

Single Security and CSP Industry Advisory Group Meeting

Convene Conference Center
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December 14, 2016

Agenda

Time	Topic/Description	Speaker
11 am	Welcome and Introductions – Introduce new members and review agenda	Fannie Mae, Freddie Mac
11:15 am- 11:30 am	Overview of Implementation of Release 1 on the Platform and Timing of Next FHFA Update on Release 2.	R. Fishman- FHFA D. Applegate- CSS S. Clinton- Freddie R. Sorkin - Fannie
11:30 am – 12:15 pm	Industry Readiness – Steps the market will need to take to prepare for the Single Security <ul style="list-style-type: none"> • Operational- i.e. EPN, FICC • Potential issues (under research)- i.e. name limits, investment guidelines, reporting, regulation, etc. • Vendor Updates Provide overview of distributed industry check list	All
12:15 pm – 12:45 pm	Quick Break and Retrieve Lunch (Box lunches will be provided)	
12:40 pm – 1:00pm	Exchange Update —Overview on latest information on the Freddie Mac exchange Process	Freddie Mac
1:00 pm – 1:30 pm	Accounting and Tax Update – Summary of latest update regarding potential accounting and tax implications of the Single Security	Fannie Mae, Freddie Mac
1:30 pm – 1:40 pm	SIFMA Update – Update on Good Delivery Guidelines	C. Killian- SIFMA
1:40 pm – 2:00pm	Tradeweb Update - Demonstration of Tradeweb mock screens once UMBS goes live	Tradeweb
2:00 pm- 2:25 pm	Bloomberg Update - Latest update on ticker discussions. Demonstration of Bloomberg mock screens once UMBS goes live	Bloomberg
2:25 pm- 2:30 pm	Next Steps, Next Meeting and Adjourn - Provide overview of meeting highlights and next steps for following IAG meeting	Fannie Mae, Freddie Mac

Single Security and CSP Industry Advisory Group

December 14, 2016

Meeting location: New York

Attendees: ~ 52 (including those in the room and on the phone)

CSS Release 1 and Release 2

FHFA reviewed Release 1 and timing for the Release 2 announcement (Q1 2017). CSS reported they had already processed about \$50B in securities for Freddie Mac, and it was reiterated that this was a long, intensive effort, and a big accomplishment, as well as a key milestone for the Single Security implementation. Fannie Mae, Freddie Mac, and CSS are all taking into account the lessons learned from Release 1 and going through a replanning process for Release 2. FHFA stated they want to be highly confident of the Release 2 date and will take a look at everything learned in Release 1. One thing that took longer than expected were the testing and control reviews, as well as following the governance processes, as multiple entities need to sign off before the release goes live.

FHFA gave an update on the Enterprise alignment efforts, which the industry has been very interested in. One component of alignment monitoring will be quarterly meetings with interested stakeholders to review GSE security cohorts and prepayment speeds and the effect of initiatives. FHFA suggested that the group could be constituted from members of the IAG – those interested in joining can reach out to Rick Sorkin at Fannie Mae or Steve Clinton at Freddie Mac.

Electronic Pool Notification

Fannie Mae provided an overview of the industry outreach that has taken place since the last IAG meeting. SIFMA has been actively involved with helping reach certain facets of the industry in addition to helping brainstorm potential solutions (i.e., best approach to identifying issuer). Electronic Pool Notification (EPN) users will need to be able to identify who the issuer of the security is once the Single Security is implemented. There are two possible existing data elements that could be used – the Security CUSIP and the Pool number. Some IAG members were strongly in favor of the Security CUSIP – which would need to be made a mandatory field by the FICC, while others thought the pool number would be better. There were two follow-ups on the discussion: FICC, SIFMA, BlackRock and some EPN users will get together to hash out the best approach; and Freddie Mac, Fannie Mae and FHFA will research some questions about pool number overlap so that the group has more complete information to make their decision.

Market Preparation

Fannie Mae provided a first look at the market checklist and asked the group for feedback. Fannie Mae explained that the document is still a working draft and the Enterprises are looking for help from the various industry associations and IAG members to help flesh it out. The group reviewed the trading scenarios document. In the scenarios, Month 4 is the month of implementation, while Months 1-3 are

forward trading months. A straight buy of Fannie Mae TBA securities in month 3 would settle as UMBS in Month 4, with no price differential.

The group discussed the Freddie Mac TBA market and what would happen once the Single Security is implemented in Month 4. There were several IAG members who expressed a strong preference for the Freddie Mac 45-day Gold PC TBA market to end after implementation. In their view, there would be no separate Freddie Mac or Fannie Mae TBA markets, but one unified Single Security TBA market. So a Freddie Mac Gold roll position in Month 3 could either be closed out that month, and the investor could take delivery of their Gold PCs, or they could roll forward to Month 4, and do a “roll/swap” to take the Golds and exchange them for 55-day UMBS.

