

As we approach the implementation of the Single Security Initiative (SSI), we wanted to review some fundamental features of the UMBS, and the implications for the market.

Program Feature	Implication(s)
<p>Fannie Mae and Freddie Mac will use the same 01F TBA netting and clearing CUSIP for all 55-day TBA-eligible UMBS Securities, , which is already used by Fannie Mae</p>	<p>All 55-day TBA-eligible UMBS securities will net and clear together. Freddie Mac TBA-eligible 45-day securities will continue to net and clear under 02R while the Gold TBA market slowly fades away.</p> <p>For 55-day TBA trades, you will not know which issuer's UMBS you will receive until 48-hour/pool notification day.</p>
<p>Fannie Mae and Freddie Mac will use the same security prefixes for all Single Family fixed-rate TBA-eligible securities -- CL, CT, CI, CN (30-, 20-, 15-, and 10-year securities) -- which are already used by Fannie Mae</p>	<p>Pricing and analytics vendors need to determine how they will label the securities on their screens.</p> <p>Bloomberg will re-purpose the current labels they use for Fannie Mae. After the SSI is implemented, both Enterprises will be identified by the FNCL, FNCT, FNCL and FNCL labels for generic TBA cohorts. Bloomberg will move TBA Golds off the TBA screens as that market diminishes.</p> <p>Tradeweb will adopt a new label "UMBS" for Freddie Mac and Fannie Mae 55-day TBAs. They will transition this label into their screens in the months leading up to implementation, at which point Fannie Mae securities will be labeled FNMA/UMBS. PCGLD - for as long as Gold PCs continue to trade -- will move to an underlying screen and off the main TBA page.</p>
<p>Fannie Mae and Freddie Mac will each begin using the UMBS and Supers names for TBA-eligible securities</p>	<p>If your investment guidelines or other operational documents specify security names, you may need to update them to reflect the new names. Existing Fannie Mae TBA-eligible MBS and Megs will essentially become Fannie Mae UMBS and Supers respectively. Existing Freddie Mac TBA-eligible Gold PCs and Giants will need to be exchanged before the new labels are applicable. New TBA-eligible issuance by Fannie Mae and Freddie Mac will be Fannie Mae UMBS/Supers and Freddie Mac UMBS/Supers, respectively.</p>

Fannie Mae and Freddie Mac will adopt an aligned disclosure format	The Enterprises have agreed on a standard disclosure format – Freddie Mac adopted the format in August 2017, and Fannie Mae will begin using it in June 2019 when the Single Security goes live. There are several new fields that are part of the new format – including Payment Delay, and Securities Issuer. The Securities Issuer field will be important given the fungibility and commingling features of UMBS.
Fannie Mae and Freddie Mac will use the same prefix and pool number format which are already used by Fannie Mae	Both Enterprises' securities will have a 2-character prefix followed by a separate 6-character pool number. Freddie Mac adopted this field format in 2017; Fannie Mae already uses this format. The Enterprises have divided the pool number ranges to ensure uniqueness; Fannie Mae has A-I and M, and Freddie Mac has Q-Z.

Freddie Mac's Planned Treatment of Float Compensation

The IRS' recent [Revenue Ruling 2018-24](#) stated that Freddie Mac's proposed exchange of 45-day Gold PC securities for 55-day Freddie Mac mortgage-backed securities will not be taxable. However, the IRS did not rule on the taxability of the associated float compensation payment and does not intend to do so at this time.

Freddie Mac will treat the float compensation payment as a tax-free adjustment to the security basis. As such, for those investors that execute their exchange through the direct-to-Freddie path, Freddie Mac does not intend to report the payment as taxable income to the investor. However, Freddie Mac is not dictating to investors how they must treat the payment. Some investors may conclude after consulting with their tax advisors that it is taxable income when received.

Although Freddie Mac will not perform tax withholding or reporting of the float compensation payments, for investors who choose to use the direct-to-Freddie exchange path, Freddie Mac will require collection of W-8 and W-9 forms. If an investor does not provide a valid W-8 or W-9, they will need to use the dealer-facilitated exchange path and provide documents that the dealer may require. Further, foreign asset managers who may perform exchanges on behalf of their clients through the direct-to-Freddie path will need to demonstrate that they are Qualified Intermediaries (QI). If QI status cannot be confirmed by Freddie Mac, a foreign asset manager will be required to use the dealer-facilitated exchange path.

