



Freddie Mac and Fannie Mae

# Single Security Initiative Market Adoption Playbook

September 2018



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 Freddie Mac



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## 1 Introduction and Features

### 1.1 Purpose of the Document

The purpose of this document is to provide an explanation of impending changes to the security programs of Fannie Mae and Freddie Mac (the Enterprises) associated with the Single Security Initiative. The intent is to clarify the characteristics of the new securities that the Enterprises will be issuing, Uniform Mortgage-Backed Securities™ or UMBS™ and Supers™, and to provide more detailed information about how the transition to these securities will affect the day-to-day operations of key market segments. The document is a playbook in the sense that it identifies possible actions market participants should consider taking to ensure a smooth transition into TBA trading and management of the new securities. This document should serve as a tool to help plan and adapt business policies, procedures, and processes for the introduction of UMBS and Supers when the Single Security Initiative is implemented on June 3, 2019.

For more details on the Single Security Initiative, refer to either of the Enterprise's websites:

- [http://www.freddiemac.com/single\\_security](http://www.freddiemac.com/single_security)
- <http://www.fanniemae.com/singlesecurity>

Please direct any questions, comments and feedback to [single\\_security@freddiemac.com](mailto:single_security@freddiemac.com) or [single\\_security@fanniemae.com](mailto:single_security@fanniemae.com).

### 1.2 Introduction

The Single Security Initiative will create a new mortgage-backed security to be issued and guaranteed by either Fannie Mae or Freddie Mac and backed by fixed-rate 30-, 20-, 15- or 10-year single-family mortgage loans. The security will be called the Uniform MBS or UMBS. Single Class resecuritizations of UMBS will be called Supers. The Single Security Initiative is expected to strengthen the U.S. mortgage market by supporting liquidity in the To-Be-Announced (TBA) market, thereby maintaining or possibly lowering the cost of housing finance and benefiting borrowers, taxpayers, and investors.



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# Single Security Initiative

## 1.3 Features

Key Features of the UMBS and Supers						
<b>Timeline</b>	The Single Security Initiative is scheduled to be implemented on June 3, 2019					
<b>Security Structure</b>	<b>Security Issuer and Guarantee Structure</b>	Each UMBS or Supers security will be issued and guaranteed by either Fannie Mae or Freddie Mac. <i>REMIC securities will continue to be issued and guaranteed by either Fannie Mae or Freddie Mac</i>				
	<b>Levels of Securitization</b>	Level 1 – UMBS Level 2 – Supers Level 3 – REMIC				
	<b>Resecuritization</b>	Second and third-level securitizations (called resecuritizations) of securities issued by either Enterprise:  <table border="1"><thead><tr><th>Supers (similar to Megas and Giants)</th><th>REMICS*</th></tr></thead><tbody><tr><td>Can be backed by UMBS or other Supers (either issuances of one Enterprise or a commingling of issuances of both Enterprises)  <b>and/or</b>  Existing TBA-eligible MBS and/or Megas issued by Fannie Mae  <b>and/or</b>  Legacy TBA-eligible PCs and/or Giant PCs issued by Freddie Mac that have been exchanged (<b>See section 7</b>)</td><td>Can be backed by new or exchanged UMBS or Supers (either issuances of one Enterprise or a commingling of issuances of both Enterprises), or other REMIC class or classes  <b>and/or</b>  Existing TBA-eligible MBS and/or Megas issued by Fannie Mae  <b>and/or</b>  Legacy TBA-eligible PCs and/or Giant PCs issued by Freddie Mac that have been exchanged (<b>See section 7</b>)  <b>and/or</b>  REMIC or Re-REMIC classes issued by either Enterprise that were, at issuance, 100% backed by any combination of the above  <i>*Non-TBA-eligible collateral and all 45-day PCs are not eligible collateral for Supers. Non-TBA-eligible collateral is eligible for resecuritization (Giant/Mega/REMIC) by the original issuer only.</i></td></tr></tbody></table>	Supers (similar to Megas and Giants)	REMICS*	Can be backed by UMBS or other Supers (either issuances of one Enterprise or a commingling of issuances of both Enterprises)  <b>and/or</b>  Existing TBA-eligible MBS and/or Megas issued by Fannie Mae  <b>and/or</b>  Legacy TBA-eligible PCs and/or Giant PCs issued by Freddie Mac that have been exchanged ( <b>See section 7</b> )	Can be backed by new or exchanged UMBS or Supers (either issuances of one Enterprise or a commingling of issuances of both Enterprises), or other REMIC class or classes  <b>and/or</b>  Existing TBA-eligible MBS and/or Megas issued by Fannie Mae  <b>and/or</b>  Legacy TBA-eligible PCs and/or Giant PCs issued by Freddie Mac that have been exchanged ( <b>See section 7</b> )  <b>and/or</b>  REMIC or Re-REMIC classes issued by either Enterprise that were, at issuance, 100% backed by any combination of the above  <i>*Non-TBA-eligible collateral and all 45-day PCs are not eligible collateral for Supers. Non-TBA-eligible collateral is eligible for resecuritization (Giant/Mega/REMIC) by the original issuer only.</i>
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Key Features of the UMBS and Supers					
			<i>Any existing or legacy REMIC security backed by TBA-eligible collateral can be collateral for new REMIC classes issued by either Enterprise.</i>		
<b>Products &amp; Pooling Rules</b>	<b>Terms</b>	<b>10-year security</b>	85 Months		
		<b>15-year security</b>	85 Months		
		<b>20-year security</b>	181 Months		
		<b>30-year security</b>	181 Months		
	<b>MultiLender Pools</b>	MultiLender pools will still be issued once UMBS goes live. Max rate difference between loan interest rate and security coupon is 250 basis points.			
	<b>Minimum Submission Amounts</b>	<b>Single Lender:</b> \$1M	<b>Maximum Term</b> 120 Months <b>MultiLender:</b> \$1000/Lender \$1M/Security		
<b>Non-Assumable Guaranteed Rural Housing Mortgages with LTVs ≤ 105</b>		Will not be eligible for TBA pools.			
	<b>Loan Buy-outs</b>	Accelerated buy-outs to occur at 120 days of delinquency			
<b>Investor Remittance Date</b>	Payment date will be the 25th (55-day delay) of the month for all product types. If the 25th falls on a holiday or weekend, the payment date will be the next business day after the 25th.				
<b>Disclosures</b>	The disclosure framework for the UMBS or Supers was implemented by Freddie Mac in August 2017 and Fannie Mae will adopt the new disclosure format at go-live.				
	More details can be found on the <a href="#">Freddie Mac Single Security</a> website or the <a href="#">Fannie Mae Single Security</a> website				
<b>Servicing and Selling Guides</b>	The Enterprises will maintain their separate Servicing and Selling Guides.				
<b>Loan Removal Policies and Practices</b>	The Enterprises have agreed to substantially align the following policies and practices for new securities prior to the implementation of the Single Security Initiative: <ul style="list-style-type: none"> <li>• Reasonably Foreseeable Default (Imminent Default)</li> <li>• Removal Permitted Due to Servicer Performance Error</li> <li>• Compliance with Law</li> <li>• Optional Removal Delinquency Status</li> </ul> For additional details on the changes, please see the FHFA Appendix D (May 2015) found here - <a href="http://www.freddiemac.com/mbs/docs/d_loan_removal_policies_practices.pdf">http://www.freddiemac.com/mbs/docs/d_loan_removal_policies_practices.pdf</a>				



