

## **Background Information on Fannie Mae Confirming Letter**

In 2017, Fannie Mae and Freddie Mac submitted a letter to the Office of the Chief Accountant of the Securities and Exchange Commission (the “Staff”) seeking pre-clearance on accounting-related matters pertaining to exchanges of Freddie Mac’s single-class securities under a proposed Single Security program. One of these matters concerned how Fannie Mae (a creditor/investor) should account for its exchange of Freddie Mac-issued 45-day PCs for Freddie Mac-issued 55-day Supers<sup>1</sup>.

In the letter, Fannie Mae identified two possible accounting alternatives:

- View A – Accounting for the exchange by analogizing to the accounting guidance for modifications of receivables in FASB ASC 310-20-35. This is expected to result in the conclusion that the transaction is a minor modification of the existing security.
  - By concluding the transaction is a minor modification, Fannie Mae would carry over the basis of its 45-day PCs and would recognize the cash payment received as compensation for the 10-day delay in payment cycle as a basis adjustment on the 55-day Supers.
- View B – Treatment of the exchange as a sale of the 45-day PC and a purchase of the 55-day Supers under the accounting guidance for transfers of financial assets in FASB ASC 860.
  - By concluding the transaction represents a transfer, Fannie Mae would recognize the cash payment received as compensation for the 10-day delay in payment cycle as a component of the gain on sale.

Consistent with the confirming letter dated January 31, 2018, the Staff did not object to View A.

---

<sup>1</sup> The SEC pre-clearance letter clarified that because a securitization trust will be used to execute the exchange, regardless of whether a Freddie Mac 45-day PC or a Freddie Mac 45-day Giant is exchanged, the 55-day security issued in return will always be a 55-day Supers.



Fannie Mae

January 31, 2018

Mr. Rahim Ismail  
Office of the Chief Accountant  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Mr. Ismail:

We would like to thank the staff of the Office of the Chief Accountant of the Securities and Exchange Commission (“the Staff”) for its consideration of the accounting-related matters pertaining to exchanges of Freddie Mac’s single-class securities under a proposed Single Security program, discussed in our joint submission with Freddie Mac dated July 5, 2017.

With regards to how Fannie Mae, a creditor/investor, should account for its exchange of Freddie Mac-issued 45-day single-class pass-throughs<sup>1</sup> for Freddie Mac issued 55-day Supers, Fannie Mae understands that the Staff does not object to treating the exchange as a minor modification whereby Fannie Mae would carry-over the basis of its 45-day single-class pass-through to the 55-day Super, with the cash payment paid by Freddie Mac as compensation for the change in the remittance cycle recorded as an additional basis adjustment to the 55-day Super and subsequently amortized over the remaining life of the security.

We appreciate the Staff’s assistance with this issue. If you have any questions regarding this confirmation, please contact Kirk Silva, Fannie Mae Vice President and Accounting Policy Head (202-752-3777).

Sincerely,

A handwritten signature in black ink, appearing to read "Kirk Silva".

Kirk Silva  
Fannie Mae  
Vice President and Accounting Policy Head

---

<sup>1</sup> Freddie Mac 45-day single-class pass-throughs include both Freddie Mac 45-day PCs and 45-day Giants.