Freddie Mac pointed out that some investors use finance accounting for dollar rolls – and if they take delivery of their roll position they would have to recognize a gain or loss. Ultimately, it will be up to SIFMA and the market makers to determine whether 45-day securities continue to trade TBA or transition to specified trading.

Legacy PC Exchange

Freddie Mac then reviewed the exchange process and some recent discussions with the market. Freddie Mac discussed their plan for float compensation, the settlement process that could be used to avoid fails, and the plan to allow investors to begin exchanging early – before the implementation date. Generally, Freddie Mac has been thinking this early exchange would be allowed only one month before the launch, since the exchanged bonds will not be tradable until the following month.

Fannie Mae asked if it was possible for Freddie Mac to allow exchanges well in advance of implementation, and if Freddie Mac could switch to 55-day issuance before the Single Security implementation, providing an outlet for trading. IAG members expressed the concern that this may result in a scenario where bonds are being removed from the 45-day TBA market well before launch, and that that would not be desirable. A participant suggested that SIFMA could provide sellers an explicit right of substitution in which UMBS securities may be used after the Single Security implementation date to satisfy open 45-day Gold PC sales, therefore eliminating possible technical squeezes.

There was a question about what the Federal Reserve Bank of New York (Fed) will do over the transition month. The Fed staff present at the meeting stated that the Open Market Desk is aware of their role in the market and that they will be mindful of the effects of any actions they choose to take. As the sponsor of the Treasury Market Practices Group, the Fed can ask the TMPG whether any specific best practices around the transition and implementation of single security would be appropriate.

Accounting and Tax Update

The discussion turned to accounting and tax treatment for the exchange. There was also discussion of the potential issues that may arise under the asset diversification requirements of Internal Revenue Code Section 817(h) and the corresponding regulation. Specifically, this relates to the how the proposed UMBS TBA market will impact diversification compliance for segregated assets held by insurance companies.

Freddie Mac reported that they have had preliminary conversations with the IRS. Freddie Mac has submitted a technical analysis to the IRS that provides support for the proposition that the conversion will not be a taxable transaction. As part of that submission Freddie also provided a technical basis for alternative tax treatments for any incentive and float payments. Although it is not definitive, we believe the IRS will ultimately view the float compensation as well as any incentive payment that is paid as part of the exchanges as taxable income when received. Freddie Mac is pursuing a published ruling from the IRS. The IRS indicated they are open to providing published guidance on the tax treatment of the conversion transaction, the float payments and the incentive payments. However, it is uncertain as to when the IRS might issue such guidance.

Freddie Mac reported that they have had preliminary conversations with the SEC about the accounting for the exchange. Freddie Mac, along with Fannie Mae, is planning to engage in formal discussion with the SEC on the accounting for the exchange. The Enterprises believe that the exchange should be accounted for as a modification of the original security with no gain or loss recognized on the exchange, and any compensation for float should be treated as a basis adjustment to the security that will be amortized into income over the life of the security. The SEC does not publish or make available the conclusions reached in these formal discussions; however, the Enterprises believe that one potential method of communicating the SEC's conclusions would be for FHFA to share the results of these discussions with interested parties.

Questions were brought up about accounting treatment for commingled securities (Supers). Currently most investors recognize a gain or loss when they take Gold PCs and MBS and create Giants and Megs, though there is a minority that do not recognize a gain or loss, as they view the resecuritization as an administrative transaction. There has been some discussion with market participants that there might be an advantage – in terms of risk-weighted capital requirements -- to “double wrapping” all their UMBS holdings. However, if there are tax consequences to this practice it may outweigh the advantages. There was also a question about held-to-maturity portfolios and how they would need to treat both exchanges and commingled Supers.

Returning to Internal Revenue Code 817(h), Freddie Mac reported that they had multiple conversations with representatives from the American Council of Life Insurers and SIFMA. Freddie Mac provided the organizations with a write-up outlining the issues and possible approaches to address the asset diversification challenges that may be created by the new UMBS TBA market. There will be another draft of the write-up later this month incorporating SIFMA and ACLI comments that offers up proposed treatment for UMBS securities. The proposal will be shared with the IRS once it is final.

Good Delivery

SIFMA provided a quick update on their Good Delivery guidelines. They have been examining the guidelines to determine needed changes for the Single Security and getting feedback from members of their guidelines committee. SIFMA will have a public solicitation of feedback before making final changes to the guidelines. They know they will need to update securities names as well as making sure exchanged securities can be looked through to the original maturity dates rather than the mirror creation date. SIFMA does not believe MSFTA agreements will need to be updated for the Single Security.

Repo agreements and the eligibility of TBA securities were mentioned. This has also come up in recent investor meetings. A liquid TBA market is required for tri-party repos. Because TBA eligible Gold PCs are easily exchangeable to UMBS, it is desirable to have repo lenders treat them as TBA in their repo agreements post-launch. Members of the group agreed more research is needed both on securities' eligibility for repos – particularly for Gold PCs over the transition -- as well as if repo agreements will need to be updated.