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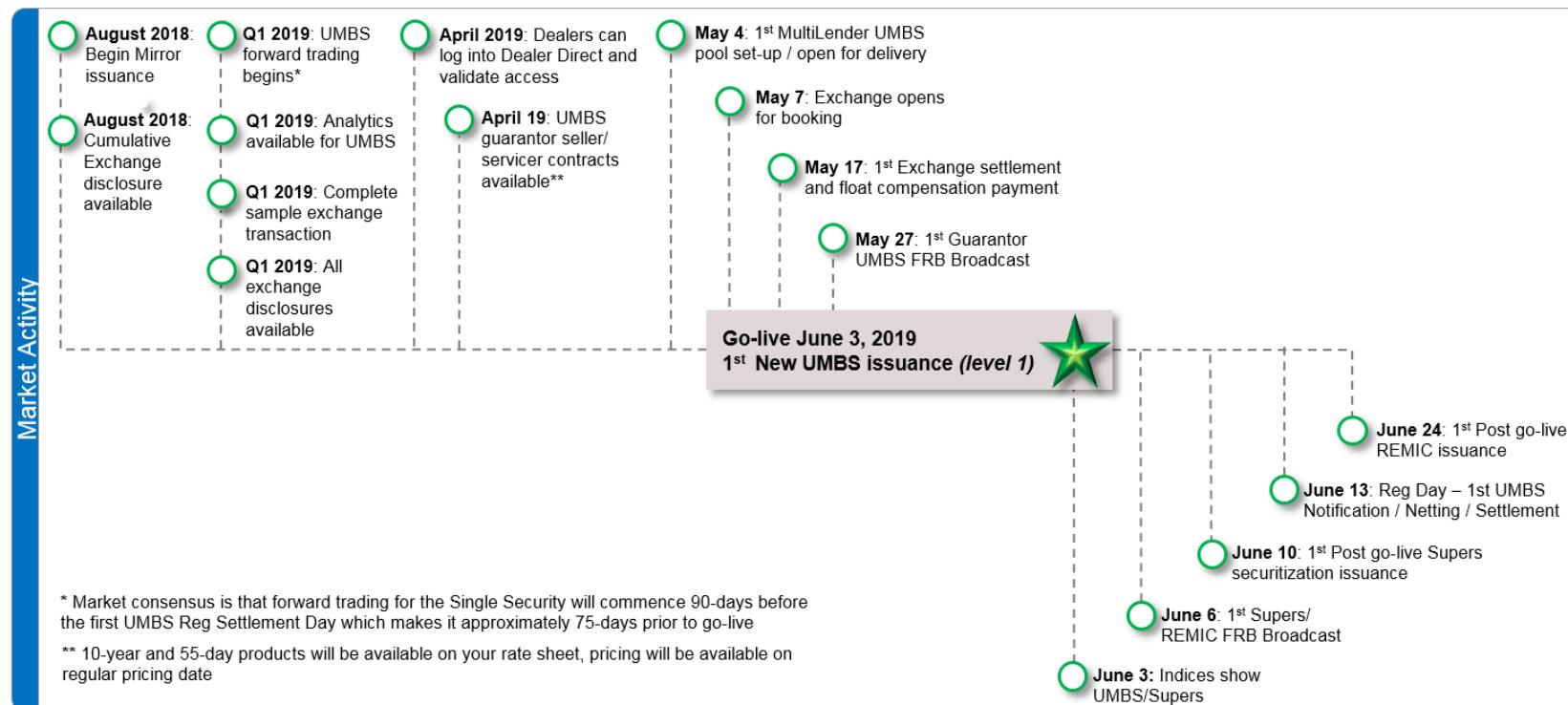
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## 2 Single Security Initiative Go-live Timeline

