



## Update on the Development of Proposed Legacy PC Exchange Program

# Proposed Exchange Offer Overview



- We plan to conduct an exchange offer to maximize the liquidity of the new Single Security
- To prepare for the exchange offer, Freddie Mac plans to create mirror 55-day UMBS (Single Securities) and mirror non-TBA 55-day securities for all exchange eligible 45-day PCs and Giants
  - » Pool level disclosure for securities received upon exchange, such as UPB and pool factor, will largely mirror the current disclosure of the legacy 45-day PCs and Giants
- Exchanges will be executed through dealers, who will enter exchange transactions through an online portal, Freddie Mac Dealer Direct<sup>SM</sup>
- Freddie Mac plans to publish new data elements to facilitate tracking of outstanding supply across 45- and 55-day cohorts
- These exchange data elements will be contained in three new reports – a Daily Exchange Activity report, a Cumulative Exchange Activity report and a Daily Level 1 (L1) report

# Proposed Exchange Offer Detail



Exchange Eligible PC Universe	All fixed rate 45-day PCs and Giants will be eligible to be exchanged as long as any portion is still available (i.e., entire security is not committed to one or more resecuritization)
Pricing	<ul style="list-style-type: none"><li>• Freddie Mac will not charge investors an exchange fee</li><li>• Investors will receive float compensation for approximate fair value of the 10 days of increased payment delay</li></ul>
Timing	The exchange offer will open along with the introduction of the new Single Security product and will stay open for the foreseeable future
What You Will Receive	<ul style="list-style-type: none"><li>• Holders of 45-day TBA securities will receive 55-day UMBS after an exchange while holders of 45-day non-TBA securities will receive a Freddie Mac 55-day non-TBA MBS</li><li>• Investors will also receive a cash wire with the value of the float compensation</li><li>• Investors who exchange multiple pieces of the same PC or Giant over time will receive the same corresponding 55-day security in return</li></ul>

## Proposed Exchange Offer Detail (cont.)



Creation of 55-Day Mirrors	<p>Mirror securities will be created by Freddie Mac and broadcast with the Fed. Freddie Mac will hold these securities and they will not increase the aggregate supply of securities issued and outstanding in the market.</p> <ul style="list-style-type: none"><li>• The mirror securities will appear on the Freddie Mac Daily New Issue File on the day they are created</li><li>• Exchange transactions will not increase the aggregate supply outstanding</li></ul>
Who Can Exchange	<p>Investors will execute exchanges through an approved Freddie Mac Giant dealer (see <a href="#">list</a>)</p>
Exchange Process	<ul style="list-style-type: none"><li>• Dealers will submit exchange requests through Freddie Mac's online dealer portal, Freddie Mac Dealer Direct<sup>SM</sup>, and will wire PCs to Freddie Mac</li><li>• Freddie Mac will return an equal amount of original par of the corresponding 55-day security and the approximate fair value compensation for 10 days of lost float</li></ul>
Capacity	<p>There may be limits on the number of exchange transactions that can settle on any given day – more information on this topic will be forthcoming</p>

# Exchange Example



	Prior to Single Security Issuance and Trading		Single Security Implementation		One day after Single Security Implementation		Two days after Single Security Issuance	
	55-day mirror securities created		First day of issuance of Single Security		Investor A exchanges \$4 Million of original par of security 123		Investor B exchanges remaining original par of security 123	
	45-Day Security 123	55-Day Mirror Security 789	123	789	123	789	123	789
	<u>Disclosures</u>		No change to legacy PCs until an exchange takes place		<u>Disclosures:</u>		<u>Disclosures:</u>	
Original Par	\$10 Million	\$10 Million			\$10M	\$10M	\$10M	\$10M
Coupon	3	3			3	3	3	3
WAC	3.75	3.75			3.75	3.75	3.75	3.75
Factor	0.75	0.75			0.75	0.75	0.75	0.75
Tradable Supply	\$7.5M	\$0			\$4.5M	\$3M	\$0M	\$7.5M
Outstanding UPB	<b>\$7.5M</b>				<b>\$7.5M</b>		<b>\$7.5M</b>	

**The total outstanding UPB of securities in the market before and after exchange will always remain constant.**

# Proposed Disclosures of Exchanges



**Security Disclosures:** At issuance, mirror securities will appear on the Daily New Issue File. Most of the pool-level disclosures on the newly created mirror 55-day securities will mirror those of the corresponding 45-day securities

- » However, the 55-day securities will have new CUSIPs, prefixes and pool numbers and the issuance date will be the issuance date of the 55-day security. The Single Security prefixes will follow the FNMA convention
- » For loan level disclosures one will need to look to the corresponding 45-day PC pool

**NEW Exchange Disclosures:** Exchange activity will be reported to the market through new reports with new data elements to provide clarity on the progress of exchanges.