There was a brief discussion of how the market will transition to the Single Security and whether there will be an immediate large volume of PC exchanges. Some thought exchanges might happen as Gold PCs are traded, making the transition to the Single Security more incremental -- rather than an investor exchanging their whole portfolio all at once. Investors have expressed concerns about exposing their whole securities holdings to the dealers who will perform exchanges on their behalf.

Vendor Updates

The final part of the meeting was devoted to presentations from both Tradeweb and Bloomberg about how they will need to change their systems to accommodate the Single Security and the unified trading of the TBA market, as well as exchanges of 45-day for 55-day securities. Freddie Mac will be adopting Fannie Mae identifiers, so that both can trade together as "UMBS."

Both vendors showed screen shots of how their systems might look in a post-Single Security implementation environment. Tradeweb stated it will take them about 6 months to change their screens and their electronic feeds. Downstream systems will need to be able to read what comes from Tradeweb, so there is also work to be done with Tradeweb's vendor partners.

Freddie Mac mentioned that the Enterprises had jointly released the disclosure specification for Single Security REMICs (Level 3 securities), as well as sample files for exchanges, UMBS and Supers (Level 1 and Level 2) in late November. Freddie Mac reminded the attendees that they may need to do some systems work in 2017 if they are consumers of securities disclosures. Freddie Mac will be adopting the Single Security disclosure format for its current securities in the Summer of 2017.

Bloomberg will be reaching out to the industry to have broader discussions about possible changes to their screens and what will work for their users.

Fannie Mae closed the meeting, reminding members to provide feedback on the market checklist and the trading scenarios. We expect to hold the next meeting in early Q2 2017, following FHFA's planned Q1 announcement of the Single Security implementation date.

Market Checklist Topics - Draft for Discussion

Topics	ID	Steps	Comments
Investment Guidelines and Diversification Requirements	1	Review (client) investment agreements and determine any restrictions on mortgage investments or diversification requirements	Anchor to first possible forward trade date. Recommend completing prep work in 2017
	2	Contact clients to determine needed changes in investment agreements	
	3	Meet with investment board and/or clients to approve potential guideline or strategy changes	
	4	Draft revised agreements as needed	
	5	Develop process to address investments when diversification requirements are hit/breached	
	6	Distribute new agreements to clients for approval	
	7	Make required system changes and test	
	8	Ensure new agreements are in place	
	9	Document policy or procedure changes that are needed	
	10	Update margin agreements as necessary	
	11	Complete all required system testing and deploy any changes	
	12	Update securities purchase agreements between dealers and each GSE	
Securities Reporting, MSFT agreements, Compliance	13	Receive guidance from SIFMA on good delivery rules impacts	Impacted reporting requirements for different sectors TBD. Anchor date could be forward trade and/or Single Security implementation date
	14	Assess current reporting and compliance requirements	
	15	Assess need for new or updated Master Securities Forward Transaction agreements	
	16	Assess need for new or updated Repo Agreements and whether or not they specify TBA securities	
	17	Determine necessary changes and draft updated reports and agreements	
	18	Share draft updated documents with appropriate reviewers	
Accounting and Tax Guidance	19	Finalize new reports and provide to appropriate approvers/clients	Anchor to forward trading initiation
	20	Determine potential areas of Single Security impact - e.g., exchange, concentration limits, etc.	
	21	Collect input from accounting and tax advisors, including results from GSE/FHFA outreach to regulating agencies	
	22	Determine if further action is necessary	
	23	Prepare for needed process/policy/system changes and document	
General Regulatory Coordination	24	Complete all required changes	Anchor to Single Security implementation
	25	Review/assess regulatory guidelines relevant to clients and/or industry for proposed changes	
	26	Determine any issues or concerns with transition to Single Security	
	27	Brief your regulator(s) as needed	
	28	Seek regulatory relief (as needed)	
	29	Update policies and procedures, regulatory reports to reflect Single Security impact and any needed changes	

Market Checklist Topics - Draft for Discussion

Topics	ID	Steps	Comments
System Updates - including Screens and Analytics	30	Contact vendors/clients to determine needed system updates and timeline for change	General Updates
	31	DTCC/FICC publish needed changes, including any EPN requirements	
	32	Assign resources and develop requirements (as needed)	Anchor to forward trading initiation
	33	Development and integration (as needed)	
	34	Initiate testing (as needed) - to complete in 2018	
	35	Trading platforms ready to support new UMBS forward trades (e.g., TradeWeb/Fed Trade, Bloomberg eTrading screens, etc.)	
	36	Analytics providers and MBS trading platforms publish changes to support UMBS TBA and new Freddie Mac 55d non-TBA	Anchor to Single Security implementation
Security Pricing	37	Determine timeline and basis for beginning to quote UMBS prices	Anchor to forward trading initiation
	38	Security pricing providers publish plans for updating security pricing with UMBS (including transition period for forward trading)	
	39	Security price consumers identify changes required to receive new UMBS pricing (including transition period for forward trading)	
	40	Sources / data feeds updated for new security prices as needed to enable forward trading	
Disclosures	41	Reach out to your disclosure vendors	General Updates
	42	Review Disclosure Guide for 2017 early Freddie Mac Disclosure implementation (L1, L2 and Exchange disclosure)	
	43	Review Disclosure Guide for 2018 Single Security implementation	
	44	Review Joint Enterprise Disclosure Technical Specification (L1, L2 & L3)	
	45	Review L1/L2 sample disclosure files (4Q16)/test files in Q1 (L1, L2, and Exchange disclosure)	
	46	Complete testing of new L1/L2 disclosure files	Anchor to FRE early implementation of Single Security disclosure file format (Q3 2017)
	47	Be ready to absorb/begin using new L1/L2 disclosure files for 2017 early Freddie Mac Disclosure implementation	Anchor to FRE issuance of mirrors in preparation for exchange
	48	Complete testing and be ready to receive new Exchange disclosure files	
49	Complete testing and be ready to receive new L3 disclosure files	Anchor to Single Security implementation	

