

A Summary of the Update to the Structure of the Single Security released by FHFA on May 15, 2015

The [2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac](#) included, as part of efforts to build a Common Securitization Platform (CSP), the goal of developing a single mortgage-backed security that Fannie Mae and Freddie Mac (the Enterprises) could issue to finance mortgages backed by one- to four-unit single-family properties. That goal is supportive of the statutory obligation of the Federal Housing Finance Agency (FHFA) to ensure the liquidity of the nation's housing finance markets.

On May 15, 2015, FHFA issued [An Update to the Structure of the Single Security](#), which provides FHFA decisions regarding the Single Security Structure. A summary of the FHFA determinations are as follows:

Single Security Issuer and Guarantee Structure

- Each Enterprise will issue and guarantee first-level Single Securities backed by mortgage loans that the Enterprise has acquired.
- The Enterprises will not cross-guarantee each other's first-level securities.
- First-level securities are single-class securities backed by mortgage loans purchased by either Freddie Mac or Fannie Mae. There is no commingling of collateral in first-level securities.
- Similar to today's Fannie Mae Megas, pass-through securities backed by Fannie Mae MBS, and Freddie Mac Giants, pass-through securities backed by Freddie Mac PCs or other Giant PCs¹, second-level securities are single class securities collateralized by other single class securities. Second-level securities will allow for the commingling of Freddie Mac and Fannie Mae first-level securities and other second-level securities.

Common Features

- The update provides key features of the new Single Security and is consistent with the features described in the Single Security Request for Input that FHFA published in August 2014. The features will be consistent with the current Fannie Mae Mortgage-Backed Security (MBS), including a payment delay of 55 days.
- The Enterprises will align pooling requirements and those requirements generally align with Fannie Mae's current requirements. Appendix A to the Update provides more detail.

Loan Products in Scope

- First-level Single Securities will finance 30-, 20-, 15- and 10-year fixed-rate mortgage loans now eligible for financing through the "To-Be-Announced" (TBA) market.
- FHFA will move forward with all products simultaneously.

Multi-Lender Pools

- Lenders will retain the ability to form multiple-lender pools of mortgage loans but participation in multi-lender pools will not be mandatory.

Re-Securitizations

- Each Enterprise will be able to issue second-level Single Securities (re-securitizations) backed by first- or second-level securities issued by either Enterprise.
- In order for a legacy Freddie Mac Participation Certificate (PC) to be re-securitized, the investor would have to first exchange the PC for a Single Security issued by Freddie Mac, so that the

¹ The collateral backing a Mega or Giant PC may also include Real Estate Mortgage Investment Conduit (REMIC) classes that are comparable to single-class securities in that payments on the classes collectively represent a proportional share of all principal and interest payments from the collateral backing the classes.

payment date of all of the securities in the collateral pool backing the re-securitization would be the same. A summary of the exchange process is provided in Appendix E.

- To clarify the counterparty risk posed by commingled re-securitizations, Appendix B provides an analysis of the counterparty risk exposure of investors under the Enterprises' current securitization programs and the Single Security.

Disclosures

- The loan- and security-level disclosures for Single Securities will closely resemble those of Freddie Mac PCs. Appendix C provides details about these disclosures, including data element names, definitions and allowable values for these disclosures.
- Details on file formats and technical specifications will be available at a later date.

Alignment of Enterprise Programs, Policies and Practices

- FHFA does not believe that complete alignment of Enterprise programs, policies and practices is necessary for the Single Security but alignment in some specific areas could be beneficial.
- Current Enterprise policies and practices related to the removal of mortgage loans from securities (buyouts) are substantially aligned today and will be generally similar and aligned for purposes of the Single Security. Appendix D provides a summary of these policies and practices, including some areas where the Enterprises have agreed to align before Single Security issuance.
- FHFA and the Enterprises will carefully assess the potential effect on prepayment speeds of any potential changes in Enterprise programs, policies, and practices developed or considered in the future, including, but not limited to, streamlined refinance programs and servicing initiatives. Maintaining the current high degree of similarity between the prepayment speeds of the Enterprises' securities is an important objective for FHFA.
- FHFA will not require standardization of legal documents that stand behind securities or servicer remittance policies. Both would be time-intensive exercises and likely do not have a large prepayment impact.
- Mortgage loan eligibility requirements, seller mix and representative mix delivered by large lenders will not be aligned.

Legacy Fannie Mae MBS and Freddie Mac PCs

- Freddie Mac will offer investors the option to exchange legacy PCs for comparable Single Securities backed by the same mortgage loans and will compensate investors for the cost of the change in the payment delay. The exchange program will commence on the first day of Single Security trading and stay open for the foreseeable future.
- Appendix E provides a description of the exchange program for legacy PCs, as well as the methodology for calculating float compensation.
- Fannie Mae will not offer an exchange option for legacy MBS because FHFA expects investors to treat them as fungible with Single Securities.

Appendices

Appendix A – Security Features

- Provides an updated list of features for the Single Security including the security structure and pooling rules.

Appendix B – Counterparty Risk Analysis

- An investor in a security will look to the issuer of that security for the performance of the issuer's guarantee, even in the case of commingled resecuritizations.
- The guarantee provided by the issuer of the first-level security in a commingled resecuritization would be to the trust of the second-level security, not to the investor.
- In the case that the guarantor of the first-level security defaults but the second-level guarantor is still performing, investors will still be paid for their full obligations.
- If the second-level guarantor defaults, security holders would still be entitled to principal and interest received on the first-level securities. Investors would also receive guarantee payments that are passed through from the non-issuing Enterprise, if it too had not defaulted, to the extent that the non-issuing Enterprise's first-level securities back the resecuritization.

Appendix C - Disclosures

- Provides details about disclosure specifications including data element names, definitions and allowable values for these disclosures.

Appendix D – Removal of Mortgage Loans

- Many of the loan buyout policies of the Enterprises are already substantially aligned including optional removal delinquency trigger (buyout at 120 days delinquent) and repurchase due to representation and warranties violation.
- The Enterprises have agreed to align on a number of other repurchase policies including imminent default, removal for servicer performance error, compliance with law and optional removal delinquency status (for example, buyout of a loan that has been in delinquent status for four months, including circumstances where the borrower has failed to make up at least one month's arrearage).

Appendix E – Exchange

- Investors will be able to exchange a PC or Giant PC (that are not already 100 percent committed to re-securitizations) for a corresponding Single Security backed by the same pool of mortgage loans.
- Investors who want to do exchanges will have to do so through a pre-determined dealer group that will be authorized to submit exchange transactions to Freddie Mac. These dealers will submit the exchange transactions through an online exchange portal.
- As part of that exchange, investors will receive compensation for the fair value of the additional ten days of float. To make this compensation transparent, Freddie Mac plans to publish a schedule of flat fees that will be differentiated by coupon rate, remaining maturity, and product type—for example, 15-year and 30-year mortgage loans.
- The schedule of flat fees will be informed by various fair value methodologies, which will not be used to directly value the float but will provide a range of fair values to guide the compensation determination. The fee schedule may also be affected by other considerations, such as the goal of increasing liquidity in the new 55-day security market.