



# COVID-19 Policy Changes and Impacts to Mortgage Securities

June 18, 2020

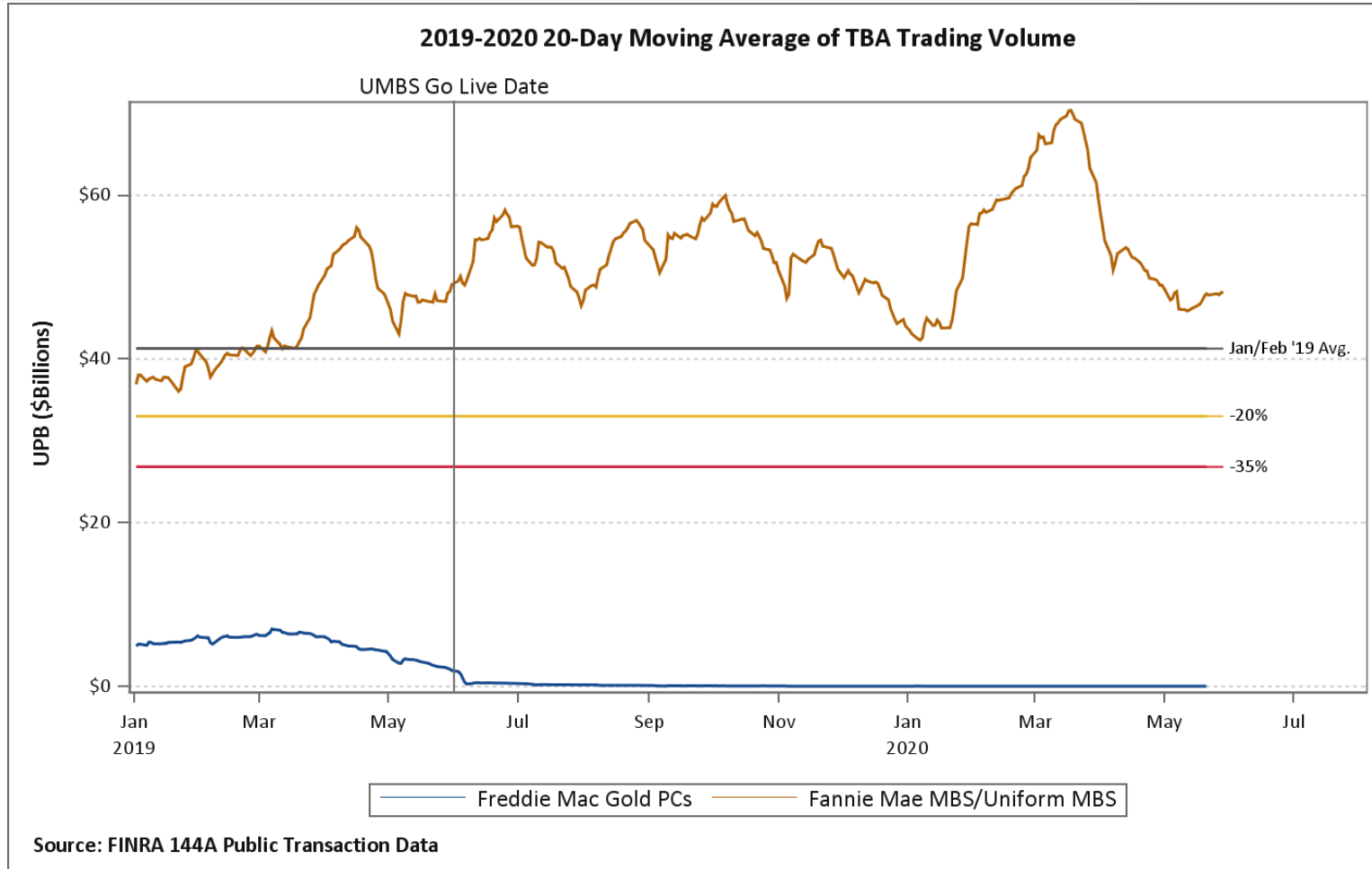


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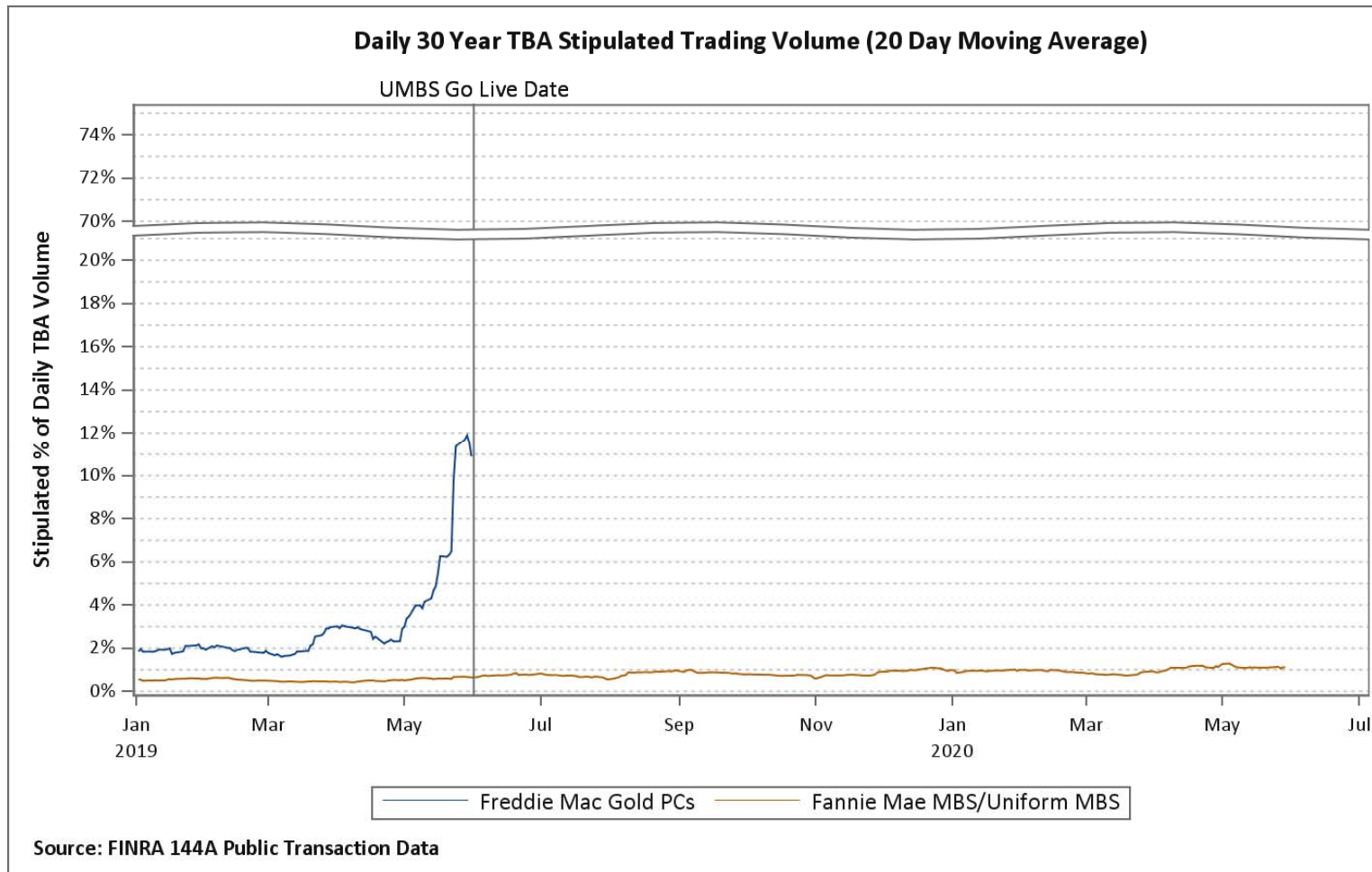
# UMBS Trading Volume



- Trades over \$25 million are 'masked' in the public FINRA TRACE data. For example, trades for \$50, \$100, or \$500 million all would appear as \$25 million transactions in the data set. For this reason, any UPB figure should be considered a data-informed approximation that likely **underestimates** the actual dollar volume of trading.
- Thresholds are defined by 20% or 35% below the two-month moving average between January and February 2019 for 30 year TBA-eligible Fannie Mae securities.
- For the purpose of this report, all 30 year UMBS TBA activity will be reported as Fannie Mae FNCL trades.