Market Checklist Topics - Draft for Discussion

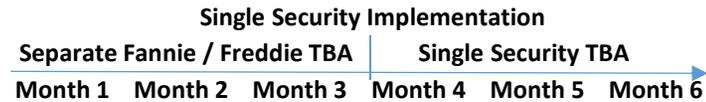
Topics	ID	Steps	Comments
Exchange Prep	50	Review Exchange Update from FRE	General Updates
	51	Review draft Exchange Offering Circular	
	52	Analytics updated to avoid double-counting when FRE issues 55-day mirror securities - in preparation for later Exchanges (e.g., prepayment reports/analytics for L1; supply / float reports and indices for last level of securitization)	Anchor to FRE issuance of mirrors in preparation for exchange
	53	Update processes and systems (trading / operations / accounting) as needed to support exchange transactions	Anchor to Single Security implementation
	54	Dealers to verify Dealer Direct access for exchange capability	Anchor to opening of exchange window
	55	(Clients) Review final Exchange Offering Circular and contact dealer to determine exchange transactions to be reserved	
Index Updates	56	Determine approach for incorporating UMBS into indices (and treatment of legacy securities) and communicate to the market	Is there a dependency between how indices will show UMBS and investment guideline updates and/or Good Delivery Guideline updates?
	57	Test/Update systems to adjust indices for new UMBS (as needed)	
	58	Investor / money manager index consumers test ability to consume updated indices	General Updates
Loan Delivery Contracts	59	Seller / Servicer systems reflect UMBS guarantor contracts and delivery	Anchor to first date for Guarantor 55-day contract
	60	FRE sellers accept Master Commitment updates to account for new 55-day pricing	
	61	Update loan delivery export capability/systems to include new prefix field	Anchor to FRE early implementation of Single Security disclosure file format
	62	Update import and export capability/systems for 55-day products, including FRE 10-year	

Single Security Trading Scenarios

Examines how trading of agency securities will change as a result of Single Security Implementation.

The following scenarios look at trades that occur before, during and after Single Security Implementation, with implementation occurring in “Month 4” in 2018

TBA Sale



Trade type	Transaction Date	To Close Position	To Roll Position
FNCL Sale - Fannie Mae MBS	Before Implementation (Month 1 Trade, Month 2 Settle)	Pair off position or deliver Fannie Mae MBS	Roll short position with Fannie Mae TBA (Buy Month 2 TBA – sell Month 3 TBA)
FNCL Sale - Single Security UMBS	During Implementation (Month 3 trade, Month 4 Settle)	Pair off position or deliver Single Security UMBS*	Roll short position with Single Security TBA (Buy Month 4 TBA – sell Month 5 TBA)
	After Implementation (Month 4 trade, Month 5 settle)	Pair off position or deliver Single Security UMBS*	Roll short position with Single Security TBA (Buy Month 5 TBA – sell Month 6 TBA)
FGLMC Sale – Freddie Mac PCs	Before Implementation (Month 1 Trade, Month 2 Settle)	Pair off position or deliver 45-day Freddie Mac PCs	Roll short position with Freddie Mac TBA
	During Implementation (Month 3 trade, Month 4 Settle) **	Pair off position or deliver 45-day Freddie Mac PCs	Roll short position with Freddie Mac TBA** or dealers may offer roll swap so investors can convert while maintaining an open roll ***
	After Implementation (Month 4 trade, Month 5 settle) **	Pair off position or deliver 45-day Freddie Mac PCs	Roll short position with Freddie Mac TBA** or dealers may offer roll swap so investors can convert while maintaining an open roll***

* Single Security UMBS can include legacy or new-issue Fannie Mae MBS, legacy Freddie Mac PCs that have been exchanged for their 55-day mirror securities, new issue 55-day Freddie Mac UMBS and single-issuer or commingled Supers (Single Security Mega or Giant) issued by either Enterprise. This may be impacted by SIFMA decisions regarding TBA fungibility

** This trade may not be possible because it is not certain that dealers will continue to make markets in legacy 45-day products after Single Security Implementation