For more details on the two Freddie Mac exchange paths, please refer to our [Exchange webpage](#).

The information shared here does not constitute tax advice; investors interested in the Gold PC exchange are strongly encouraged to speak with their own tax advisors to determine how they will treat the float compensation.

IRS Publishes 817(h) Guidance for UMBS TBA Contracts

Recently, the IRS published [Revenue Procedure 2018-54](#), which provides guidance for taxpayers that engage in Fannie Mae or Freddie Mac TBA trades for segregated asset accounts on which variable annuity, endowment or life insurance contracts are based. The guidance allows taxpayers to elect to treat the mortgage-backed securities received from the TBA trades as having deemed issuers for purposes of the diversification requirements of section 817(h) of the Internal Revenue Code (the "Code").

Code section 817(h) provides that the investments in a segregated asset account supporting a variable contract must be adequately diversified, meaning that such assets may not be concentrated in the securities of one or more issuers. For example, no more than 55% of the assets may be from a single issuer and no more than 70% of the assets may be from two issuers. Fannie Mae and Freddie Mac are considered separate issuers for purposes of this rule.

Under the direction of FHFA, Fannie Mae and Freddie Mac are developing a new Uniformed Mortgage Backed Security (UMBS). UMBS is expected to trade primarily on a TBA basis, meaning that the issuer of the security delivered under a TBA contract will not be known until 48 hours before delivery (a "Generic TBA Contract"). Under the IRS guidance, taxpayers may elect (but are not required) to use a deemed-issuance-ratio method (the "Election") to determine the issuer of UMBS to be delivered under a TBA contract to a segregated asset account. If an investor makes the Election, each UMBS delivered under a Generic TBA Contract is deemed to be issued in part by Fannie Mae and in part by Freddie Mac. However, trades where the issuer is known at the time the contract is entered into are not affected by this election (e.g., a stipulated trade). FHFA will fix and publish the ratio at the end of each year based on relative market share, and that ratio will apply to TBA contracts entered into the following calendar year. The applicable ratio will apply to the UMBS held in a segregated asset account until it is sold, pays off or is re-securitized. It should be noted that the Election, once made, will apply to all future tax years for Generic TBA Contract entered into by the taxpayer and may be revoked only with the prior consent of the IRS.

SFIG Residential: Bloomberg & Tradeweb Updates

Freddie Mac and Fannie Mae will be at the SFIG Residential Mortgage Symposium in New York City on October 29-30. The Enterprises and FHFA will provide an update on the Single Security at a panel on Tuesday at 11:15 a.m. in the Gallery Ballroom. In addition, the Enterprises will host demos by Bloomberg and Tradeweb to give stakeholders a preview into how their systems will reflect the new UMBS market. The demos will be held in our meeting room, Studio 4, over the course of the conference. Please email single_security@freddiemac.com or single_security@fanniema.com if you are interested in participating in the group discussion or demos.

Exchange Webinar

Freddie Mac is conducting a webinar series to discuss the Gold PC exchange and the Single Security Initiative. In order to ensure market readiness, Freddie Mac is providing details to consider as your firm prepares for exchange, an overview of the two exchange paths, accounting and tax implications, and other key considerations.

There is still availability for the sessions being held on October 24 1:00-2:00 pm and November 1 2:00-3:00 pm. The sessions will discuss the same material so you can select the one that is more convenient.

If you wish to attend either of the webinars, please email single_security@freddiemac.com to receive an invitation.

Upcoming Market Survey

Fannie Mae and Freddie Mac will implement a third Market Survey in Q4 2018. The focus of this survey is to gauge stakeholders' confidence that they will be ready for Go-Live on June 3, 2019. Look for the survey in your mailbox soon!

Tabletop Testing Third Session

TABLETOP EXERCISE APPROACH



On Wednesday, October 17, Freddie Mac and Fannie Mae jointly hosted a Tabletop Testing working group phone call. This event was the third working session hosted by the Enterprises in preparation for the Q4 live Tabletop Testing exercise. The session focused on scenarios for commingled Supers and REMIC issuances. The Enterprises are planning for the Live Tabletop Testing exercise on December 6 in New York City; further details will be shared shortly with the participating group. If you would like to get more information on how you can be involved in the Tabletop Exercise working group, please reach out to jamie_miller@freddiemac.com or stephanie_milner@fanniemae.com.

Find us at an upcoming event

SFIG Residential Mortgage Symposium

October 29-30, New York, NY

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