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# Stip Trades and UMBS – Monthly Volume



- Fannie and Freddie trading volumes are combined following the UMBS go live date.

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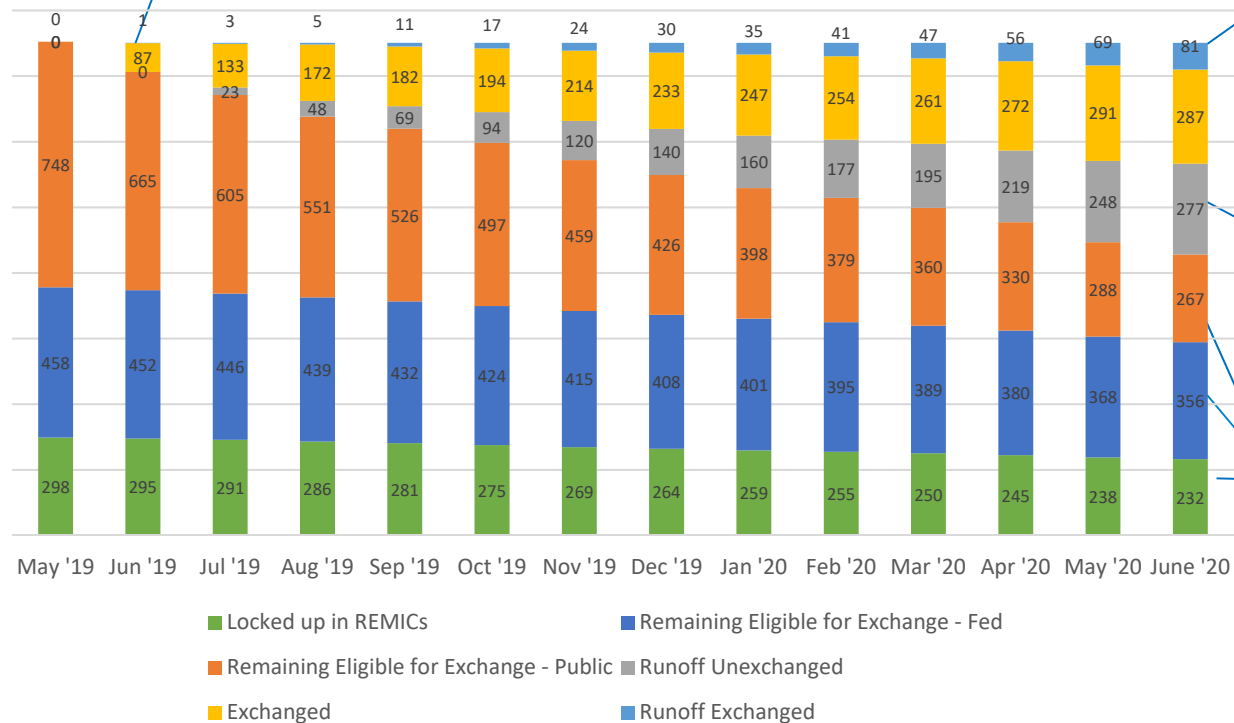
# Gold PC Exchanges



In May 2020, most of the exchange volume went through the investor path, consistent with pre-coronavirus trends. For the month, overall exchange volume was down substantially, possibly reflecting a decrease in liquidity pressure on investors as the market stabilizes.

## Status of Securities that were Eligible for Exchange on June 3, 2019

On June 3, 2019 there were \$1.5t of 45-day securities outstanding



Through May 2020 factor date, \$368 bn of securities had been exchanged, representing 24.5% of the exchange eligible population

Runoff of unexchanged securities has reduced the exchange eligible population by 18.5%

Of \$856 billion remaining as 45-day PCs, the Fed owns \$366 bn, \$232 bn is tied up in REMICs and \$267 bn is in the hands of other market participants

Reflects the status of all securities as of factor date that takes place during that month

## » Volumes:

- Cash Window volumes have consistently increased over the past several years, currently running over \$40bn per month.
- The share of Freddie Mac pass-through issuance coming from Cash Window is now running at approximately 50%.