## New Daily and Cumulative Exchange Activity Reports

- The Daily Exchange Activity Report contains one row for every exchange transaction where a Freddie Mac 45-day security exchanged directly to its corresponding 55-day "mirror" security on a given date. It includes the amount of "Issuance Investor Security UPB" (Original Par) exchanged and settled as part of each transaction.
- The Cumulative Exchange Activity Report contains one row for every Freddie Mac 45-day security eligible to be exchanged, regardless of whether any exchange activity has occurred to date. It includes details about the corresponding pairs of 45 and 55-day securities and the amount of "Issuance Investor Security UPB" (Original Par) exchanged and settled to date.

## New Daily Level 1 (L1) Report

- The Daily L1 Report contains one row for every Freddie Mac 45-day Level 1\* PC, even if the PC is not eligible to be exchanged.
- Because exchanges can be done on Level 1 or at Level 2\*\* securities, this report breaks out all exchanges on the basis of the lowest Level 1 PC collateral, i.e. allocating all exchanges of Giants back to their original Level 1 PC collateral and adding that to any exchanges from a Level 1 PC directly to its corresponding "mirror."
- This report can be used to determine the 45- day and 55-day supply and prepayments across any Legacy cohort.
- This report will allow analysts to ignore Giants in their calculations of 45- and 55-day supply and prepayments

\* A Level 1 security is the first securitization of the loan(s)

\*\* Level 2 securities are resecuritizations of L1 or L2 securities

# Appendix

# Details on Proposed Creation of Mirror Securities



- Freddie Mac will create mirror 55-day Single Securities and non-TBA 55-day securities for all exchange eligible 45-day PCs in existence as of the first day of issuance and trading of the Single Security
- Each of these 55-day mirror securities will be structured as a single pool Giant with the same original par value as the corresponding 45-day security and a factor of less than 1 at issuance
- These securities will be created by Freddie Mac and held in a Freddie Mac exchange account with the Fed until an exchange transaction takes place. This will not increase the aggregate supply of securities issued and outstanding in the market
  - » This is similar to the issuance of MACR classes corresponding to a newly issued REMIC. The MACR classes are created at the same time as the REMIC and are backed by the same PC pools, but are held by Freddie Mac until an exchange transaction take place and do not add to the total amount of securities outstanding
- The corresponding 55-day securities will be established by Freddie Mac in the months leading up to the first day of trading of the Single Security in the market and the majority of mirror securities will be created at least 1 quarter in advance of the Single Security implementation date

## Proposed Exchange Offer Process Detail

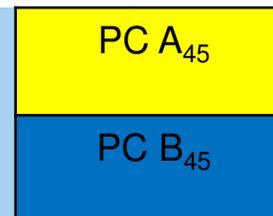


- Investors who wish to exchange securities will do so through a member of the Freddie Mac approved dealer group
- Authorized users at the approved dealers will have the ability to enter exchange transactions through the Freddie Mac Dealer Direct<sup>SM</sup> exchange portal
- These users will enter the CUSIPs and issuance UPB of the 45-day securities to be exchanged and will receive the CUSIP of the 55-day securities that will be returned, along with the expected value of the float compensation that will accompany the exchange
- Users will select an exchange settlement date, which will generally be at least 2 days in the future, subject to certain blackout dates (such as the first 4 business days of the month, when factors are not yet available)
- On the settlement date a dealer will wire the 45-day securities to the Freddie Mac wire room and will receive a return wire in the afternoon with the 55-day security and another with the float compensation payment
  - » Dealers can choose to execute a resecuritization at the same time as the exchange, in which case the dealer could deliver pieces of many different 45-day PCs and will receive in return one 55-day day Single Security “Supers”

# Exchange Disclosure Example: Direct Exchange



In this example, portions of Security A45 and B45 (neither of which has been resecured), are each exchanged for their corresponding 55-day mirror.



## Freddie Mac Monthly Factor File

PC Pool	Issue Date	Original Par	Current Factor	Conditional Prepayment Rate (CPR)
A45	May 2013	\$10M	0.6	20
B45	Jan 2014	\$8M	0.75	10
A55	Jun 2015	\$10M	0.6	20
B55	Jun 2015	\$8M	0.75	10

*The mirror 55-day securities will be on the monthly factor file*

- 45-day PC
- 45-day Giant
- 55-day Mirror

## Freddie Mac Daily Exchange Activity Report

PC Pool	Single Security	Original Par	Direct Orig Par Exchanged
A45	A55	\$10M	\$3.33M
B45	B55	\$8M	\$5M

*The Daily Exchange Activity Report tells how much of A45 and B45 have been exchanged directly to their corresponding mirrors on a given date*