The Single Security Initiative go-live date is the first day that the Enterprises will issue new UMBS. The timeline below displays relevant dates to market participants in relation to the first new UMBS issuance. We recognize that different dates within the go-live timeframe will be of particular importance to different stakeholder groups. We have provided some additional context for some of the key dates below:

- UMBS forward trading begins** – Of interest to investors and traders, forward trading could begin 75 days (and possibly up to 90-120 days) prior to go-live
- Go-live** – June 3, 2019 is the first day that the Enterprises will issue new UMBS.
- First UMBS Reg Settlement** – The first opportunity to settle TBA trades with the new UMBS will be approximately 15 days after go-live. We expect that the first Reg settlement will occur approximately 90 days after the start of forward trading.
- Exchange** – Exchange of Freddie Mac Gold PCs will open for booking on May 7, 2019.

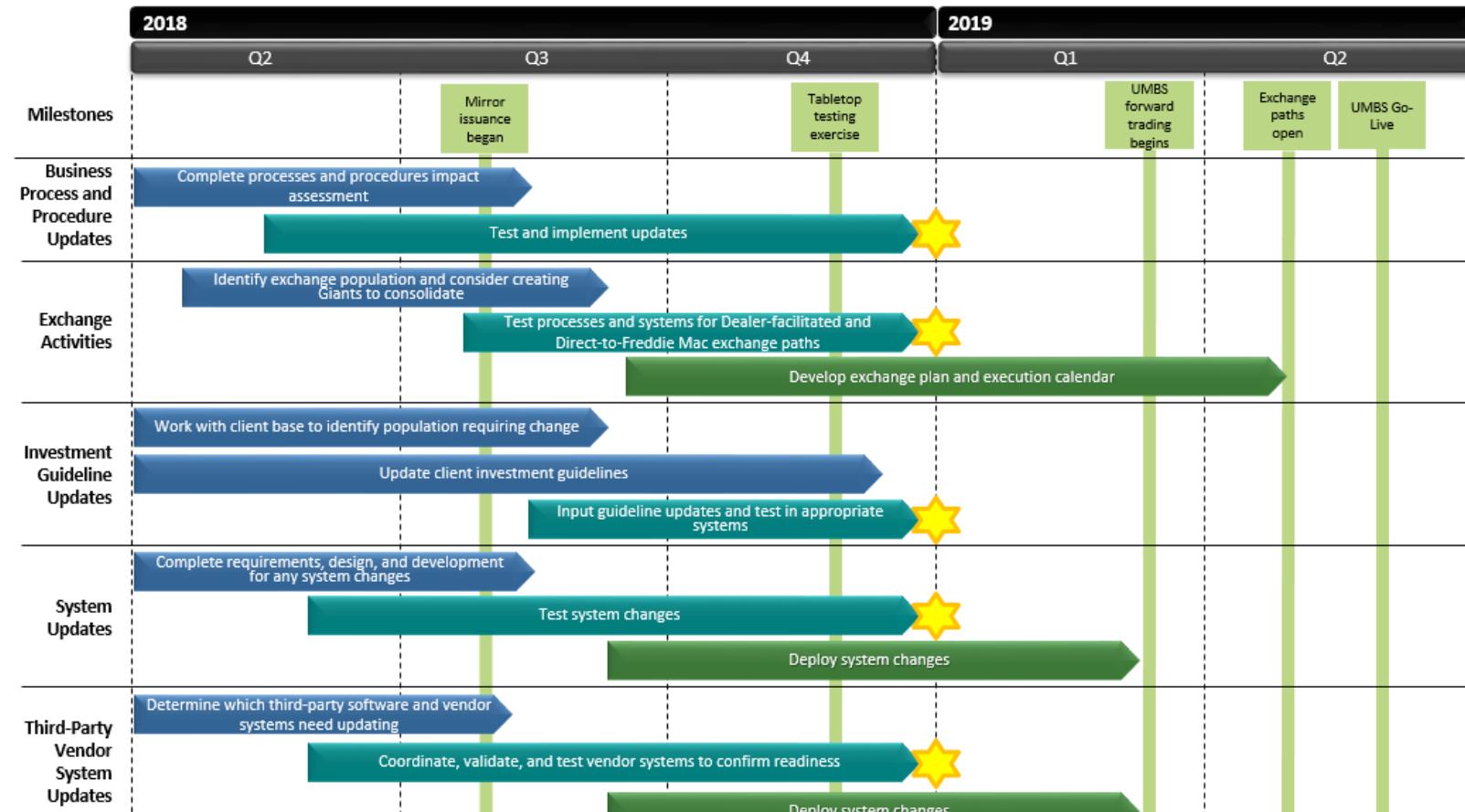


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### 3 Illustrative Implementation Timeline for Market Stakeholders

This sample implementation schedule illustrates the potential time needed to get ready for go-live on June 3, 2019. The examples below do not include all changes that may be required.



