

## Exchange Tabletop Exercise – Dealer Path



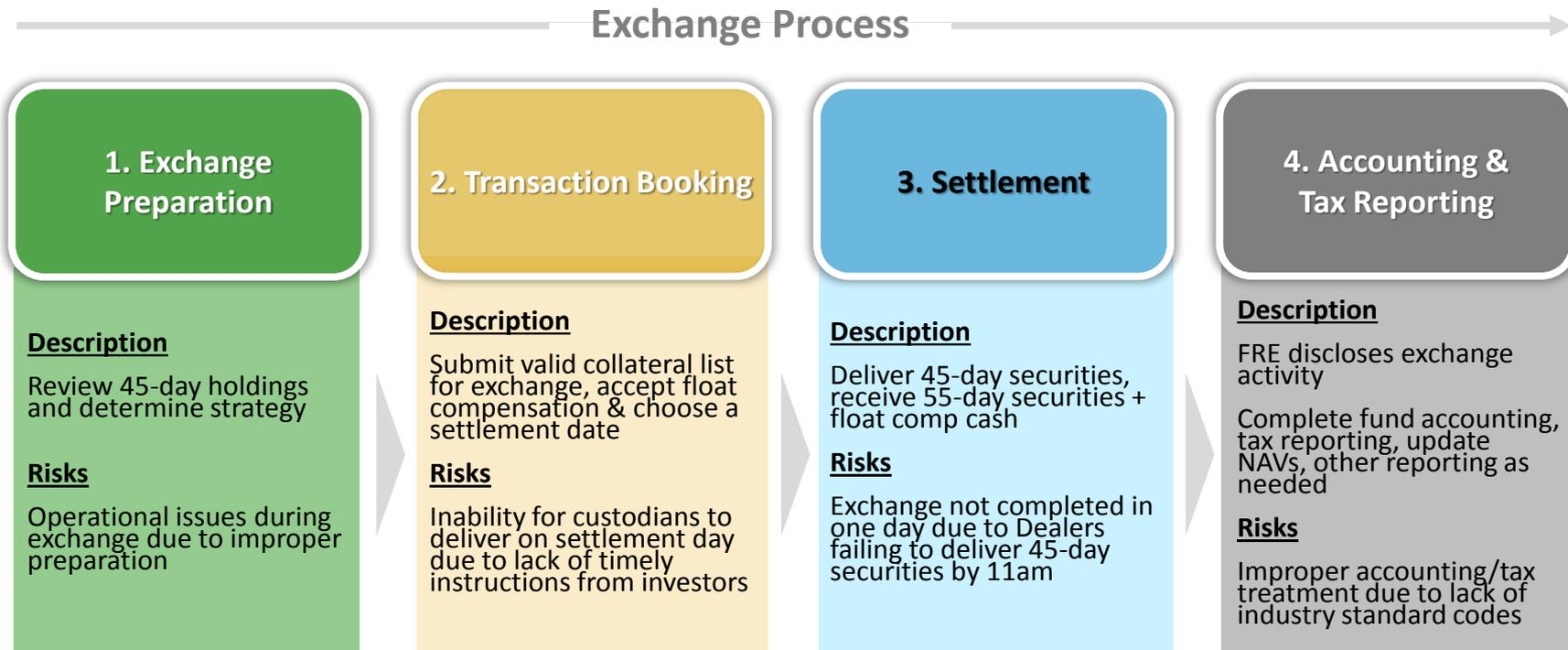


# PROPOSED SCENARIOS OVERVIEW

	Investor	Seller Servicer	Custodians	Dealers	3rd Party Vendors	GSE
Consumer Pricing and Secondary Market Activity	✓	✓		✓	✓	
UMBS End to End TBA Trade	✓	✓	✓	✓	✓	✓
End to End Exchange Process (45-day to 55-day)	✓		✓	✓	✓	✓
Dollar Roll/Swap	✓		✓	✓	✓	
UMBS Commingling Re-securitization	✓		✓	✓	✓	✓

