

8. Standard Requirements for Delivery on Settlements of UMBS and Ginnie Mae Securities

Chapter 8

Standard Requirements for Delivery on Settlements of UMBS and Ginnie Mae Securities

A. Matters of General Application¹

1. Variance

The variance permitted on all TBA trades of UMBS and Ginnie Mae securities is plus or minus 0.01% of the dollar amount of the transaction agreed to by the parties. There is no variance permitted on specified transactions in which the seller provides the buyer with a pool number and a specific original face.²

The 0.01% variance is applicable to each \$1,000,000 within a TBA trade larger than \$1,000,000.

Example – \$2,000,000 TBA Delivery

Good Delivery

Pool	Original Face	Current Face
A	\$1,000,000.00 ³	\$ 999,945.55
B	1,035,582.00	<u>1,000,098.59</u>
Total Amount Delivered	=	\$2,000,044.14

This example constitutes good delivery because each \$1 million is within the allowable variance.

Not Good Delivery

Pool	Original Face	Current Face
A	\$ 950,000.00	\$ 949,487.53
B	1,096,497.00	<u>1,050,524.24</u>
Total Amount Delivered	=	\$2,000,011.77

This example does not constitute good delivery because each \$1 million is not within the allowable variance.

¹ The existence of the Association's good-delivery guidelines does not and should not restrict the flexibility that individual counterparties possess to negotiate the specific terms of any particular transaction in which they are involved.

² Freddie Mac refers to mortgage "groups" rather than mortgage pools.

³ The original face on Fannie Mae, Freddie Mac and Ginnie Mae securities no longer carries pennies and is rounded to the lowest dollar.

2. Pools

The following guidelines for pools are effective for trades executed on or after December 15, 2005 and settling on or after March 1, 2006.¹

- a. Maximum pool delivery on transactions of —

Amount	Less than or equal to \$500,000	Less than or equal to \$500,000 but less than \$1,000,000	\$1,000,000
Coupons Below 8.0%	1 pool see (b)(i) below	2 pools see (b)(ii) below	3 pools see (b)(iii) below
Coupons 8.0% & Above	3 pools see (c)(i) below	4 pools see (c)(ii) below	5 pools see (c)(iii) below

- b. Coupons below 8.0%.

- (i) Deliveries for transactions of \$500,000 or less must consist of only one pool.

Example of Good Delivery – \$500,000 TBA Delivery – 1 pool

Pool	Original Face	Current Face
A	\$510,000.00	\$499,965.25

- (ii) Deliveries for transactions of greater than \$500,000 but less than \$1,000,000 must consist of a maximum of two pools with the same coupon, provided that neither pool falls within the allowable variance. There are no restrictions on the current face of any pool.

Example of Good Delivery – \$750,000 TBA Delivery – 2 pools

Pool	Original Face	Current Face
A	\$500,000.00	\$499,938.84
B	250,000.00	250,000.00
Total Amount Delivered	=	\$749,938.84

Example of Not Good Delivery – \$750,000 TBA Delivery – 2 pools

Pool	Original Face	Current Face
A	\$800,000.00	\$749,925.13
B	25,000.00	149.00
Total Amount Delivered	=	\$750,074.13

This example does not constitute good delivery because pool A would fall in the allowable variance for this trade if it were the only pool delivered.

¹ For pools with an original face of greater than \$50mm, allocation and delivery must be made in pieces less or equal to \$50mm original face as required by the operating circular governing securities transfers over the Fedwire Securities Service and each piece will count towards the allowable number of pools as per TBA good delivery guidelines.

- (iii) Deliveries for transactions of \$1,000,000 must consist of a maximum of three pools with the same coupon, provided that the sum of any one or two pools does not fall within the allowable variance. There are no restrictions on the current face of any pool.

Example of Good Delivery – \$1,000,000 Delivery – 3 pools

Pool	Original Face	Current Face
A	\$ 60,000.00	\$ 49,660.52
B	750,000.00	731,890.67
C	250,000.00	218,498.20
Total Amount Delivered	=	\$1,000,049.39

- (iv) Deliveries for transactions in excess of \$1,000,000 must be effected in as many \$1,000,000 lots or multiples thereof (each lot consisting of no more than three pools with the same coupon) as is necessary to fulfill the delivery. To the extent a delivery on a transaction of more than \$1,000,000 includes an amount that is not a multiple of \$1,000,000, the delivery requirement with respect to such amount must be in conformity with the provisions of Sections A(2)(b)(i) or (2)(b)(ii) above.