★ Strong Recommendation: Test system changes and implement updates by year-end 2018





## 4 Single Security Initiative Naming Conventions

Go-live of the Single Security Initiative will affect the naming conventions for TBA-eligible and non-TBA-eligible securities issued by both Enterprises. All new or exchanged 55-day TBA-eligible securities issued by either Enterprise will be named UMBS or Supers. At the same time as the Single Security Initiative, Freddie Mac plans to change the payment delay for all new issue fixed-rate securities to 55 days. Freddie Mac 55-day non-TBA-eligible securities will be referred to as MBS or Giant MBS. Fannie Mae 55-day non-TBA-eligible securities will continue to be referred to as MBS or Megas. Freddie Mac will no longer issue Gold PCs after go-live.

The new naming conventions will be reflected on the Enterprises' documentation, disclosures, and marketing materials with the implementation of the Single Security Initiative. Market participants should familiarize themselves with the changes and update their internal processes and documentation if necessary.

	Security Payment Delay	Naming Conventions
<b>Single Security Initiative</b>	All new or exchanged 55-day TBA-eligible securities	<ul style="list-style-type: none"> <li>▪ Uniform MBS/UMBS</li> <li>▪ Supers (<i>whether one or multiple securities are referred to</i>)</li> </ul>
<b>Freddie Mac Securities (Legacy-TBA-eligible &amp; non-TBA-eligible)</b>	45-day securities <b>Legacy Golds</b>	<ul style="list-style-type: none"> <li>▪ Freddie Mac Gold PC® (<i>no new issuances after Single Security Initiative go-live</i>)</li> <li>▪ Freddie Mac Giant PC®</li> </ul>
	New 55-day securities <b>non-TBA-eligible</b>	<ul style="list-style-type: none"> <li>▪ Freddie Mac MBS</li> <li>▪ Freddie Mac Giant MBS</li> </ul>
	75-day securities <b>ARMs/Legacy 75-day fixed-rate</b>	<ul style="list-style-type: none"> <li>▪ Freddie Mac ARM PCs</li> <li>▪ Freddie Mac ARM Giant PCs</li> <li>▪ Freddie Mac PCs (<i>remaining 75-day fixed-rate</i>)</li> </ul>
<b>Fannie Mae Securities (Existing-TBA-eligible &amp; non-TBA-eligible)</b>	55-day securities <b>ARMs/non-TBA-eligible</b>	<ul style="list-style-type: none"> <li>▪ Fannie Mae MBS</li> <li>▪ Fannie Mae Megas®</li> </ul>





## 5 Prefixes and Pool Numbers

### ❖ Key changes

- TBA prefixes for UMBS and resecuritizations of UMBS issued by either Enterprise will align to the current prefix convention for Fannie Mae TBA-eligible securities.

Product	UMBS and Supers Prefixes	Reverse REMIC Prefixes
30-year	CL	ZL
20-year	CT	ZT
15-year	CI	ZI
10-year	CN	ZN

- Freddie Mac will also move to a 55-day payment delay for non-TBA-eligible fixed-rate pools; these will also follow Fannie Mae's current structure of separate prefix and pool number fields.
- To avoid confusion or duplication for non-TBA-eligible fixed-rate pools, Freddie Mac will assign new prefixes to all 55-day delay non-TBA-eligible products using the numeric + alpha format.
  - Freddie Mac will use the numeric + alpha format for all prefix assignments, but will exclude any Numeric + Alpha prefixes already in use by Fannie Mae.
  - This will eliminate any Freddie Mac/Fannie Mae prefix overlap going forward.
- Pool numbers will be divided between the Enterprises to ensure uniqueness in the future.
  - Fannie Mae will be allotted pool numbers beginning with A-I, and M.
  - Freddie Mac will be allotted pool numbers beginning with Q-Z.
- The tables below detail the current prefix and pool number conventions and the conventions that will be used after the Single Security Initiative implementation. Refer to each Enterprise's Prefix Guide for additional details. Freddie Mac's current Prefix Library can be found [here](#). Fannie Mae's Pool current Prefix Glossary can be found [here](#).

