy-in settlement date.

First use the actual monthly factors to determine the coupon interest payments on the securities allocated to, or specified for, the failing transaction for each month in question (Formula 4 below).

Formula 4:

$$\frac{\text{(Original Face Value of Pool Fail)}}{\text{(Actual Factor for [Month])}} \times \frac{\text{(Stated Coupon Interest Rate)}}{\text{(30/360)}} = \text{(Coupon Interest Payment for [Month])}$$

Next add the interest payments for each month together to find the total accrued coupon interest (Formula 5 below). Include that total on the notice of execution of buy-in as indicated.

Formula 5:

$$\frac{\text{(Coupon Interest Payment for [Month])}}{\text{(Coupon Interest Payment for [Month])}^3} = \text{(Total Accrued Coupon Interest)} \quad (C)$$

³ List as many monthly coupon interest payments as necessary. There should be one adjustment for each record date occurring between the original trade settlement date and the buy-in settlement date.

Exhibit D
The Bond Market Association
Model Notice of Execution of Buy-In for Mortgage-Backed Securities
(Unallocated TBA Transaction)

To: _____
(Seller Name) (Address / Fax)

From: _____
(Retransmitting Party Firm Name) (Address)

(Retransmitting Party Contact Name) (Phone) (Fax)

Date: _____

Re: _____ of _____
(Par / Face Value) (Description of Securities)

which were due from you to us on a contract made on _____
(Trade Date)

at _____ for settlement on _____
(Contract Price) (Settlement Date)

Since the above-referenced securities were not delivered by you to us by 3:00 p.m. (New York time) on _____ as required by a buy-in notice sent to you on _____,
(Proposed Buy-In Execution Date) (Notice Date)

the following securities have been bought in for your account:

_____ of _____
(Par / Face Value) (Description of Securities)

at _____ for settlement on _____
(Contract Price) (Settlement Date)

Net monies due upon completion of buy-in:

Difference between buy-in settlement amount and TBA fail settlement amount \$ _____ (A)

Accrued coupon interest from prior months \$ _____ (B)

Economic Adjustment..... \$ _____ (C)

Total: \$ _____

(See attached worksheet for calculations of A, B and C above)

Exhibit D: Attachment (Unallocated TBA Transaction)

For an Unallocated TBA, the current face value of the securities bought in should be equal to the par value of the TBA fail.

The following worksheet should be used when calculating the net monies due upon completion of the buy-in. Values calculated here should be included on the notice of execution of buy-in as indicated in Exhibit D. If the calculations cannot be completed at the time the buy-in is executed (e.g., if the factors for the buy-in settlement date have not yet been released), the notice of buy-in execution sent upon execution of the buy-in should include a notation to the effect that the net monies due in connection with the buy-in remain to be determined. In such a case, a revised notice of buy-in execution setting forth the calculation of the net monies due in connection with the buy-in shall be sent promptly following the time when it becomes possible to complete such calculations (e.g., promptly following the release of the relevant factors).

A. Difference between buy-in settlement amount and TBA fail settlement amount:

Formula 1:

$$\frac{\text{Buy-In Settlement Amount}^1}{\text{Buy-In Settlement Amount}^1} - \frac{\text{TBA Fail Settlement Amount}^2}{\text{TBA Fail Settlement Amount}^2} = \frac{\text{Difference in Settlement Amounts}}{\text{Difference in Settlement Amounts}} \quad (\text{A})$$

¹ Calculate the Buy-In Settlement Amount in accordance with Uniform Practices: Standard Formulas, using (i) the par amount of the TBA fail, (ii) the price from the buy-in transaction, (iii) a factor of 1.0, and (iii) interest accrual through the buy-in settlement date.

² Calculate the TBA Fail Settlement Amount in accordance with Uniform Practices: Standard Formulas, using (i) the par amount of the TBA fail, (ii) the original price from the failing transaction, (iii) a factor of 1.0, and (iii) interest accrual through the original settlement date.

B. Accrued coupon interest from prior months:

Coupon interest payments should be calculated on a monthly basis using the generic monthly factors. The monthly interest payments should then be aggregated to find the total accrued coupon interest.

Months should be counted from factor date to factor date. One interest payment should be included for each record date occurring between the original trade settlement date and the buy-in settlement date.

Generic monthly factors for each security can be found on Bloomberg. Use the following command to look up the security and to access the appropriate paydown information page:

{Generic Ticker} {Coupon} N {MM/YY}³ <MTGE> PDI <GO>

First use the generic monthly factors to determine the coupon interest payments for each month in question (Formula 2 below).