Examples of Good Delivery – \$3,000,000 TBA Delivery

Delivery	Pool	Original Face	Current Face
Delivery #1 (1 pool @ \$1 mil.)	A	\$1,020,000.00	\$1,000,095.00
	B	1,050,000.00	1,000,043.00
	C	1,000,000.00	999,962.00
Total Amount Delivered		=	\$3,000,100.00
Delivery #2 (2 pools @ \$1 mil.)	A	\$ 560,000.00	\$ 500,082.00
	B	500,000.00	499,975.00
	C	600,000.00	500,097.12
	D	402,310.00	499,996.12
	E	750,000.00	749,326.12
	F	257,000.00	250,666.00
Total Amount Delivered		=	\$3,000,142.36
Delivery #3 (1 pool @ \$3 mil.)	A	\$3,000,000.00	\$3,000,000.00
Total Amount Delivered		=	\$3,000,000.00

Delivery #4	A	\$1,020,000.00	\$1,000,047.85
(1 pool @ \$1 mil.)			
(1 pool @ \$2 mil.)	B	2,000,000.00	<u>2,000,000.00</u>
Total Amount Delivered		=	\$3,000,047.85
 Delivery #5	A	\$ 500,000.00	\$ 500,000.00
(3 pools @ \$1 mil.)	B	400,000.00	400,000.00
	C	300,000.00	99,910.00
 (1 pool @ \$1 mil.)	D	1,024,999.00	\$1,000,089.12
 (2 pools @ \$1 mil.)	E	560,000.00	501,020.00
	F	500,000.00	<u>499,000.00</u>
Total Amount Delivered		=	\$3,000,019.12

c. Pools with coupons 8.0% and above.

- (i) Trades executed on or after December 15, 2005 and settling on or after March 1, 2006, for 8.0% coupons and higher must consist of a maximum of five pools per million with the same coupon. Deliveries for transactions of \$500,000 or less must consist of a maximum of three pools with the same coupon, provided that the sum of any one or two pools does not fall within the allowable variance. There are no restrictions on the current face of any pool.

Example of Good Delivery – \$500,000 TBA Delivery – 2 pools

Pool	Original Face	Current Face
A	\$500,000.00	\$351,580.86
B	300,000.00	<u>148,460.81</u>
Total Amount Delivered	=	\$500,041.67

Example of Good Delivery – \$500,000 TBA Delivery – 3 pools

Pool	Original Face	Current Face
A	\$300,000.00	\$165,500.03
B	200,000.00	194,865.99
C	200,000.00	<u>139,587.00</u>
Total Amount Delivered	=	\$499,953.02

- (ii) Deliveries for transactions of greater than \$500,000 but less than \$1,000,000 must consist of a maximum of four pools with the same coupon, provided that any one, two or three pools do not fall within the allowable variance. There are no restrictions on the current face of any pool.

Example of Good Delivery – \$750,000 TBA Delivery – 4 pools

Pool	Original Face	Current Face
A	\$500,000.00	\$264,381.86
B	300,000.00	253,466.81
C	200,000.00	132,111.01
D	150,000.00	100,000.00
Total Amount Delivered	=	\$749,959.68

Example of Not Good Delivery – \$750,000 TBA Delivery – 4 pools

Pool	Original Face	Current Face
A	\$300,000.00	\$298,041.00
B	350,000.00	306,132.00
C	100,000.00	80.00
D	200,000.00	145,800.00
Total Amount Delivered	=	\$750,053.00

This example does not constitute good delivery because pools A, B, and D would have satisfied good delivery for this trade in the absence of pool C. The sum of these pools would have fallen within the allowable variance for this trade if they were the only pools delivered.

- (iii) Deliveries for transactions of \$1,000,000 must consist of a maximum of five pools with the same coupon, provided that any one, two, three or four pools do not fall within the allowable variance. There are no restrictions on the current face of any pool.

Examples of Good Deliveries – \$1,000,000 TBA Delivery – 5 pools

Delivery	Pool	Original Face	Current Face
Delivery #1	A	\$1,000,000.00	\$ 364,653.23
	B	1,000,000.00	147,887.04
	C	1,000,000.00	190,864.48
	D	1,000,000.00	169,887.04
	E	503,641.00	126,675.00
Total Amount Delivered		=	\$ 999,966.79

Delivery #2	A	\$ 60,000.00	\$ 45,260.52
	B	50,000.00	29,890.67
	C	750,000.00	729,890.67
	D	150,000.00	95,007.00
	E	100,000.00	100,000.00
Total Amount Delivered		=	\$1,000,048.86

- (iv) Deliveries for transactions in excess of \$1,000,000 must be effected in as many \$1,000,000 lots or multiples thereof (each lot consisting of no more than five pools) as is necessary to fulfill the delivery. To the extent a delivery on a transaction of more than \$1,000,000 includes an amount other than a multiple of \$1,000,000, the delivery requirement with respect to such amount must be in conformity with the provisions of Sections A(2)(c)(i) and (2)(c)(ii) above.