### Current State of Prefixes and Pool Numbers

	Freddie Mac	Fannie Mae
Approach	<ul style="list-style-type: none"> <li>One 6-character pool number field with embedded prefix</li> <li>Primarily alpha-numeric prefix, some alpha-alpha (e.g., modified / reinstated)</li> <li>Logic for product type, Level 1 vs. Level 2 in embedded prefix</li> <li>Pool numbers are assigned according to predefined ranges within the prefixes</li> </ul>	<ul style="list-style-type: none"> <li>One 3-character (two are used) prefix field, plus a separate 6-character pool number field</li> <li>Majority but not all prefixes are alpha-alpha</li> <li>Pool number is generally 2 alpha + 4 numeric</li> <li>Logic for product/loan characteristics is found in prefix</li> </ul>
TBA example <i>(30-yr fixed)</i>	C04846	CL AB4321
Non-TBA example <i>(15-yr biweekly)</i>	M51234	BI AD2222
As of August 25, 2017	Freddie Mac implemented the new prefix field as of August 25, 2017. Freddie Mac now populates the new field with the first 2 characters of the pool number for all legacy securities (both TBA-eligible and non-TBA-	



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	<b>Freddie Mac</b>	<b>Fannie Mae</b>
	eligible. For example, C0 C04846 for TBA-eligible and M5 M51234 for non-TBA-eligible.	

## Future State (new issue 55-day securities at Single Security Initiative Implementation)

	<b>Freddie Mac</b>	<b>Fannie Mae</b>
Approach:	<ul style="list-style-type: none"> <li>▪ One 3-character (two used) prefix field plus a separate 6-character pool number field</li> <li>▪ Use Fannie Mae prefixes for TBA-eligible securities</li> <li>▪ To avoid confusion, Freddie Mac is changing prefixes for non-TBA-eligible products to number-alpha construct</li> <li>▪ Prefix contains logic for product type and term</li> <li>▪ Pool number ranges will denote execution path (e.g. Guarantor vs. Cash) and securitization level (e.g., UMBS vs. Supers)</li> <li>▪ Pool numbers divided between Enterprises to ensure uniqueness - Freddie Mac has been allotted pool numbers beginning in Q-Z</li> <li>▪ Freddie Mac legacy securities will copy the first 2 characters of the pool number into the new prefix field</li> </ul>	<ul style="list-style-type: none"> <li>▪ One 3-character (two used) prefix field plus a separate 6-character pool number field</li> <li>▪ Majority but not all prefixes are alpha-alpha</li> <li>▪ Pool number is generally 2 alpha + 4 numeric</li> <li>▪ Logic is found in prefix</li> <li>▪ Pool numbers divided between Enterprises to ensure uniqueness - Fannie Mae has been allotted pool numbers beginning in A-I, M</li> </ul>
TBA example <i>(30-yr fixed UMBS)</i>	CL QA1234	CL AB4321
Non-TBA example <i>(30-yr High LTV &gt;105, &lt;=125)</i>	3S QV0001	CQ CA1858

### ❖ Actions market participants should consider

- Update and test systems, reporting, and other processes or activities to be compatible with new prefix and pool number content and structure (most significant updates for Freddie Mac securities).



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## 6 Disclosures

### ❖ Key changes

- Disclosures for UMBS and Supers issued by Fannie Mae or Freddie Mac will be aligned.
- Freddie Mac adopted the Single Security Initiative Disclosure format for current Single Family PC and Giant securities in August 2017.
- After the Single Security Initiative go-live, disclosures will be available via file download from [FannieMae.com](http://FannieMae.com) and [FreddieMac.com](http://FreddieMac.com). Users can subscribe to notifications when files are ready to be retrieved.
- Disclosure specifications and sample files for Level 1, Level 2, and Level 3 securities, as well as the PC exchange, were published by both Enterprises in 2016. This data can be found on the [Freddie Mac Single Security Technical Resources](#) site or the [Fannie Mae Single Security](#) website.
- Timing and Types
  - At-Issuance files will be provided up to 3 times a day.
  - A consolidated monthly issuance file will be provided on the first business day following the month of issuance.
  - Changes to at-issuance data will be included in the two monthly correction files following the issuance month.
  - Most Ongoing files will be provided on the fourth business day of the month at 4:30 P.M.
- At-Issuance and Ongoing files for Level 1 and Level 2 securities will consist of three files, sharing a single format:
  - Loan-Level File
  - Security Core File (factors, weighted averages)
  - Supplemental (stratifications, quartiles)
- Legacy PC Exchange Activity Files (Daily, Cumulative, Level 1 Aggregate) will also be available.

### ❖ Actions market participants should consider

- Review the joint Single Security Initiative disclosure specifications and the related files.
- Update and test internal systems, reports, analytics and similar processes or activities to be compatible with new disclosure files, data, and formats as needed.
- Discuss disclosure changes with disclosure vendors.