## SCENARIO 1: DEALER-FACILITATED EXCHANGE

## EXCHANGE KEY STEPS



**PRELIMINARY**

# “HAPPY PATH” – EXCHANGE PREPARATION

Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Determine exchange strategy	Investor	N/A	Exchange eligible PC list, float comp tool, holdings, calendar, third party analytics, tax implications	Exchange strategy and communication to key third parties	Prior to exchange	<ul style="list-style-type: none"> <li>Dealers of choice are not authorized</li> <li>Market volatility causing rapid float comp changes</li> </ul>
2. Determine interface with third parties	Investor	N/A	Vendor readiness and custodian protocols, eligible dealer list,	Testing completion, updated SLAs	Prior to exchange	<ul style="list-style-type: none"> <li>Coding/configuration changes</li> </ul>
3. Determine accounting/ tax process	Investor	N/A	Straight through processing deviations	Requirements/plans for process and system updates	Prior to exchange	<ul style="list-style-type: none"> <li>Coding/configuration changes</li> </ul>
4. Design / build for exchange transaction handling processes	Custodians, Dealers	N/A	Standard exchange codes (e.g., SWIFT messaging tags, SSI mnemonics – TBD)	Requirements/plans for process and system updates	Prior to exchange	<ul style="list-style-type: none"> <li>Coding/configuration changes</li> </ul>
5. Set up FRE exchange deliver and receive instructions	Dealers	Various	FRE SSIs: 1 for incoming 45d, 2 <sup>nd</sup> acct for outgoing 55d	Completed FRE setup	Prior to exchange	<ul style="list-style-type: none"> <li>Exchange must be set up with 2 different SSIs</li> </ul>
6. Suppress TRACE reporting; suppress trade confirmation, or enable agent disclosure	Dealers	N/A	TBD	Requirements/plans for process and system updates	Prior to exchange	<ul style="list-style-type: none"> <li>Coding/configuration changes</li> </ul>
7. Publicize exchange offer via multiple channels	Freddie Mac	Press release, FRE website, email subscription list, etc.	Exchange offer details – including eligible PC list, 55-day Mirror list, float comp pricing grid	Various publication materials*	Prior to exchange	<ul style="list-style-type: none"> <li>Risk the communications will not reach all Gold PC holders</li> </ul>

\* Show example for tabletop walkthrough



# “HAPPY PATH” – TRANSACTION BOOKING

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Contact dealers with request to exchange	Investor	Phone, email	Positions, investor tools, price grids	List of CUSIPs, par, pool number, settlement date	No later than one day prior to desired settlement date (S-1)	TBD
2. Dealer enters exchange in Dealer Direct	Dealer	Dealer Direct	Upload list of CUSIPs, par, pool number		No later than one day prior to desired settlement date (S-1)	TBD
3. Dealer selects settlement date	Dealer	Dealer Direct	Client preferred settlement date		No later than one day prior to desired settlement date (S-1)	Settlement date not available
4. Dealer agrees to terms and float comp	Dealer	Dealer Direct		Exchange confirmation*	No later than one day prior to desired settlement date (S-1)	TBD
5. Dealer communicates back to investor	Dealer	Phone, email?	Exchange confirmation*		No later than one day prior to desired settlement date (S-1)	Float comp does not agree with Client expectations
6. Book buy and sell transactions (spec pool trades in OMS)	Investor, Dealer	OMS?	Exchange confirmation*	Feeds to settlement, accounting, other downstream systems	No later than one day prior to desired settlement date (S-1)	TBD
7. Instruct custodians	Investor, Dealer	SWIFT message	Expect and deliver instructions for securities and cash		No later than one day prior to desired settlement date (S-1)	Instructions do not clearly denote an exchange transaction
8. Perform pre-settlement accounting/tax reporting – e.g., account for float comp in transaction price or est. receivable for separate cash wire	<ul style="list-style-type: none"> <li>Internal accounting or oversight teams</li> <li>Custodians or other third party providers</li> </ul>	TBD	Security buy / sell price, float compensation amount	Receivables, other accounting entries as appropriate	No later than one day prior to desired settlement date (S-1)	Failure to suppress tax, accounting, TRACE reporting because transaction looks like buy/sell