3. Allocating Large Pools into Good Millions

If large pools that are within the variance are split into smaller lots, each smaller lot must satisfy the good-delivery guidelines. For example, on a \$5,000,000 TBA transaction a dealer allocates one pool, the current face of which is \$4,999,503.01. Although the current face of this pool is within the permitted variance, the following five-lot split would not constitute good delivery because pool E does not fall within the allowable variance for a \$1MM pool [variance = .01% * \$1MM = \$100]; in other words it is not a Good Million.

Pool	Original Face	Current Face
A	\$1,000,002.00	\$ 999,900.80
B	1,000,002.00	999,900.80
C	1,000,002.00	999,900.80
D	1,000,002.00	999,900.80
E	<u>1,000,001.00</u>	<u>999,899.81</u>
	\$5,000,009.00	
Total Amount Delivered	=	\$4,999,503.01

4. Independent Settlement of Pools on TBA Transactions

Where more than one pool is to be delivered on the settlement of a TBA transaction, each pool may be settled independently of the other pools.

Example

Dealer A has done a \$1,000,000, 6.5% coupon TBA transaction with Dealer B. The *Uniform Practices* permit Dealer A to deliver up to three pools to Dealer B on this transaction. Settlement is scheduled for Friday. At 10:00 a.m. E.T. on Wednesday (the “notification date”), Dealer A calls Dealer B to give pool information on three pools (pools A, B and C). At 2:15 p.m. E.T. on Wednesday, Dealer A calls Dealer B to change the information on the pools B and C. Dealer A may still deliver pool A on Friday. Pools B and C can be delivered on Monday.

5. Good-Delivery Minimum Amounts

Allocations of UMBS and Ginnie Mae mortgage-backed securities must be made in minimum amounts of \$25,000 original face, regardless of their \$1,000 minimum denominations.

6. Partial Allocation of TBAs

It is not a requirement that a TBA be fully allocated in order to satisfy good delivery guidelines. It is required that the lots allocated adhere to good delivery guidelines. Pools associated with a partial allocation are subject to the same guidelines as pools associated with a fully allocated TBA.

7. UMBS TBA Trading

- a. UMBS and Supers will be good delivery for the UMBS TBA.
- b. Fannie Mae securities that were good delivery for a Fannie Mae TBA prior to June 3, 2019 will be good delivery for the UMBS TBA.
- c. Freddie Mac Gold PC and Giant securities are not good delivery for the UMBS TBA. To be eligible for the UMBS TBA, Gold PC securities must be exchanged for UMBS through Freddie Mac's securities exchange program.¹

8. Stipulated TBA Trading

Stipulated TBA transactions may be executed using any number of stipulations including (but not limited to) maturity date, production- or issue-year, weighted average maturity (WAM), weighted average loan age (WALA), FICO score, geographic distribution or weighted loan balance. When properly used and understood, these stipulations are an efficient mechanism for ensuring delivery of specific pool attributes. In some cases, however, TBA transaction stipulations may result in the delivery of securities with attributes that the purchaser had not intended. This primarily occurs when reconstituted pools (larger pools comprised of smaller pools) are delivered against an open TBA transaction. Reconstituted securities created under the Fannie Mae, Freddie Mac, and Ginnie Mae programs are considered eligible for TBA good delivery if each of the pools underlying a reconstituted pool would qualify as good delivery on its own.

For trading purposes, it should be noted that the issue date and maturity date for a reconstituted pool may not reflect the issue date and maturity date of the pools underlying the reconstituted security. This is because the maturity date for a reconstituted security is determined by the final maturity of the latest maturing pool underlying that particular reconstituted security. For example, a reconstituted pool with a final maturity of 20 years only indicates that at least one of the pools underlying the reconstituted pool has a final maturity of 20 years. The final remaining maturities on the other underlying pools may vary in range anywhere from one month to 20 years. Likewise, the issue date ascribed to a reconstituted security reflects the date of issuance for the actual reconstituted security, and not the underlying pools. As noted above, the maturities of the underlying pools may vary in range and therefore may not be a good indicator of issue year.