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## 7 Exchange

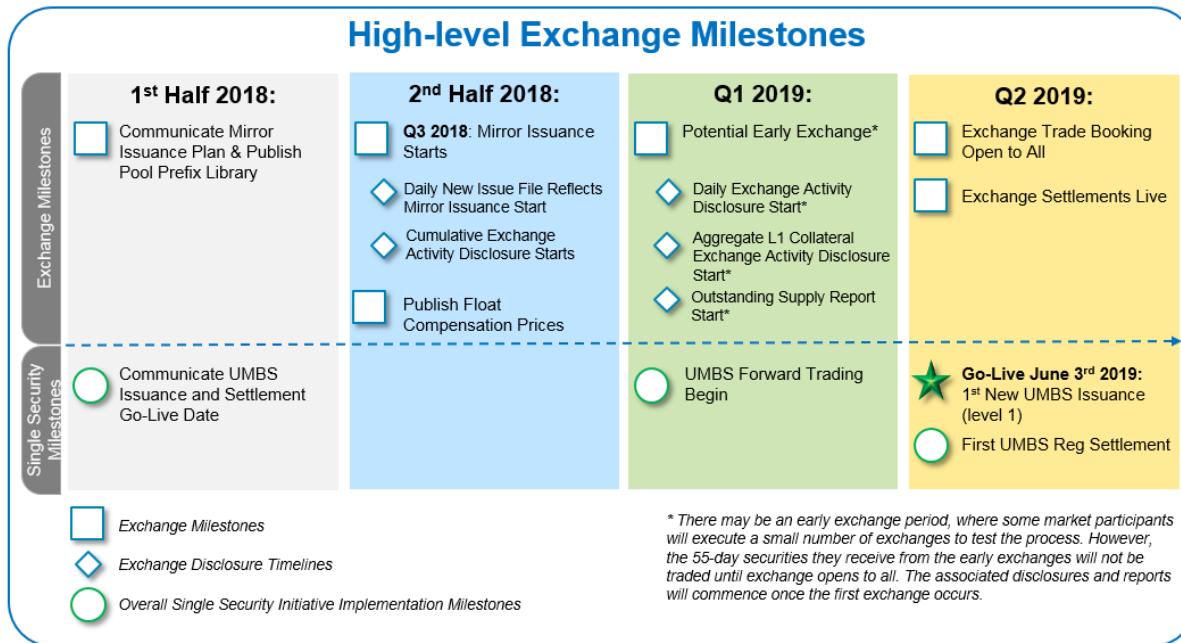
Freddie Mac will provide holders of 45-day, TBA-eligible and non-TBA-eligible PCs and Giant PCs the option to exchange their eligible 45-day securities for 55-day Freddie Mac securities. For TBA-eligible security exchanges, the 55-day corresponding security will be a UMBS or Supers; while for non-TBA eligible security exchanges, the corresponding 55-day security will be a Freddie Mac MBS. Most elements of the new 55-day security will exactly match those of the Gold PC or Giant PC being exchanged – most fundamentally, the cash flows of the new security will ultimately be backed by the same loans as the original PC or Giant. The exchange offer will open in May 2019, the month prior to the Single Security Initiative go-live. Freddie Mac expects to offer holders of exchange-eligible Gold PCs and Giant PCs the ability to choose between two exchange paths:

- The “dealer-facilitated” exchange path – Authorized exchange dealers submit exchange requests on behalf of investors through Freddie Mac’s Dealer Direct<sup>SM</sup> portal. The dealer-facilitated path will stay open for the foreseeable future.
- The “direct-to-Freddie Mac” exchange path – Investors exchange directly with Freddie Mac using Tradeweb to facilitate the exchange booking. Investors will be able to request exchanges through their order management systems’ integration with Tradeweb or enter them into Tradeweb directly. The “direct-to-Freddie Mac” path is expected to be open for 3-5 years.

To facilitate exchanges, Freddie Mac is creating 55-day mirror securities on a one-for-one basis for all exchange-eligible 45-day PCs and Giant PCs. Issuance of mirror securities began in August 2018 and will continue until the commencement of the exchange offer as needed. Please refer to the list of [Freddie Mac exchange-eligible 45-day securities](#) to find a list of securities that will be mirrored. Exchange concepts are described in more detail in the sections below. Additional details are also available on the [Freddie Mac Exchange website](#).

### 7.1 Preliminary Exchange Timeline

The following timeline provides high-level milestones for Freddie Mac’s exchange program. The associated disclosures and reports will reflect the exchange activity once the exchange occurs