*** To convert this to a Single Security position, investor would need to close the FGLMC position and open a new position using Single Security TBA or dealers may offer a roll swap contract whereby investors buy Freddie Mac TBA in the front month and sell Single Security TBA in the back month

Single Security Program Exchange and Float Compensation Proposal

December 14, 2016

Overview of Exchange

- A mechanism to exchange 45-day PCs for 55-day mirror securities ultimately backed by the same pool of loans
 - Open to holders of both TBA and Non-TBA PCs
 - REMICS and ARMS ineligible for exchange
 - Exchange will be at the option of holders and will not be mandatory
 - Will commence on or prior to Single Security Implementation Date and stay open for the foreseeable future
 - We will not charge any exchange fee
- Freddie Mac, jointly with Fannie Mae and FHFA, is seeking advice from regulatory agencies and outside legal counsel on the tax and accounting implications of exchange

Proposed Details of Mirror Securities

- Mirror securities will be ultimately backed by the same loans as the original pool and will replicate the disclosures and cash flows of the PCs but will have new CUSIPs, prefixes, pool numbers and issuance dates
 - Need to look through to 45-day PC for loan-level disclosures
 - Holders that exchange pieces of the same PC over time will receive the same 55-day security in return
- Will be created by Freddie Mac and broadcast with the Fed in advance of Single Security Implementation
- Issuance of mirrors will not impact aggregate supply of securities outstanding

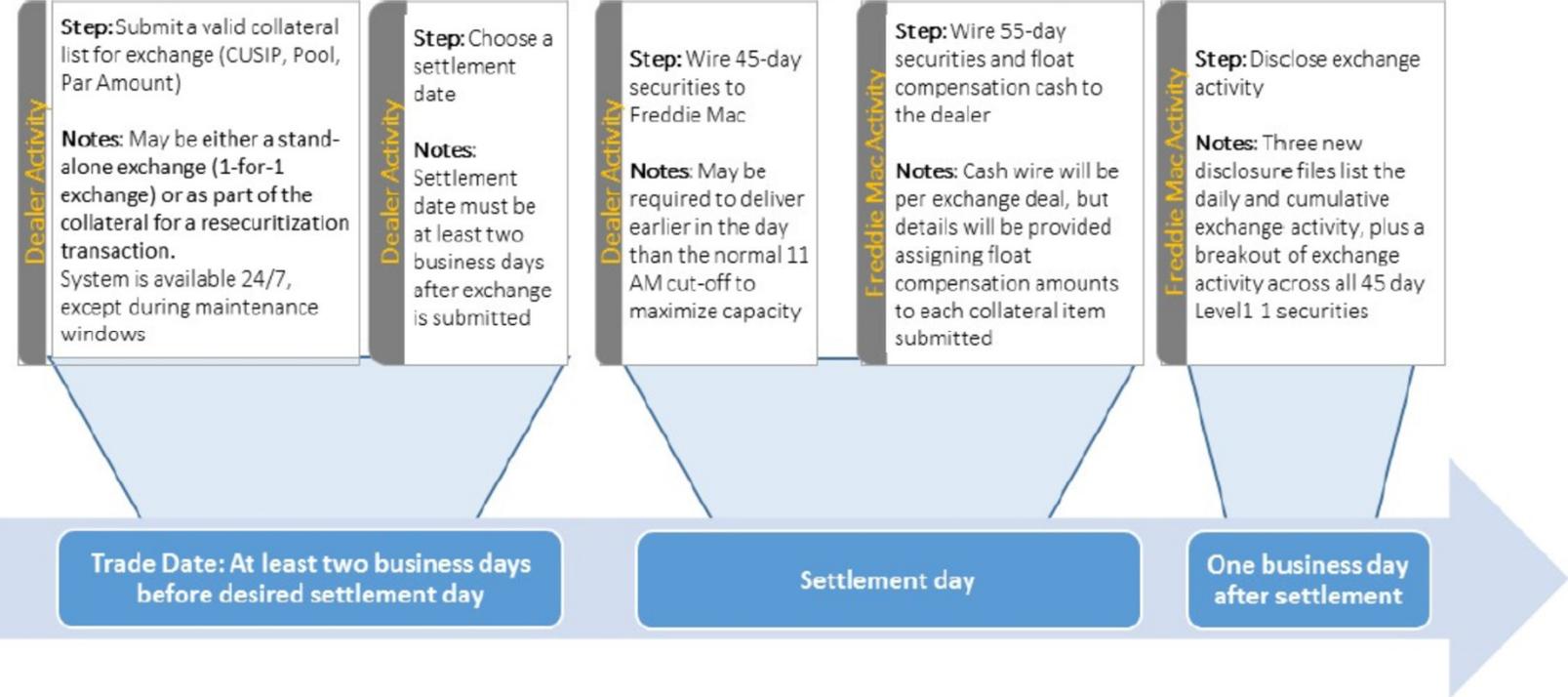
Figure 1: Exchange Example

	Prior to Single Security Issuance and Trading		Single Security Implementation		One day after Single Security Implementation		Two days after Single Security Implementation	
	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 \$6M original par of security 123	
	Security 123	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	\$7.5M		\$7.5M		\$7.5M		\$7.5M	