Formula 2:

$$\frac{\text{(Par Value of TBA Fail)}}{\text{(Generic Factor for [Month])}} \times \frac{\text{(Stated Coupon Interest Rate)}}{\text{(Coupon Interest Payment for [Month])}} \times (30/360) = \text{(Coupon Interest Payment for [Month])}$$

Next add the interest payments for each month together to find the total accrued coupon interest (Formula 3 below). Include that total on the notice of execution of buy-in as indicated.

Formula 3:

$$\frac{\text{(Coupon Interest Payment for [Month])}}{\text{(Coupon Interest Payment for [Month])}^4} + \frac{\text{(Coupon Interest Payment for [Month])}^4}{\text{(Total Accrued Coupon Interest)}} = \text{(Total Accrued Coupon Interest)} \quad (\text{B})$$

³ "MM/YY" refers to the month and two-digit year of the original settlement date of the failing TBA.

⁴ List as many monthly coupon interest payments as necessary. There should be one adjustment for each record date occurring between the original trade settlement date and the buy-in settlement date.

C. Economic adjustment:

In order to determine the amount of the adjustment, first use the generic monthly factor for the buy-in settlement month to determine the generic remaining principal balance (Formula 4 below). Next calculate the economic adjustment (Formula 5 below).

Formula 4:

$$\frac{\text{_____}}{(\text{Par Value of the TBA Fail})^5} \times \left(1 - \frac{\text{_____}}{(\text{Generic Factor for Buy-In Settlement Month})} \right) = \frac{\text{_____}}{(\text{Generic Principal Amortization})}$$

Formula 5:

$$\left(\frac{\text{_____}}{(\text{Generic Principal Amortization})} \times \left(\frac{1}{100} \right) \times \left(100 - \frac{\text{_____}}{(\text{Buy-in Price})} \right) \right) -$$
$$\left(\frac{\text{_____}}{(\text{Generic Principal Amortization})} \times \frac{\text{_____}}{(\text{Stated Coupon Interest Rate})} \times \left(\frac{1}{360} \right) \times \frac{\text{_____}}{(\text{Interest Accrual Days Used for Buy-in Settlement Amount})^6} \right) = \frac{\text{_____}}{(\text{Economic Adjustment})} (C)$$

⁵ Note that in the case of an Unallocated TBA buy-in this is also the current face value of the securities bought-in.

⁶ This is the number of days from the first day of the interest accrual period in which the buy-in settlement date falls to the buy-in settlement date, determined on a 30/360 basis.

Exhibit E

Examples of Application of The Bond Market Association Buy-In Procedures for Mortgage-Backed Securities

Example A

Fully-Paid Fails



Broker-Dealer #1 (“BD1”) has failed to obtain possession or control of its Customer’s (“C”) fully-paid or excess margin Mortgage-Backed Securities. BD1 has purchased such Mortgage-Backed Securities from Broker-Dealer #2 (“BD2”) and such transaction has been in failed to receive status for more than sixty (60) calendar days.

BD1 has the following options:

- (1) BD1 can deliver the same or Comparable Securities to C. If the transaction in question is a specified trade, BD1 and C must agree upon the securities to be substituted. If the transaction in question is a TBA for which the underlying pools have been allocated, BD1 is entitled to substitute such securities as may be acceptable for delivery in accordance with industry custom and practice then in effect.
- (2) BD1 can repurchase the Mortgage-Backed Securities from C, if C agrees.
- (3) BD1 can buy in the Mortgage-Backed Securities it owes to C, for the account and liability of BD2. To do this, BD1 must send a notice of buy-in to BD2 at least ten (10) business days (but in no event prior to the expiration of the sixtieth (60th) calendar day after the scheduled settlement date) before the proposed execution date of the buy-in. If the securities described in the buy-in notice are not delivered by BD2 to BD1 by 3:00 p.m. on the proposed execution date, BD1 is authorized to purchase at the current market value all or any part of the Mortgage-Backed Securities, or Comparable Securities, needed to complete the transaction, for the account and liability of BD2. Any additional expenses or costs incurred by BD1 in acquiring these securities would be borne by BD2. At the option of BD1, a buy-in executed in this manner may be settled on the next regularly scheduled settlement date for that particular class or pool of securities, if applicable.

Example B

Fully-Paid Fails



Assume the same set of facts as set forth in Example A above, except that in this example, assume that BD2 has purchased the securities it owes to BD1 from BD3; BD3 has purchased these securities from BD4; and so on, until reaching the original Seller, BD8.

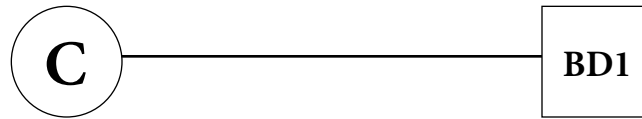
BD1 has the same options available to it as in Example A above. However, upon receiving a buy-in notice from BD1, BD2 may either deliver the securities in question to BD1 to close out the transaction or, provided that BD2's books and records show the securities as "failed to receive" for at least sixty (60) calendar days, retransmit a buy-in notice to BD3. If BD2 wishes to retransmit a buy-in notice to BD3, it must do so within one business day after receiving the buy-in notice from BD1.