## » Pooling:

- Cash Window pooling has become a significant part of Freddie Mac pass-through issuance and a component of our alignment strategy.

## » Payups:

- Large Pool payups are in line with the market.

## » Pool disclosures:

- Pool disclosures show Cash vs. Guarantor contributions.
- Each Multi-Lender Giant consists of one Guarantor pool and at least one Cash pool.
- <http://www.freddiemac.com/mbs/docs/prefixlibrary.xlsx>

## » Feedback

## Key MBS Announcements



- » **April 20** — Loans with COVID-19 Forbearance and Aligned Loan Removal Policy
- » **April 22** — Temporary Purchases of Loans in Forbearance
- » **May 4** — New Delinquency and Borrower Assistance Plan Disclosures
- » **May 29** — COVID-19 FAQs
- » **June 5** — Additional COVID-19 FAQs

See: <http://www.freddiemac.com/mbs>

## What is it?

- **During forbearance**, a Borrower will not face foreclosure or late payment fees if the Borrower does not make required regular mortgage payments; however, P&I payments continue to accrue. Servicers are now authorized to approve forbearance plans for all Borrowers who have a COVID-19 related hardship, regardless of property type.
  - ✓ **Initial forbearance term** for a period of one to six months, and, if necessary,
  - ✓ One or more forbearance term extensions of one to six months, not to extend past the 12<sup>th</sup> month of delinquency, except for a COVID-19 related forbearance plan, which may not exceed 12 months in duration despite the mortgage's level of delinquency.

## Impact to Securities

### Buyouts

- Loans in PCs, UMBS and MBS that receive forbearance will remain in their related mortgage securities pools while in forbearance.

### Payments<sup>1</sup>

- Investors will continue to receive monthly interest at the coupon rate and scheduled principal for fixed-rate securities, and monthly interest at the coupon rate for ARM securities, while the loan remains in the pool.

### Disclosures

- Freddie Mac and Fannie Mae are now providing Borrower Assistance Plan (BAP) information – pool-level stratifications.

<sup>1</sup> Note that in addition to aligning on security buyouts for loans in forbearance, Fannie aligned the duration of its P&I advance obligations for its servicers for these loans with Freddie Mac's 4-month duration of its interest-only advance obligations for its servicers



## Forbearance and Disclosures (cont.)



- May 2020 – began at-issuance, pool-level daily disclosure that includes delinquency status and BAP participation. The new daily disclosure:
  - » includes information for all newly issued Level 1 and Multilender pools and for all products.
  - » is a temporary issuance disclosure process that will end when the temporary purchase program for newly-funded forbore and delinquent loans ends.
- June 2020 – began publishing monthly supplemental disclosure files to include BAP information for all pools.
  - » Delinquencies – delinquency status for mortgages in forbearance will continue to be reported and disclosed at the pool level.
- Reporting differences may be a driver behind some differences in Fannie and Freddie reported forbearance rates.
  - Freddie Mac currently requires Servicers to report forbearance information through Electronic Default Reporting (EDR) on delinquent Mortgages only. However, we do not prevent a Servicer from reporting forbearance information through EDR on current Mortgages. To the extent that a Servicer includes forbearance information on current Mortgages in its monthly EDR, we will include that data in our monthly mortgage security pool disclosures.
  - Since Freddie Mac does not require Servicers to report forbearance data on current Mortgages, the monthly mortgage security pool disclosure may not reflect the entire population of current Mortgages within a given mortgage security pool that has been granted forbearance.

## What happens at the end of forbearance?

- At the end of the forbearance period (where no extensions of forbearance are available or necessary), the delinquency must be cured through one of the following options:
  - Mortgage is paid off in full – e.g., refinance
  - Mortgage is reinstated
  - Partial reinstatement followed by a repayment plan
  - Repayment plan
  - Payment Deferral solution (we'll discuss later)
  - Loan modification
  - Short sale or deed-in-lieu of foreclosure

# Transitioning from Forbearance (cont.)



## Impact to Securities

### Buyouts

- Loans will remain in their related mortgage securities pools while (i) an offer to reinstate the loan or enter into either a Payment Deferral solution, repayment plan or a trial period plan pursuant to a loan modification remains outstanding; (ii) the loan is in an active repayment plan or trial period plan; or (iii) a Payment Deferral solution is in effect or the borrower has reinstated the loan (e.g., via reinstatement or a repayment plan).