Proposed Dealer Direct and Exchange Process Detail

- Investors will submit exchanges through member of Giant Dealer network
 - Chose to leverage existing dealer relationships to streamline process
- Dealers will submit transactions through Dealer Direct portal that is also being rolled out for Giant formation

Figure 2: Process flow for exchange transactions using the Dealer Direct portal



Dealer Direct Screen Shot – Trade Confirmation Screen

Transactions
REMIC Tools
Pricing
Reports
Support

Remaining Time
1 4 : 3 7

< Exchange

1
✓ Upload an Exchange File

2
✓ Select Settlement Date

3
Review Exchange Details

Transaction ID: 00108	Current User: CreditSuisse FullAccess
Trade Date/Time: September 20th 2016, 5:24 PM	Dealer: Credit Suisse
Number of Collateral: 6	Settlement Date: September 30th 2016
Price Grid in Effect: v61	Cutoff Time for Providing Collateral: 11:00 AM
Submitter: CreditSuisse FullAccess	Total Float Compensation (\$): 52,772.82

	45 Day Securities to Deliver	55 Day Securities to Be Received	Pricing Information											
Exchange ID	Pool Number	CUSIP	Par Amount (\$)	Pool Number	CUSIP	Factor	Base (Ticks)	Loan Bal (Ticks)	FICO (Ticks)	LTV (Ticks)	WALA (Ticks)	Total (Ticks)	Float Comp (\$)	Comments
00001425	A00001	CUSIP4511	5,000,000.00	C00002	CUSIP5512	0.74328162	2.00	0.50	0.00	0.50	0.50	3.50	4,064.82	
00001426	A00003	CUSIP4513	300,000.00	C00003	CUSIP5513	0.53872196	2.25	0.00	-0.50	-0.50	0.00	1.25	83.13	Sample data
00001427	A00001	CUSIP4511	30,000,000.00	C00002	CUSIP5512	0.74328162	2.00	0.50	0.00	0.50	0.50	3.50	24,388.93	
00001428	A00003	CUSIP4513	4,000,000.00	C00003	CUSIP5513	0.53872196	2.25	0.00	-0.50	-0.50	0.00	1.25	841.75	
00001429	A00001	CUSIP4511	20,000,000.00	C00002	CUSIP5512	0.74328162	2.00	0.50	0.00	0.50	0.50	3.50	16,259.29	Sample comment
00001430	A00003	CUSIP4513	34,000,000.00	C00003	CUSIP5513	0.53872196	2.25	0.00	-0.50	-0.50	0.00	1.25	7,154.90	

I have read and agree to the [terms of the Exchange Circular](#)

Confirm

Discard and Cancel Transaction

Dealer Direct is currently under development, so this screen format is subject to change. Values are for illustrative purposes only

Approach to Exchange Capacity

- There may be technological and counterparty constraints that limit the capacity of the exchange
- We are talking to market participants about how and when they may wish to conduct exchanges
 - The previous plan was to promote CUSIP aggregation and do “all or nothing” settlement
 - We have heard that this approach could place dealers at risk if they hold collateral from counterparties without the ability to complete the exchange transactions due to delivery failures from other investors
 - We are analyzing alternatives, and may be able to provide bulk upload of a list of collateral piece line items, but settle at the individual line-item level
- There are ongoing efforts to improve exchange capacity that would allow for more flexibility on how exchanges are submitted

With this change, each “piece” of collateral in an Exchange transaction will settle individually

- Regardless of how many pieces of collateral a Dealer enters in a single exchange transaction, each piece of a 45-day security submitted for exchange can settle (or fail) individually
 - Even if multiple pieces of the same CUSIP are submitted within the same transaction...
 - ...as long as each piece has its own row in the list of 45-day pools uploaded for the transaction
- Float compensation will be paid at the Exchange transaction level for all pieces that did settle
- The team is exploring alternatives for treatment of failed pieces (e.g., auto-rolling to next available settlement date)

1 Single Exchange transaction in Dealer Direct

2 Each “piece” of a 45-day CUSIP that is submitted must have its own row within the transaction to settle individually

3 If the first row is delivered, it will settle...
...even if another piece of the same CUSIP in row 3 fails

4 Float compensation will be calculated for all pieces that settle successfully and paid in aggregate for the entire exchange transaction

Exchange upload Example

Pool #	CUSIP	Par Amount
A00001	CUSIP4511	5000000
A00003	CUSIP4513	300000
A00001	CUSIP4511	3000000
A00003	CUSIP4513	4000000
A00001	CUSIP4511	2000000
A00003	CUSIP4513	3400000