Upon receiving a retransmitted buy-in notice, BD3 (and, in turn, each of BD4, BD5, BD6 and BD7) has the option of delivering the securities in question to the party from whom it received the buy-in notice, or (provided that their books and records show the securities in question as "failed to receive" for at least sixty (60) calendar days past the scheduled settlement date) retransmitting a buy-in notice to the party that owes the securities to it. Note that to the extent that any of BD2 through BD8 is a customer and not a broker or dealer, they would also have the option of delivering securities or, if applicable, retransmitting the buy-in notice, in each case under the same terms and conditions applicable to brokers or dealers. Retransmitting Parties may not, however, execute a buy-in. Retransmitted notices must be sent within one business day after receipt.

In the event that any party receives a retransmitted buy-in notice less than two (2) business days prior to the proposed execution date (as such date may be extended in accordance with these procedures), that party may (if it chooses) contact the Originating Purchaser (here, BD1) to request an extension of the execution date to a date that is at least two (2) business days after the date on which the notice is received. Upon extending the proposed execution date, BD1 would be required to immediately notify BD2 by telephone of the extension, and to promptly thereafter confirm this notification in writing. In turn, BD2 would be required to notify BD3 of the extension of the execution date; similarly, any other Seller in the chain that has retransmitted a buy-in notice to another party would be required to notify that party of the extended execution date.

Example C

Sell Order Fails



Customer (“C”) has failed to deliver for more than sixty (60) calendar days past the scheduled settlement date Mortgage-Backed Securities that are the subject of a sell order given by C to Broker-Dealer #1 (“BD1”) and C had not identified such sell order as a short sale prior to execution.

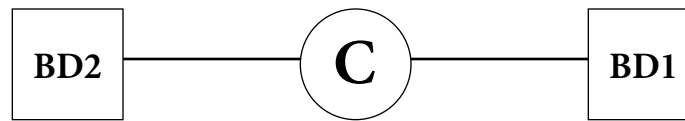
To close out this transaction, BD1 has the following options:

- (1) BD1 can accept the same or Comparable Securities from C. As in the case of Fully-Paid Fails, if the transaction in question is a specified trade, BD1 and C must agree on the securities to be substituted. If the transaction in question is a TBA (whether an Allocated TBA or Unallocated TBA), C is entitled to substitute such securities as may be acceptable for delivery in accordance with industry custom and practice then in effect. Again, in either case, this substitution would close out the original transaction between BD1 and C.
- (2) BD1 can arrange to sell the Mortgage-Backed Securities back to C. In this case, C would be obligated to pay BD1 for any accrued interest and bear the burden of any change in market price or yield of the securities.
- (3) BD1 can buy in the Mortgage-Backed Securities owed to it by C, for the account and liability of C. The buy-in would be executed in the same manner as described in Example A under “Fully-Paid Fails,” above.

Note that short sales by Customers are exempt from the buy-in rule. However, the Customer must have identified the sell order as a short sale to the broker or dealer prior to the time the trade is executed.

Example D

Sell Order Fails



Assume the same set of facts as set forth in Example A above, except that in this example assume also that C has purchased the securities that are the subject of its sell order to BD1 from BD2, and that BD2 has failed to deliver these securities to C.

BD1 has the same options available to it as in Example A above. However, upon receiving a buy-in notice from BD1, C may either deliver the securities in question to BD1 to close out the transaction or retransmit a buy-in notice to BD2. As in the case of Fully-Paid Fails, C must retransmit the buy-in notice to BD2 within one business day of receiving it from BD1.

In addition, BD1 has a fourth option available to it in this situation. This option involves (i) effecting a cash settlement of BD1's transaction with C (such settlement representing the difference, if any, between the amount owed by C to BD2 and the amount owed to C by BD1), and (ii) accepting from C an assignment of C's rights and obligations under C's fail to receive transaction with BD2. Exercising this option has the effect of removing C from the chain of failed transactions and, since there would no longer be a customer Sell Order Fail involved, eliminating BD1's obligation under the Treasury regulations to close out the transaction. Note, however, that the effect of the assignment will be to place BD1 in a "fail to receive" status directly with BD2, and thus subject to BD2's credit (instead of C's) until the transaction ultimately is settled or otherwise closed out. Thus, the assignment does not remove the underlying fail, but only eliminates C as a party "in the middle" and with it, BD1's obligation to close out the transaction in accordance with the Treasury regulations.