### Payments

- Investors will continue to receive monthly interest at the coupon rate and scheduled principal for fixed-rate securities, and monthly interest at the coupon rate for ARM securities, while the loan remains in the pool.

### Disclosures

- Delinquency and BAP disclosure as described earlier.
- Regarding delinquency – Servicers are required to report the applicable delinquency information for each mortgage until:
  - ✓ The mortgage is fully reinstated or paid off,
  - ✓ A workout is completed and settled in Freddie Mac's system (including a Payment Deferral solution or other modification), or
  - ✓ A short sale or foreclosure sale is held or a deed-in-lieu of foreclosure is settled.

# Payment Deferral



## What is it?

- **Servicing relief and loss mitigation solution** where Borrower is brought current by deferring delinquent principal and interest; the deferred amounts are placed in a non-amortizing forbore balance that will become due at the earlier of loan payoff, transfer or sale of the property, or the maturity date of the loan.

## Impact to Securities

### Buyouts

- Loans will remain in their related mortgage securities pools while an offer to enter into a Payment Deferral solution is outstanding and while the Payment Deferral solution is in effect.

### Payments

- Investors will continue to receive monthly interest at the coupon rate and scheduled principal for fixed-rate securities, and monthly interest at the coupon rate for ARM securities, while the loan remains in the pool.

### Disclosures

- Loan is brought current once Payment Deferral is in effect.

# Refinancing<sup>2</sup> while in Forbearance or Payment Deferral



*If the Mortgage being refinanced is not current, then the new Mortgage is ineligible for sale to Freddie Mac unless the amounts outstanding on the existing Mortgage are resolved through a full reinstatement, repayment plan, payment deferral, or loan modification.*

- Borrowers in a payment deferral, repayment plan or another loss mitigation program must either successfully complete the loss mitigation program, or make at least three consecutive timely monthly payments before they are eligible for a new mortgage.
- A borrower that has experienced a COVID-19 hardship may use the proceeds of the refinance mortgage to payoff the entire existing mortgage subject to a payment deferral, including its forbore UPB, or the outstanding payments from a payment plan.
  - » This use of the proceeds is permitted as a “no cash out” refinance
  - » If the LTV ratio exceeds 80%, the borrower will be required to have Mortgage Insurance
  - » Currently there are no additional LLPAs in place for COVID-19 refinances
- Borrowers in a payment deferral must have made at least three consecutive timely payments after the deferral is approved in order to refinance.
- Proceeds of a “no cash-out” or cash-out refinance cannot be used to reinstate the mortgage being refinanced or another mortgage. Once the mortgage is reinstated, it can be refinanced.

<sup>2</sup> Note that there are additional qualification and documentation requirements detailed in the 2020-15 Bulletin.

# Other Underwriting and Documentation Changes



- In a series of Selling Bulletins, Freddie Mac has announced additional temporary flexibilities, recognizing the scope and impact of the COVID-19 national emergency:
  - » Use of desktop appraisals and exterior-only inspections in place of interior inspections
  - » Use of Powers of Attorney (POAs) on behalf of borrowers to execute loan and closing documents
  - » Use of eMortgages for approved Sellers
  - » Use of Automated Collateral Evaluation (ACE) when offered through Loan Product Advisor
    - Includes a larger population of cash-out and no cash-out refinances
  - » Use of paystubs and other qualifying documents in place of verbal verifications of employment (VOEs)

- MBS Announcements:
  - <http://www.freddiemac.com/mbs/>
- COVID-19 FAQs for MBS Investors:
  - [http://www.freddiemac.com/mbs/covid-19/covid\\_19\\_faqs.html](http://www.freddiemac.com/mbs/covid-19/covid_19_faqs.html)
- COVID-19 Resources for Selling and Servicing:
  - <https://sf.freddiemac.com/about/covid-19#latest-updates>
- Contact Information: For questions, please contact the Freddie Mac Investor Inquiry line:
  - 800-336-3672 or [investor\\_inquiry@freddiemac.com](mailto:investor_inquiry@freddiemac.com)
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