45 Day Securities to Deliver				55 Day Securities to Be Received		Pricing Information									
Exchange ID	Pool Number	CUSIP	Par Amount (\$)	Pool Number	CUSIP	Factor	Base (Ticks)	Loan Bal (Ticks)	FICO (Ticks)	LTV (Ticks)	WALA (Ticks)	Total (Ticks)	Float Comp (\$)	Com	
00001425	A00001	CUSIP4511	5,000,000.00	C00002	CUSIP5512	0.74328162	2.00	0.50	0.00	0.50	0.50	3.50	4,064.82		
00001426	A00003	CUSIP4513	300,000.00	C00003	CUSIP5513	0.53872196	2.25	0.00	-0.50	-0.50	0.00	1.25	63.13	Sampl	
00001427	A00001	CUSIP4511	30,000,000.00	C00002	CUSIP5512	0.74328162	2.00	0.50	0.00	0.50	0.50	3.50	2,388.93		
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00001429	A00001	CUSIP4511	20,000,000.00	C00002	CUSIP5512	0.74328162	2.00	0.50	0.00	0.50	0.50	3.50	5,259.29	Sampl	
00001430	A00003	CUSIP4513	34,000,000.00	C00003	CUSIP5513	0.53872196	2.25	0.00	-0.50	-0.50	0.00	1.25	7,154.90		

Proposed Approach to Float Compensation

- We will provide approximate fair value compensation to investors for the additional 10 days of delay in receipt of payments
 - This follows the precedent in 1990 Gold exchange and responses to the RFI
- We will offer a schedule of rates that will be informed by fair value, with at least one rate for every term/coupon combination
 - May also offer payups for specified characteristics
- Will use OAS valuation methods and will leverage models from dealers and analytics providers
- Float offered to market could differ from model values and Freddie Mac reserves the right to change values over time
- Float values will be available to the public through Freddie Mac website and other sources

Table 5: Sample Float Compensation Schedule (Values in ticks)

	Term		
	30	20	15
			1.5
	1.75	1.5	1.25
	1.75	1.5	1.25
	1.75	1.5	1.25
Coupon	1.75	1.25	2.25
	1.75	1.25	2.75
	1.75	1.25	3
	2	1.25	3
	2	1.25	3

Disclosure of Exchanges

Freddie Mac will product 3 new disclosures and a tie out table to inform the market of the progress of the exchanges

- Daily 45-Day to 55-Day Exchange Activity – Will provide information on all exchange transactions on the preceding business day, including original par exchanged and the CUSIPS and security identifiers of the 45 and 55-day securities
- Cumulative 45-Day to 55-Day Exchange Activity – Will provide information on all exchange activity to date for all exchange-eligible PCs; will begin to publish this report upon mirror issuance so market participants can map 45- and 55-day securities and cohorts
- Aggregate Level 1 Collateral Exchange Activity – Will break down all exchanges to date to their lowest level PC collateral, to help with calculations by market participants of supply and prepayments
- Exchange Tie Out Table – A table provided daily with data on the available supply of 45- and 55-day securities on a cohort level to facilitate trading

Sample Exchange Disclosures

Table 1: Sample Freddie Mac Daily Exchange Activity Report

Freddie Mac 45 Day Security Identifier	Freddie Mac 45 Day Security CUSIP	Freddie Mac 55 Day Security Identifier	Freddie Mac 55 Day Security CUSIP	Issuance Investor Security UPB	Exchanged Issuance Investor Security UPB	Cumulative Exchanged Issuance Investor Security UPB	As of Date
A92014	312940GX1	ZA5900	314287TM2	1,185,804	1,185,804	1,185,804	1292016
Q24207	3132M4KU8	ZA6208	314286RG9	26,952,462	10,000,000	19,000,000	1292016
G06550	3128M8TF1	ZD5782	314290JF6	397,641,826	15,000,000	250,000,000	1292016
G06550	3128M8TF1	ZD5782	314290JF6	397,641,826	75,000,000	250,000,000	1292016
A57681	3128KLRA7	ZT6216	314260RS1	766,190,442	20,540,000	125,540,000	1292016
A57681	3128KLRA7	ZT6216	314260RS1	766,190,442	5,000,000	125,540,000	1292016
A57681	3128KLRA7	ZT6216	314260RS1	766,190,442	15,000,000	125,540,000	1292016

Table 2: Sample Freddie Mac Cumulative Exchange Activity Report

Freddie Mac 45 Day Security Identifier	Freddie Mac 45 Day Security CUSIP	Freddie Mac 55 Day Security Identifier	Freddie Mac 55 Day Security CUSIP	Issuance Investor Security UPB	Cumulative Exchanged Issuance Investor Security UPB	As of Date
A92014	312940GX1	ZA5900	314287TM2	1,185,804	1,185,804	1292016
Q24207	3132M4KU8	ZA6208	314286RG9	26,952,462	19,000,000	1292016
Q17733	3132J9BB3	ZR8912	314270UL7	1,146,662	-	1292016
G07501	3128M9U26	ZR4206	314250RE2	47,714,833	12,500,000	1292016
G06550	3128M8TF1	ZD5782	314290JF6	397,641,826	250,000,000	1292016
A70272	3128L3JR8	ZT6301	314264BD3	3,980,680	300,000	1292016
A57681	3128KLRA7	ZT6216	314260RS1	766,190,442	125,540,000	1292016