9. Final Maturity Guidelines

a. UMBS TBA Transactions

In order to satisfy good-delivery guidelines for TBA transactions:

- The final maturity of 30-year Fannie Mae and Freddie Mac securities must be greater than 15 years and 1 month at issuance.
- The final maturity of 30-year Fannie Mae and Freddie Mac securities shall not exceed 361 months.
- The final maturity of 15-year Fannie Mae and Freddie Mac securities shall not exceed 181 months.

¹ To the extent market participants trade Gold PC securities in a Gold PC TBA, market standards found in this section should apply as appropriate.

For UMBS transactions, 20-year securities are eligible for good delivery against 30-year TBA transactions, and 10-year securities are eligible for delivery against 15-year TBA transactions.

b. **Ginnie Mae Transactions**

In order to satisfy good-delivery guidelines for 30-year Ginnie Mae TBA transactions, the final maturity of the security must be at least 28 years (336 months) in length from the date of issuance. Ginnie Mae 30-year securities with a final maturity of less than 28 years should be traded on a specified basis. 30-year Ginnie Mae Platinum securities are good delivery against 30-year Ginnie Mae TBA transactions, even though it is possible for the stated final maturities of these pools to be less than 28 years. 30-year Ginnie Mae Platinum securities are good delivery since the final maturities of the individual Ginnie Mae securities underlying a 30-year Ginnie Mae Platinum are each at least 28 years (336 months) from the date of issuance.

c. **Reconstituted Securities (e.g., Supers, Freddie Mirror Securities, and Platinums)**

For reconstituted securities, the final maturity guidelines above apply to the underlying securities, not to the reconstituted securities themselves.

10. Good-Delivery ARM Guidelines

The following good delivery guidelines apply only to pure ARM s that do not have a fixed component. These guidelines do not cover the hybrid market.

a. **Freddie Mac and Fannie Mae 11th District COFI ARM s**

In order to meet good-delivery requirements for TBA transactions of Fannie Mae and Freddie Mac 11th District COFI ARM securities, the following parameters must be met:

- 12.00% and higher original life cap. For Mega and Giant pools, the weighted-average original life cap must be 12.00% or higher;
- 125 basis point margin or higher;
- Fully indexed;
- 25- to 40-year maturities;
- 2-3-4-month lag is allowable within each million-dollar lot;
- Adjustable monthly; and
- $\pm 7.50\%$ payment cap.

Note that each of the underlying pools of a Mega or Giant must meet all of the above stated good-delivery parameters with the exception of original life cap.

b. **Good-Delivery Guidelines for Ginnie Mae ARM Securities**

The following parameters must be met in order to meet good-delivery guidelines for Ginnie Mae ARM s:

- All pools must be multiple-issuer pools;
- Coupons should be the same on all pools;
- 150 basis-point margin;
- Pools with different margins may not be mixed in the same TBA;
- Pool margins must equal the margin stated in the TBA description;
- 1% annual cap;

- Reset off of the one-year Constant Maturity Treasury (CMT) index annually;
- The reset date must be greater than 12 months and less than 15 months from the issuance date; and
- All pools should have a lifetime cap equal to 500 basis points above the original coupon

Example of Reset Logic:

A TBA I Settling In	Reset Date Will Be
Jan., Feb., March	April of the following year
April, May, June	July of the following year
July, Aug., Sept.	October of the following year
Oct., Nov., Dec.	Jan., 2 years after (i.e., Dec. '92 resets Jan. '94)

11. Guidelines Applicable to Ginnie Mae IIs

- Combining Ginnie Mae II Custom and Multiple-Issuer Pass-throughs.

Ginnie Mae Customs and Multiple-Issuers may not be combined in the same Ginnie Mae II TBA transaction. Instead, Ginnie Mae II securities should be traded as either Custom TBA or Multiple-Issuer TBA transactions.

- Ginnie Mae Platinums Comprised of Ginnie Mae II Customs and Multiple-Issuers.

For issue dates on or after October 1, 1998, Ginnie Mae Platinum securities are eligible for Multiple-Issuer TBA transactions if they are comprised of multiple-issuer pools only.

For issue dates prior to October 1, 1998, Ginnie Mae Platinum securities are eligible for Multiple-Issuer TBA transactions, regardless of whether they are comprised solely of Custom and/or Multiple-Issuer pools.

12. General Characteristics of Standard Loans for 15 and 30yr Fixed-Rate Single-Family TBA-eligible Pools

The following list represents important characteristics of loans eligible for unlimited inclusion in TBA-deliverable pools ("standard loans"). For complete details of characteristics of loans in various pools, please refer to the appropriate offering documentation available from the issuer.