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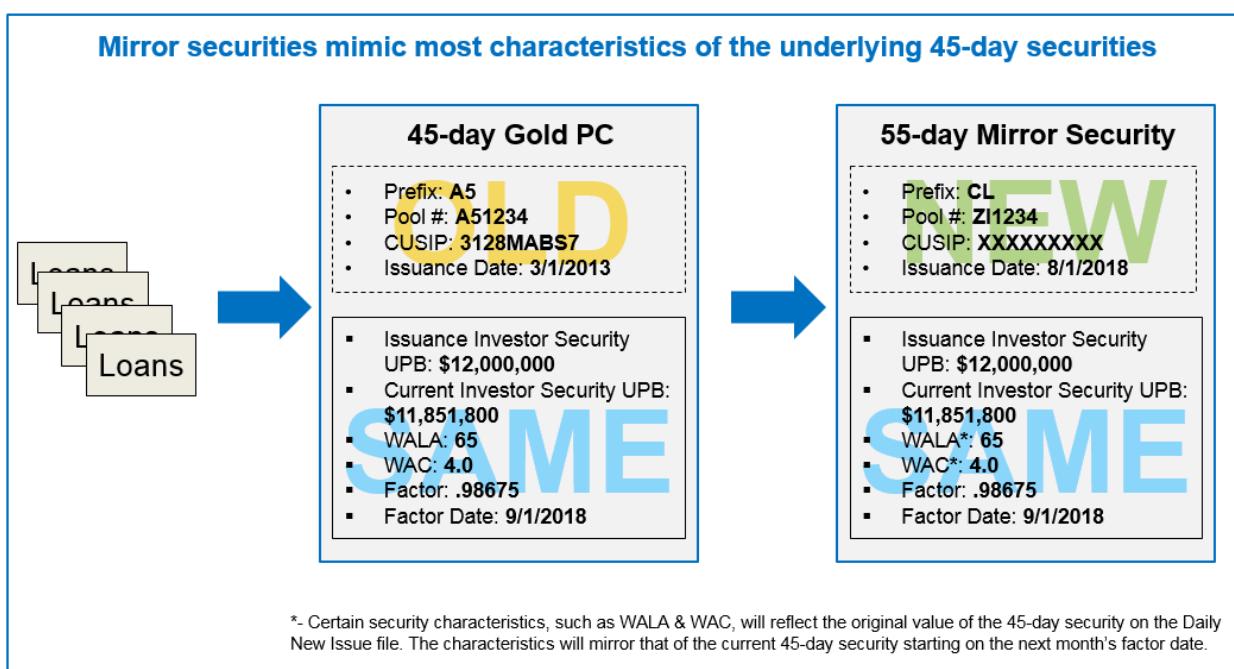
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## 7.2 Mirror Securities

### ❖ What is a mirror security?

- To facilitate the exchange process, Freddie Mac is issuing 55-day mirror securities to the Freddie Mac Exchange account at the Federal Reserve Bank of New York prior to opening the exchange offer.
  - These mirror securities will not be available for exchange until the official opening of the exchange offer expected May 7, 2019.
  - Issuing a one-for-one mirror security for every exchange-eligible 45-day security will improve the speed and efficiency of exchange transactions, as well as maintain a consistent, one-to-one relationship between the eligible 45-day CUSIPs and their corresponding 55-day CUSIPs.
- Most security characteristics of the new 55-day securities mirror their corresponding 45-day securities (e.g., issuance UPB and current factor). However, the mirror securities have a new CUSIP, prefix, pool number, and issuance date.
- The 55-day security is ultimately backed by the same loans that back the exchanged 45-day security.
- Any 15-year-prefix 45-day security that is backed 100% by 10-year collateral is being mirrored as a 10-year-prefix 55-day security. Please refer to the [list](#) of 15-year-prefix securities that fall into this category.



### ❖ Mirror issuance

- Freddie Mac is issuing mirror securities through the Federal Reserve Bank of New York into Freddie Mac's exchange account.
- Freddie Mac will hold each mirror security until an exchange of the corresponding 45-day security is executed. Thus, mirror security issuance and eventual exchange transactions will not increase the aggregate outstanding supply.
- The initial mirror security issuance period began in August 2018 and covers all existing 45-day exchange-eligible securities outstanding at that time. Exchange-eligible 45-day securities issued between the initial mirror security issuance period and the Single Security Initiative go-live will be mirrored prior to go-live.



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- Freddie Mac published the [list of exchange-eligible PCs and Giant PCs](#) as of April 27, 2018. *Please Note - This is a point-in-time list of Freddie Mac securities that would be eligible for exchange. This list was compiled as of April 27, 2018 and does not reflect securities that will be paid off or issued by the date that the exchange offer commences. This list is based on current plans concerning the Single Security Initiative, which are subject to change. This list is provided for informational purposes only, and does not constitute an offer to purchase or sell any security.*
- Mirror securities appear in the Daily New Issue File on the business day after they are issued. In addition, Freddie Mac began publishing the daily Cumulative 45-Day to 55-Day Exchange Activity disclosure file with the first mirror issuance in August 2018. See section 7.7 Exchange Disclosures for more details.

## ❖ Treatment of mirrors

Mirror securities are structured to look like “single pool Giant PCs” – this approach provides the context for their treatment in disclosures, indices, and analytics.