Sample Exchange Disclosures

Table 3: Sample Freddie Mac Daily Level 1 Report

Level 1 Security Identifier	Level 1 Security CUSIP	Issuance Investor Security UPB	Resecuritized Issuance Investor Security UPB	Cumulative Exchanged Issuance Investor Security UPB	Issuance Investor Security UPB Remaining Eligible for Exchange	Cumulative Issuance Investor Security UPB Exchanged through Resecuritizations	Aggregate Exchanged Issuance Investor Security UPB	Aggregate Issuance Investor Security UPB Remaining Eligible for Exchange	Security Factor	Security Factor Date	As of Date
A92014	312940GX1	1,185,804	-	1,185,804	-	-	1,185,804	-	0.34243132	12016	1292016
Q24207	3132M4KU8	26,952,462	-	19,000,000	7,952,462	-	19,000,000	7,952,462	0.73406	12016	1292016
Q17733	3132J9BB3	1,146,662	-	-	1,146,662	-	-	1,146,662	0.88938028	12016	1292016
A70272	3128L3JR8	3,980,680	3,680,680	300,000	-	2,314,067	2,614,067	1,366,612	0.06323913	12016	1292016
A57681	3128KLRA7	766,190,442	540,941,712	125,540,000	99,708,730	340,093,569	465,633,569	300,556,872	0.03808993	12016	1292016
A57687	3128KLRG4	50,904,538	50,904,538	-	-	32,004,013	32,004,013	18,900,524	0.02948858	12016	1292016
Q21145	3132JNHWO	7,359,417	7,359,417	-	-	1,927,968	1,927,968	5,431,448	0.72334929	12016	1292016
Q21218	3132JNK71	4,024,061	4,024,061	-	-	1,054,195	1,054,195	2,969,865	0.7629613	12016	1292016

Table 4: Sample Tie Out Table (\$'s in millions)

Term	Coupon	Freddie															Fannie			UMBS		
		Total Outstanding			45-day unexchanged			55-day Exchanged			55-day new issue			Total 55-day Outstanding			Outstanding			All 55-day Outstanding		
		REMIC	Float	Total	REMIC	Float	Total	REMIC	Float	Total	REMIC	Float	Total	REMIC	Float	Total	REMIC	Float	Total	REMIC	Float	Total
30	2.5	826	1,652	2,478	789	1,396	2,185	0	182	182	37	74	111	37	256	293	1,239	2,478	3,717	1,276	2,734	4,010
	3	75,586	151,171	226,757	73,424	127,394	200,818	0	19,454	19,454	2,162	4,323	6,485	2,162	23,777	25,939	113,379	226,757	340,136	115,540	250,534	366,074
	3.5	120,401	240,802	361,203	117,518	209,093	326,611	0	25,944	25,944	2,883	5,765	8,648	2,883	31,709	34,592	180,602	361,203	541,805	183,484	392,913	576,397
	4	76,118	152,236	228,354	72,945	117,337	190,283	0	28,553	28,553	3,173	6,345	9,518	3,173	34,899	38,071	114,177	228,354	342,531	117,350	263,252	380,602
	4.5	34,870	69,739	104,609	32,126	39,560	71,686	0	24,692	24,692	2,744	5,487	8,231	2,744	30,179	32,923	52,305	104,609	156,914	55,048	134,788	189,836
	5	19,814	39,627	59,441	18,111	20,900	39,011	0	15,322	15,322	1,702	3,405	5,107	1,702	18,727	20,430	29,720	59,441	89,161	31,423	78,168	109,591
	5.5	12,507	25,015	37,522	12,271	22,420	34,691	0	2,123	2,123	236	472	708	236	2,595	2,831	18,761	37,522	56,283	18,997	40,117	59,114
	6	8,009	16,018	24,027	7,600	11,520	19,121	0	3,680	3,680	409	818	1,227	409	4,498	4,907	12,014	24,027	36,041	12,422	28,525	40,947
	6.5	3,161	6,323	9,484	2,953	4,035	6,988	0	1,872	1,872	208	416	624	208	2,288	2,496	4,742	9,484	14,226	4,950	11,772	16,722
	7	890	1,781	2,671	808	880	1,689	0	737	737	82	164	246	82	900	982	1,335	2,671	4,006	1,417	3,571	4,988
	7.5	275	549	824	259	380	639	0	138	138	15	31	46	15	169	184	412	824	1,235	427	992	1,420
	8	136	273	409	134	251	385	0	18	18	2	4	6	2	21	23	204	409	613	206	430	637
	8.5	42	84	126	40	65	106	0	15	15	2	3	5	2	19	20	63	126	189	65	145	209
	Total	352,635	705,270	1,057,904	298,071	596,142	894,214	0	122,731	122,731	13,653	27,307	40,960	13,653	150,037	163,691	528,952	1,057,904	1,586,857	542,606	1,207,942	1,750,547