- For 30 year pools: Term greater than 15 but less than or equal to 30 years
- For 15 year pools: Term less than or equal to 15 years
- Fixed rate
- First lien
- Level payments
- Fully amortizing
- Servicing fee greater than or equal to 25bp per loan
- Loan does not include a prepayment penalty at time of pooling
- No extended buydown provisions (greater than 2% buydown of rate, or buydown period longer than 2 years)
- Not a cooperative share loan

- May be a participation interest in a loan
- Not a relocation loan
- Not a bi-weekly loan

13. Superconforming Loans to Borrowers In High-Cost Areas

Limitation on Proportion of Initial Pool Balance of Superconforming Loans - Loans to borrowers in high-cost areas as defined in 12 U.S.C. 1717(b)(2) (i.e. areas where 115% of the median home price exceeds the conforming loan limit) where the balance of the loan exceeds the conforming loan limit ("Superconforming Loans") should be limited to no more than 10% of the total principal balance of a pool at the time of issuance to be eligible for good delivery in TBA trades.

- Loans to borrowers in Alaska, Guam, Hawaii, and the Virgin Islands in size up to 150% of the conforming loan limit may be included in TBA eligible pools without limit.
- VA loans may be pooled in GNMA securities without limitation on balance.
- The 10% limitation on superconforming loans is separate and distinct from the de-minimis limits applied to other nonstandard loans as detailed later in this chapter. However, if a loan has a superconforming balance and also falls into one of the outlined permissible nonstandard de-minimis categories (e.g. relocation loan), it should count against both 10% limitations.
- Only superconforming pools that meet the other guidelines specified here are eligible for pooling into Mega/Giant/Platinum pools that qualify for good delivery in TBA trades.

Origination Date Requirement for Loans to Borrowers in High-Cost Areas – For a security to be eligible for good delivery in a TBA trade settlement, all loans to borrowers in high-cost areas as defined in 12 U.S.C. 1717(b)(2) where the balance of the loan exceeds the otherwise applicable conforming loan limit for borrowers in lower-cost areas must have been originated on or after October 1, 2008.

Start Date of Good-Delivery Settlements of Pools Containing Higher-Balance Loans – Pools containing higher-balance loans issued after January 1, 2009 that conform with the guidelines found immediately above will be eligible for good delivery as settlement of TBA trades beginning January 1, 2009.

Note for Pools Issued Prior to January 1, 2009 – For pools issued before January 1, 2009, the good delivery guidelines in effect at the time of pool issuance will apply.

14. TBA Eligibility for Certain Securities Created by Reconstitution of REMIC Regular Interests

Passthroughs created by the recombination of REMIC regular interests, issued on or after January 28, 2009, and consistent with the points outlined below are eligible for TBA delivery and settlement.

A security must meet each of the following criteria to be eligible for good delivery into a TBA transaction:

- Cash flows on new security must be identical to the cash flows from the original pools (or a pro-rata portion thereof if less than a full REMIC group is recombined);
- All collateral underlying the original REMIC classes that are being recombined must have been eligible for TBA delivery when that collateral was originated;
- New passthrough issued through re-REMIC process must be issued without OID;
- Characteristics of new passthrough issued through re-REMIC process are consistent with other TBA eligibility guidelines (e.g., limited inclusion of non-standard and high-balance loans, final maturity, pools per million on deliveries, etc)
- Any clean-up calls on underlying collateral must be waived or otherwise eliminated by agencies.

15. Non-Standard Loans

Effective with trade date April 1, 2008, and for pools with issue dates of April 1, 2008 and later, pools containing more than 10% of any single type of nonstandard loan or more than 15% of the total nonstandard loans—as disclosed by the agencies—will not be acceptable as good delivery for TBA transactions.

The following, exclusive list details the types of nonstandard loan product which may be delivered in pools, subject to the de-minimis limits described above:

1. Relocation loans
2. Co-op loans
3. Buydown loans, defined as follows: For purposes of SIFMA's good-delivery guidelines, a buydown loan shall be considered nonstandard if the difference between the actual and the "bought down" interest rate is more than 2% or if the buydown period is more than two years.

For pools with issue dates prior to December 1, 1991, existing good-delivery standards for nonstandard loans will apply.

16. Mini-Pools

Any mortgage-backed security that is issued with an original pool balance of \$250,000 or less is not eligible for good delivery, unless specifically identified at the time of trade.