## Freddie Mac Cumulative Exchange Activity Report

PC Pool	Single Security	Original Par	Direct Par Exchanged
A45	A55	\$10M	\$3.33M
B45	B55	\$8M	\$5M

*Every mirror relationship and the original Par amount exchanged to date are included on the Cumulative Exchange Activity Report each day. If there is only one day of activity the Daily and Cumulative reports may have the same data*

## Freddie Mac Daily L1 Report

PC Pool	Original Par	Orig. Par Resecuritized	Direct Orig. Par Exchanged	Orig. Par Exch. Through Resec	Combined Orig. Par Exchanged	Orig Par Remaining Eligible for Exchange	Factor
A45	\$10M	\$0	\$3.33M	\$0	\$3.33M	\$6.67M	0.6
B45	\$8M	\$0	\$5M	\$0	\$5M	\$3M	0.75

*Because neither A45 nor B45 are resecured, the Cumulative Exchange Activity Report matches the Daily L1 Exchange Report*

# Exchange Disclosure Example: PC Fully Contained in a Giant



*In this example, Securities X45 and Y45 are fully contained in Giant Z45. All of Giant Z45 is exchanged.*

Giant Z <sub>45</sub>	\$15M
PC X <sub>45</sub>	\$12M
PC Y <sub>45</sub>	\$10M

*Original UPB of Giant based on PC factor at time of Giant formation*

## Freddie Mac Monthly Factor File

PC Pool	Issue Date	Original Par	Current Factor	CPR
X45	Jan 2013	\$12M	0.5	30
Y45	Mar 2014	\$10M	0.8	25
Z45	Feb 2015	\$15M	0.93	28
Z55	Jun2015	\$15M	0.93	28

- 45-day PC
- 45-day Giant
- 55-day Mirror

## Freddie Mac Cumulative Exchange Activity Report

PC Pool	Single Security	Original Par	Direct Orig Par Exchanged
Z45	Z55	\$15M	\$15M

*Because X45 and Y45 are completely resecured they are not eligible for exchange and do not appear on the Cumulative Exchange Activity Report.*

## Freddie Mac Daily L1 Report

PC Pool	Original Par	Orig. Par Resecuritized	Direct Orig. Par Exchanged	Orig. Par Exch. Through Resec	Combined Orig. Par Exchanged	Orig Par Remaining Eligible for Exchange	Factor
X45	\$12M	\$12M	\$0	\$12M	\$12M	\$0M	0.5
Y45	\$10M	\$10M	\$0	\$10M	\$10M	\$0M	0.8

*Analysts can use the L1 Report to see that all of X45 and Y45 have been exchanged in order to do analytics of 55-day supply and prepayments. Z45 does not appear on the L1 Daily Report because it is a Giant*

# Exchange Disclosure Example: PC Partially Contained in a Giant



*In this example, Securities Q45 and R45 are partially contained in Giant S45. 40% of Giant S45 and all of the remaining portion of Q45 are exchanged.*

	Giant S <sub>45</sub> (\$5M)
PC Q <sub>45</sub> \$6M	\$4M
PC R <sub>45</sub> \$7M	\$3M

## Freddie Mac Monthly Factor File

PC Pool	Issue Date	Original Par	Current Factor	CPR
Q45	Dec 2012	\$10M	0.4	15
R45	Jun 2014	\$10M	0.8	40
S45	Dec 2014	\$5M	0.8	30
Q55	Jun 2015	\$10M	0.4	15
R55	Jun 2015	\$10M	0.8	40
S55	Jun 2015	\$5M	0.8	30

## Freddie Mac Cumulative Exchange Activity Report

PC Pool	Single Security	Original Par	Direct Orig Par Exchanged
Q45	Q55	\$10M	\$6M
R45	R55	\$10M	\$0
S45	S55	\$5M	\$2M

***Q45 and R45 are only partially resecuritized and will appear on the Cumulative Exchange Activity Report.***

- 45 Day PC
- 45 Day Giant
- 55 Day Mirror

## Freddie Mac Daily L1 Report

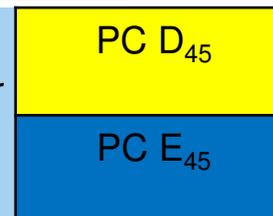
PC Pool	Original Par	Orig. Par Resecuritized	Direct Orig. Par Exchanged	Orig. Par Exch. Through Resec	Combined Orig. Par Exchanged	Orig Par Remaining Eligible for Exchange	Factor
Q45	\$10M	\$4M	\$6M	\$1.6M	\$7.6M	\$2.4M	0.4
R45	\$10M	\$3M	\$0	\$1.2M	\$1.2M	\$8.8M	0.8