\* Show example for tabletop walkthrough



## “HAPPY PATH” – SETTLEMENT

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Deliver 45d PC to dealer	Investor's Custodian	DVP via Fedwire	Instructions from investor	Cash to investor	No later than dealer-determined time on settlement date	11am FRE deadline may cause this to be too early for some – especially West Coast
2. Deliver 45d PC to Freddie	Dealer's custodian	Free delivery via Fedwire	Instructions from dealer	45d delivery to Freddie Mac	By 11am on settlement date	11am deadline may be too early for some, could increase fails
3. Match and send 55d UMBS	Freddie Mac	Free delivery via Fedwire	Expect files from Dealer Direct, security delivery from dealer's custodian	55d security delivery back to dealer	Immediately upon receipt of 45d PC	Risk – transaction cannot be completed same day
4. Deliver 55d UMBS to investor	Dealer's custodian	DVP via Fedwire	55d security from Freddie Mac	Cash to dealer	Assume same day	Risk – transaction cannot be completed same day
5. Send cash wire to dealer	Freddie Mac	Cash wire	Cash wire file from Dealer Direct	Cash wire	Settlement day between 4-6pm	Risk – transaction cannot be completed same day
6. Post settlement confirmation to investor	Investor custodian	SWIFT, other (depending on client preference)	Successful exchange settlement	Settlement confirmation	Settlement day prior to COB	Risk – transaction cannot be completed same day

**PRELIMINARY**

# “HAPPY PATH” – ACCOUNTING & TAX REPORTING

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Post-settlement disclosure	Freddie Mac	Standard disclosure files, Freddie website, vendors	Settled exchanges	Disclosure files* Vendor views of disclosure information*	Daily (6:30 am)	Risk – disclosures not produced timely
2. Publish updated eligibility and float comp grids	Freddie Mac	Freddie website, vendors	Bloomberg OAS pricing model, FRE exchange and resecuritization activity	Reports*	Daily	Risk – reports / grids not produced timely
3. Update NAV, portfolio value, etc.	<ul style="list-style-type: none"> <li>Internal accounting or oversight teams</li> <li>Custodians or other third party providers</li> </ul>	TBD	Exchange settlement confirmations	NAV, portfolio updates	Settlement day	Risk – transaction completion delayed, updates cannot be completed same day
4. Perform dealer accounting activities	Dealers	Finance & accounting systems / data flow	<ul style="list-style-type: none"> <li>Normal trade flow accounting, recognition of float comp for dealer's own holdings</li> <li>For customers – separate GL account as a pass-thru</li> </ul>	Updated accounts	Settlement day	
5. Withholding and tax reporting	TBD	TBD	TBD	Tax withholding, 1099 reporting for domestic investors, 1042 for foreign	TBD	

\* Show example for tabletop walkthrough

## EXCEPTION SCENARIOS FOR DISCUSSION

- Exception #1: 45-day delivery fails and transaction is automatically rebooked for next available settlement day
  - See scenario description on following pages
  
- Exception #2: 45-day delivery from Dealer is successful but Freddie Mac is unable to complete the exchange on settlement day
  - See scenario description on following pages
  
- Additional scenarios:
  - Exchange for greater than \$50M – entire exchange has a single exchange ID and will receive one cash wire; only the security deliveries on settlement day are broken into pieces of \$50M or less according to standard Fedwire delivery rules
  - Desired settlement date is not available – communication between Dealer and Investor client to choose a new date, reconfirm float compensation with new date / price grid