17. Settlement of Premium TBA MBS Fails Extending Over Factor Release Date

a. Generally

This amended delivery guideline applies to premium TBA settlements with trade dates occurring on or after **09/03/2012**, and supersedes previous versions of this section.⁴ The guideline requires a two step process: First it must be determined if a delivery is eligible for a claim. Then it must be determined if there is in fact a claim, and if so the amount of that claim.

b. Determination of eligibility for claim

Claims shall be based on a 'claimable unit'. A claimable unit is defined as the group of pools allocated between one factor release and the next factor release, for a given trade.

⁴ Price over 100.

Claims shall be made based on these units; therefore allocations not in the same claimable unit will require separate claims. While market participants may settle fail claims as they deem appropriate, below we outline a methodology that we believe is widely accepted and utilized.

Allocation Before Factor Date

- If the pools are allocated before the time of factor release following the contractual settlement date of the trade, and no pool changes are made, that unit is **NOT** eligible for a claim no matter how the pools have paid down. The seller does not have any knowledge of the performance of the pools, and is exempt from any claim.
- If, however, the seller changes pool information after the time of factor release, then the unit **MAY** be eligible for a claim.

Allocation After Factor Date

- If the pools are allocated after the time of factor release following the contractual settlement date of the trade, and those pools -at the time of allocation- had paid down at a rate equal to or **slower** than the Bloomberg Generic Cohort (see section d), and those pools are delivered (no changes), then the delivery is **NOT** eligible for a claim.
- If the pools are allocated after the time of factor release following the contractual settlement date of the trade, and those pools -at the time of allocation- had paid down at a rate **faster** than the Bloomberg Generic Cohort (see section d), and those pools are delivered (no changes), the delivery **IS** eligible for a claim.

Note On Pool Changes

- Regardless as to when pools are allocated (before or after the time of factor release), **if pool changes are made after the time of factor release following the contractual settlement date of the trade, the delivery MAY be eligible for a claim.**
- If pools were originally allocated and comprised a part of a given claimable unit, pool changes to those pools occurring after the time of factor release following the original allocation will not create a new claimable unit, because those changed pools are related to the original claimable unit.
 - Example: \$100MM pools with contractual settlement in November. Trade fails, is allocated after December factors, and is eligible for a claim. \$50MM of allocation fails and is pool changed after January factors, and those changed pools are delivered in January.
 - This \$50MM of changes delivered in January is still considered part of the original claimable unit. In terms of calculations, the pools that were delivered in December would require a 1-month claim calculation using December factors, and the pools delivered in January would require a 2-month calculation using December and January factors.

c. Clearance of 90% of 'claimable unit' required

A claim may not be processed until 90% of the pools in the claimable unit have cleared. Once 90% have cleared, a claim may be processed on the **entire** claimable unit.

d. Determination of Amount of Claim

If the delivery of a pool is eligible for a claim, the Remaining Principal Balance of the pool delivered should be compared to the Calculated Remaining Principal Balance. This should be done in the aggregate; ie the Remaining Principal Balances of all pools in the claimable unit should be compared to the aggregate Calculated Remaining Principal Balance.

“Remaining Principal of Pools Delivered” is defined as the total outstanding principal balance of all failed pools delivered in any month to satisfy the terms of a single trade.

“Calculated Remaining Principal” is defined as the total outstanding principal balance of all failed pools that would have been delivered had those pools paid down at the same CPR as the Bloomberg “generic ticker” for pools and with the same coupon and pool type as the trade. The Calculated Remaining Principal is determined by following the series of Bloomberg functions described below (terms in all uppercase are Bloomberg terms). These directions will also be posted and updated as necessary on www.sifma.org.

“Time of Factor Release” is defined as the time that the relevant agency (Fannie Mae, Freddie Mac, or Ginnie Mae) makes publicly available its factor information through a website posting or otherwise. This may vary from month to month, and it is the duty of the buyer (recipient of pool information) to prove that the allocation occurred after factors were made available.

“Claim Price” is defined as the price, as shown on Bloomberg as of close of trading on the factor release day (the 5th business day) preceding the allocation of pools. If pools in a claimable unit are changed and allocated following the next factor release day, the price for that portion of the claim would be the price as of close on the factor release day prior to the final allocation.

Calculation of Claims

Note: This methodology is effective for trade dates after January 1, 2012 with contractual settlement dates after January 12, 2012. For trades executed prior to these dates, CPR claims calculations should be governed by the CPR claim methodology in effect at the time of the trade.