***To account for the combined amount of exchange, including the exchange of Q45 and R45 contained in S45, one will need to look at the Daily L1 Report. S45 is not on the L1 Report because it is a Giant.***

# Exchange Disclosure Example: PC Exchanged via Multiple Transactions



*In this example, portions of Security D45 and E45 are each exchanged for their corresponding 55-day mirror in multiple transactions over multiple days*



**Freddie Mac Monthly Factor File**

PC Pool	Issue Date	Original Par	Current Factor	CPR
D45	Jan 2011	\$100M	0.4	25
E45	Sep 2010	\$20M	0.35	18
D55	Jun 2015	\$100M	0.4	25
E55	Jun 2015	\$20M	0.35	18

- 45-day PC
- 45-day Giant
- 55-day Mirror

**Freddie Mac Daily Exchange Activity Report Day 1**

PC Pool	Single Security	Original Par	Direct Orig Par Exchanged
D45	D55	\$100M	\$10M
D45	D55	\$100M	\$5M
D45	D55	\$100M	\$20M
E45	E55	\$20M	\$3M

*There is one row for each transaction on the Daily Exchange Activity Report, even if multiple transactions involve the same PC pool*

**Freddie Mac Cumulative Exchange Activity Report Day 2**

PC Pool	Single Security	Original Par	Direct Par Exchanged
D45	D55	\$100M	\$40M
E45	E55	\$20M	\$9M

*The Cumulative Exchange Activity Report has one row for each security and totals the activity across transactions and over time*

**Freddie Mac Daily Exchange Activity Report Day 2**

PC Pool	Single Security	Original Par	Direct Orig Par Exchanged
D45	D55	\$100M	\$5M
E45	E55	\$20M	\$6M

# Calculations of Supply and Prepayments using Exchange Disclosures



Total supply and prepayments, as well as supply and prepayments of tradable 45- and 55-day mirror securities for all cohorts, can be calculated from the monthly factor file combined with the L1 report

PC Pool	Issue Date	Factor File			L1 Report		Calculated	
		Original Par	A) Current Factor	CPR	B) Combined Orig Par Exchanged	C) Orig Par Remaining Eligible for Exchange	Current 55-Day Supply (A*B)	Current 45-Day Supply (A*C)
A45	May 2013	\$10M	0.6	20	\$3.33M	\$6.67M	\$2M	\$4M
B45	Jan 2014	\$8M	0.75	10	\$5M	\$3M	\$3.75M	\$2.25M
X45	Jan 2013	\$12M	0.5	30	\$12M	\$0M	\$6M	\$0M
Y45	Mar 2014	\$10M	0.8	25	\$10M	\$0M	\$8M	\$0M
Q45	Dec 2012	\$10M	0.4	15	\$7.6M	\$2.4M	\$3.04M	\$0.96M
R45	Jun 2014	\$10M	0.8	40	\$1.2M	\$8.8M	\$0.96M	\$7.04M
<b>Total</b>		<b>\$60M</b>			<b>\$39.13M</b>	<b>\$20.87M</b>	<b>\$23.75M</b>	<b>\$14.25M</b>

Aggregate Supply	$\sum (\text{Original Par} * \text{Factor})$ for each Level 1 45-day security	$= 10*0.6 + 8*0.75 + 12*0.5 + 10*0.8 + 10*0.4 + 10*0.8 = \$38M$
Aggregate 45-day supply	$\sum (\text{Orig Par Remaining Eligible for Exchange} * \text{Factor})$ for each Level 1 45-day security	$= \$6.67*0.6 + 3*0.75 + 2.4*0.4 + 8.8*0.8 = \$14.25M$
Aggregate 55-day prepayments	$\sum (\text{Combined Orig Par Exchanged} * \text{Factor} * \text{CPR})$ for each Level 1 45-day security / Aggregate 55 Day Supply	$= (\$3.33*0.6*20 + 5*0.75*10 + 12*0.5*30 + 10*0.8*25 + 7.6*0.4*15 + 1.2*0.8*40) / 23.75 = 22.8$
2013 55-day supply	Cohort Supply = $\sum (\text{Combined Orig Par Exchanged} * \text{Factor})$ for all Level 1 45-day securities in a given year	$= \$3.33M*0.6 + \$12M*0.5 = \$8M$
2014 45-day prepayments	Cohort Prepayment = $\sum (\text{Orig Par Remaining Eligible for Exchanged} * \text{Factor} * \text{CPR})$ / cohort 45-day supply for all Level 1 45-day securities in a given year	$= (3*0.75*10 + 8.8*0.8*40) / (3*0.75 + 8.8*0.8) = 32.73$

\*Note – These calculations do not include new issue 55-day securities, but supply and prepayments on those securities can be calculated directly