## EXCEPTION #1 – 45D DELIVERY FAILS, TRANSACTION AUTO-REBOOKED

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Dealer fails to deliver 45-day PC on settlement day	Dealer / Dealer's Custodian	Free delivery via Fedwire	Delivery of 45-day from investor's custodian, instructions from dealer	45-day delivery not successfully made to Freddie Mac	Settlement date	11am FRE deadline may cause this to be too early for some – especially West Coast
2. Failed exchanges auto-rebooked for next available settlement date – at least 2 days out	Freddie Mac	Email from Dealer Direct	Failed / incomplete settlement	Updated exchange confirmation with new settlement date and Transaction ID	COB on original settlement date	TBD
3. Dealer communicates new settlement date back to investor	Dealer	Phone, email	Updated exchange confirmation	Updated exchange confirmation	Assume same day?	New settlement date does not work for client
If auto-rebook date is acceptable, proceed to provide new settlement instructions						
4. <b>IF auto-rebook is NOT acceptable</b> - coordinate with client to choose alternate settlement date	Dealer	Phone, email	New settlement date request		No later than one day prior to new settlement date (S-1)	TBD
5. Update settlement date in Dealer Direct (iterate until available date is found)	Dealer	Dealer Direct	New settlement date request	Updated confirmation	No later than one day prior to new settlement date (S-1)	New requested date not available – may cause multiple iterations between Dealer and investor
6. Provide new settlement instructions	Investor, Dealer	SWIFT message	Updated expect and deliver instructions for securities and cash	Updated expect and deliver files	No later than one day prior to new settlement date (S-1)	Instructions do not clearly denote an exchange transaction
Proceed with settlement per normal flow						

## EXCEPTION #2 – 45D DELIVERY SUCCESSFUL BUT FREDDIE MAC IS UNABLE TO COMPLETE EXCHANGE TRANSACTION SAME DAY

Category/ Activity	Primary actor(s)	Means of comm	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1a. If possible, <b>DK 45-day security</b> back to Dealer	Freddie Mac	Free delivery via Fedwire	Inability to complete transaction	DK of 45-day back to Dealer	Settlement day	TBD
1b. IF Freddie Mac is unable to DK 45-day back to Dealer on settlement day, Exchange offer <b>trust receipt provision takes effect</b>	Freddie Mac	Exchange offer docs, email/phone?	Exchange Offering Circular	Notification to Dealer	OC issued prior to program inception, notification by COB	TBD
2b. DK 45-day security back the next day (or ASAP)	Freddie Mac	Free delivery via Fedwire	Inability to complete transaction	DK of 45-day back to Dealer	Day after settlement or ASAP	TBD
3. Retain or sell 45-day back to initiating investor?	Dealer	?	45-day security DK'd back to Dealer, updated confirm with new settlement date, ID and float comp	<ul style="list-style-type: none"> <li>Updated transaction details in Dealer / Investor systems</li> <li>Cash back from Investor (if 45-day is sold back in interim)</li> </ul>	Assume same day	TBD
4. Failed exchanges auto-rebooked for next available settlement date – at least 2 days out	Freddie Mac	Email confirm from Dealer Direct	Failed / incomplete settlement, next available settlement date with	Updated exchange confirm w/ new settlement date, Transaction ID	COB on original settlement date	TBD
5. Dealer communicates new settlement date back to investor	Dealer	Phone, email	Updated exchange confirmation	Updated exchange confirmation	Assume same day?	New date does not work for client
If auto-rebook date is acceptable, proceed to provide new settlement instructions						
6. <b>IF auto-rebook NOT acceptable</b> - coordinate with client to choose alternate settlement date	Dealer	Phone, email	New settlement date request		No later than one day prior to new settlement date (S-1)	TBD
7. Update settlement date in Dealer Direct (iterate until available date is found)	Dealer	Dealer Direct	New settlement date request	Updated confirmation	No later than one day prior to new settlement date (S-1)	New date not available –multiple iterations between Dealer and investor
8. Provide new settlement instructions	Investor, Dealer	SWIFT message	Updated expect and deliver instructions for securities & cash	Updated expect and deliver files	No later than one day prior to new settlement date (S-1)	Instructions do not clearly denote an exchange transaction
Proceed with settlement per normal flow						