- (i) Find the appropriate DES (description) screen for the “generic ticker” for the appropriate cohort of pools with the same coupon and pool type as the trade.
 - a. Use the Bloomberg DES (description) screen for the “generic ticker” for pools with the same coupon and pool type as the trade. The aggregate of all outstanding pools for that issuer/coupon/product combination should be used.
 - 1. The format for the Bloomberg command for the generic ticker for all outstanding pools is: {ticker} {coupon} ALL <MTGE>DES<GO>
 - 2. Note: for GNMA 2 multi-issuer TBA trades, pools should be further filtered with the MULTI modifier in Bloomberg, otherwise non-deliverable customs may be included in the results

- (ii) Determine WAC (weighted average coupon), ADJ MTY (remaining term), and LATEST 1 MON CPR (CPR for the most recent factor release).
- (iii) Using the RA (roll analysis) calculator, enter WAC in the GROSS field, ADJ MTY in the REMAINING TERM field, and the principal amount of the trade in the BALANCE field.
- (iv) In the SETTLEMENT DATE column, enter the contractual Settlement Date followed by the actual Delivery Date.
- (v) In the PREPAYMENT field enter the LATEST 1 MON CPR from the DES screen. Enter <GO>.
- (vi) The Calculated Remaining Principal is the output under the REMAINING PRINCIPAL output heading.

If the aggregate Calculated Remaining Principal Balance is greater than the aggregate Remaining Principal Balance, a claim for an Additional Cash Payment may be processed (subject to the limitations set forth in section f.).

The claim shall be in an amount sufficient to compensate the buyer for any premium paid on securities that have experienced prepayment speeds in excess of the market average for the pool type and coupon delivered. This payment is in addition to the cash payment representing principal paydowns on the pools delivered.⁵

The following formula shall be used in calculating the Additional Cash Payment described in this guideline:

$$\text{ADDITIONAL CASH PAYMENT} = (\text{CLAIM PRICE} - 100) * (\text{CALCULATED REMAINING PRINCIPAL} - \text{REMAINING PRINCIPAL OF POOLS DELIVERED})$$

e. Note for Fails Over Multiple Months

When a fail with a delivery eligible for a claim is over multiple months, the claim is calculated as the *net* of the monthly totals, including amounts could reduce the final amount of a claim. The current month's claim price should be used for the calculation of multiple month claims.

- Example: Trade for 50 million FNMA 5.5% for May settlement. Pools are delivered after time of factor release in July and are eligible for claim. Two claims are produced one using June factors and one using July factors. The

⁵ 15 year and 30 year cohorts should be used for calculations pertaining to 10 year and 20 year pool claims, respectively.

final claim amount is found by summing the individual monthly claim amounts.

Example A

June calculation:	\$5,000
July calculation:	\$6,000
<hr/>	
Total:	\$11,000

This is a valid claim because the total exceeds \$10,000

Example B

June calculation:	\$14,000
July calculation:	- \$8,000 <i>(i.e., in July the bonds paid down slower than the average)</i>
<hr/>	
Total:	\$6,000

This is not a valid claim because the net of the individual monthly calculations is less than \$10,000.

f. Specifics of Claim Processing

Nature of Guidelines - The Securities Industry and Financial Markets Association's Guidelines on compensation are recommendations intended to apply in the absence of a specific agreement between parties governing the circumstances in which claims for compensation may be made, the manner in which such claims are to be processed, and/or the formula for calculating the amount of compensation to be paid. Compensation claims should be settled in a manner that does not unduly harm or benefit, or unjustly penalize or enrich, any party. Payment or attempted payment of compensation pursuant to these Guidelines does not constitute and should not be construed as an admission of negligence or fault on the part of any of the parties involved.

(i) Procedures for Filing Compensation Claims

- (1) Compensation claims must be filed in writing and may be transmitted by hand, by regular mail, overnight service, facsimile or similar means.
- (2) Claim must be filed within 30 calendar days after the pool representing 90% of the claimable unit clears.
- (3) The party receiving a compensation claim should promptly acknowledge receipt of such claim and either: (a) confirm the accuracy of the data in the claim or (b) note any objections to or discrepancies in the claim, in each case by executing a copy of the compensation claim form and returning it (with a notation of any objections or discrepancies, if applicable) to the sending party.
- (4) The party receiving a valid claim will have 24 hours to confirm receipt of the claim and 10 days from receipt of the initial claim to retransmit the

claim to another party. Payment of a valid claim or retransmittal must be made within 30 days, regardless of whether or not said claim/retransmittal was retransmitted again to another party. Failure to receive payment from a counterside is not a valid reason to delay payment on a claim.

- (5) The retransmittal must evidence the initial claim, and the retransmitting party must notify the party who sent the initial claim that their claim is being retransmitted. A party retransmitting a claim must inform the party that sent the claim to them; this party must notify the party that sent them the claim, and so on, until the original claimant is notified of any retransmission.
- (6) A \$10,000.00 minimum shall apply to a new claim. Retransmittal minimum is \$500 with proof of retransmittal. Claims shall be made on a claimable unit basis, aggregating all pools allocated during that factor date to next factor date period.
- (7) For claims involving TBA transactions, individual pool claims will be grouped together, regardless of whether the pools settle independently as long as the given pools have the same underlying TBA characteristics. These characteristics include: product, coupon, trade date, settlement date, price, and counterparty. As long as the above characteristics are met, compensation claims for separate TBA transactions involving the same counterparty will be grouped together regardless whether the trade is a give-up, reassignment, net-out trade, or direct trade.

(ii) **Compensation Claim Requirements:** At a minimum, compensation claims should contain the following information, as may be applicable to the transaction for which compensation is being claimed:

- (1) A statement of the facts and circumstances giving rise to the claim for compensation;
- (2) Claimant's name, phone number and address;
- (3) Identification of the "contra party";
- (4) Claim identification number or reference number;
- (5) Pool or group identification number, coupon rate, product type and stated maturity;
- (6) Trade date;
- (7) Settlement date;
- (8) Price and par amount;
- (9) Compensation amount;
- (10) Bloomberg factor(s) used in calculation of claim amount;
- (11) Indemnity clause;
- (12) Method of compensation payment (i.e., Fedwire Network, CHIPS, cashwire, check or detail of payment instructions); and
- (13) Identification of the actual work-out or clean-up date for resolving the original transaction.

17. Round Robin Settlement

a. General Description:

These recommendations facilitate the settlement of mortgage securities among three or more firms that have booked a transaction to receive and deliver the same security or securities. This situation is known as a “Round Robin”. A Round Robin is typically a closed loop among firms, in which no single entity is capable of making delivery. (See example below). A Round Robin may involve TBA trades or a specific pool. Participants in a Round Robin do not move the subject securities from participant to participant. Instead, they exchange settlement proceeds.

b. Operational Procedures:

In order to participate in a Round Robin settlement, the following must be agreed upon:

- (i) **Securities Identification:** If a Round Robin is identified while in TBA status, the open TBA trades should be allocated with an arbitrary pool number and original face amount.
- (ii) **Date:** A Round Robin settlement should be executed (i.e. funds should be exchanged) no earlier than the business day following settlement date.
- (iii) **Time:** All firms should exchange settlement proceeds at a prearranged time of day prior to 3:00 p.m.
- (iv) **Settlement Amounts:** In order to mitigate the settlement risk, it is recommended that the Round Robin settlement be executed on a net trade proceeds basis. The firm that has identified the Round Robin may act as a coordinator for the netting of cash movements. The coordinator will instruct the firms on how the cash should be distributed. In the example above, Firm A will owe \$20,000; Firm B will owe \$20,000; Firm C is due \$10,000 and Firm D is due \$30,000. No firm should pay or receive more cash than the net difference of its own trades. Individual participant firms are responsible for confirming all trade proceeds prior to the exchange of cash.
- (v) **Initiation:** After agreeing on a Round Robin settlement, each participating firm should instruct their clearance area to pay or receive a payment as previously agreed upon by the parties involved. If final payments are not received by 3:00 PM the parties may choose to break the Round Robin. The parties may re-initiate the Round Robin settlement the next business day.
- (vi) **Settlement Facility:** In order to make final cash settlement, Round Robin participants should use the Fedwire or another facility agreed upon by all participating firms.
- (vii) **Claims:** As of 3:00 p.m. on the business day following completion of a Round Robin settlement, all participating firms will hold other participants free from any further claims associated with settlement of that transaction. Any

additional claims (for example, P&I claims) shall be settled as set forth in Uniform Practices Chapter 10, "Remittance Reporting, Payments, Due Bills and Compensation".

Note: The pending trade instructions at the Clearing Bank or Depository should be deleted upon agreement in principle of a Round Robin settlement by all the firms in order to prevent duplicate settlements of the trades.

B. Good-Delivery Guidelines for Book-Entry Ginnie Mae, Fannie Mae and Freddie Mac Securities

1. General Considerations

Brokers, dealers and clearing banks should comply with Association guidelines implementing the Federal Reserve Board's \$50,000,000 transfer size limit, as well as with the Federal Reserve Bank of New York's statement regarding dealer clearance behavior and the reduction of payments system risk. Accordingly, dealers should establish procedures designed to ensure that large deliveries of securities are not delayed until late in the day.

2. Wire Deadlines

Deliveries and reversals must be made according to existing Federal Reserve guidelines.