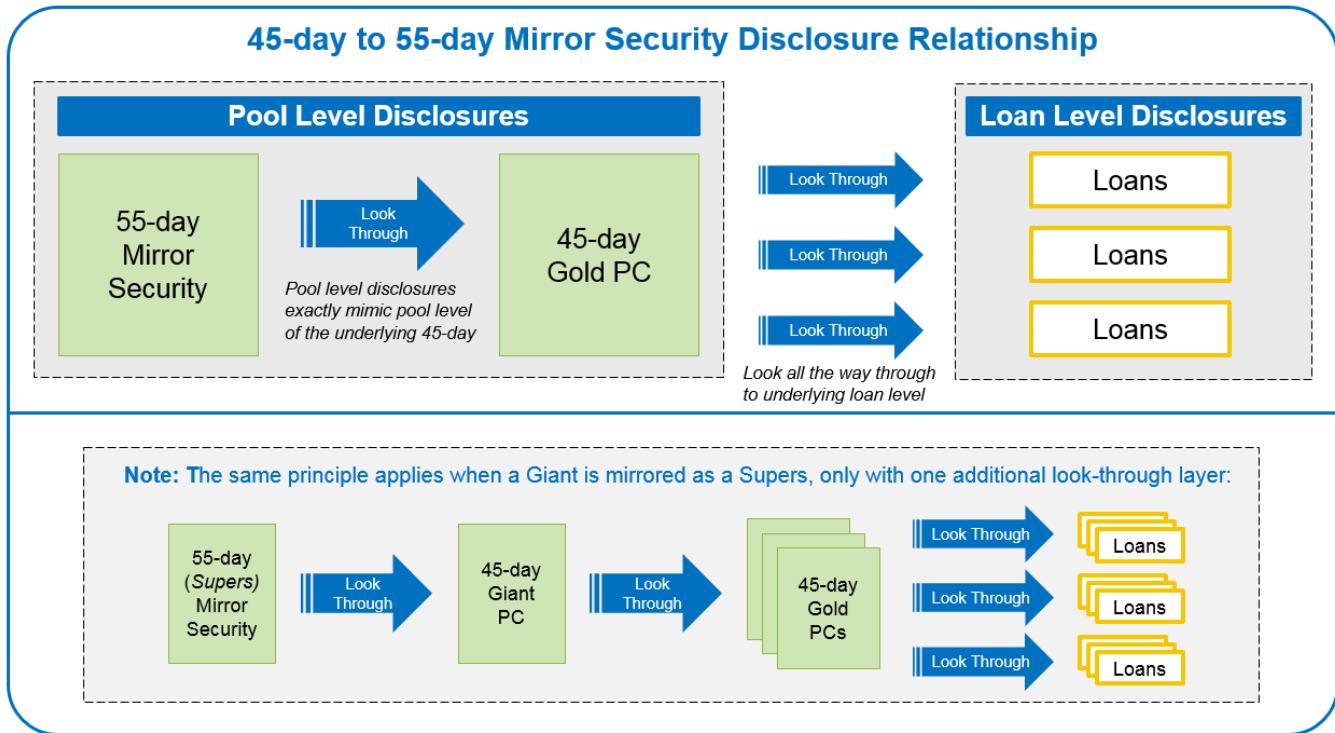
- **Disclosures** – Disclosures are also structured just as they currently are for 45-day Giant PCs.
  - The pool-level disclosure of the 55-day mirror security mimics its underlying 45-day security, since it is calculated based on the same underlying mortgage loans – e.g., elements like the WAC, WALA, etc. are exactly the same for the 55-day mirror security and its underlying 45-day security.
  - For loan-level disclosure, look through to the underlying collateral – just as would be done for a 45-day Giant PC today.
  - This look-through approach maintains a consistent history and simplifies analytics since for some time after the exchange offer opens, portions of any individual 45-day PC will likely continue to exist in 45-day form (for unexchanged PCs) as well as 55-day form (for PCs that have been exchanged).
- Mirror securities appear on the Daily New Issue File just like any other security on the business day after issuance – which establishes the relationship between a 55-day mirror security and its underlying 45-day security. Mirror securities are distinguishable by pool numbers beginning with ‘Z’.
- The mirror test files are posted on Freddie Mac’s [Single Security Technical Resources](#) page. Availability of these test files should help ensure that systems can consume and process mirrors.
- Freddie Mac produces the Cumulative 45-Day to 55-Day Exchange Activity file daily. The Cumulative 45-Day to 55-Day Exchange Activity file provides the relationship between the 55-day mirror securities and their underlying securities. This file also provides the cumulative amount of UPB that has been exchanged (which will be “0” until the first exchange occurs). The Cumulative 45-Day to 55-Day Exchange Activity file can be found on the [Exchange Data Files website](#).
- For more information, please see section 7.7 Exchange Disclosures.



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- **Indices** – The issuance of the mirror securities should not affect indices since they are not part of tradable supply until the underlying 45-day security or a piece of the 45-day security is exchanged. Freddie Mac is working with index providers to understand and communicate any planned changes to the indices as exchange transactions begin and the new UMBS issuance goes live.
- **Analytics** – Freddie Mac is working to ensure that the issuance of mirror securities does not have any unintended effects on analytics.
  - At issuance, mirror securities should not affect analytics such as prepayment analysis or calculation of tradable supply, since they are not part of tradable supply until exchanged.
  - Bloomberg will introduce a new UMBS screen to show mirror securities. The screen will be available through USEC<GO>.
  - Bloomberg has created DES pages for all Mirrors issued to date. Please refer to section 8.4 for more information on Bloomberg screens.



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## 7.3 Exchange Transaction

### ❖ General exchange concepts

- Exchange transactions will be initiated at the option of investors and will not be mandatory.
- Investors who exchange portions of the same 45-day security will receive pro-rata portions of the corresponding 55-day security in return. Each investor can decide to exchange his or her portion independently of other holders of the same 45-day security.
- Holders of TBA-eligible 45-day security will receive a 55-day UMBS or Supers in the exchange, while holders of non-TBA-eligible 45-day security will receive a Freddie Mac 55-day non-TBA-eligible MBS or Giant MBS.
- Investors will also receive one-time compensation for the approximate fair value of 10 days' delay in payment.
- Freddie Mac will not charge a fee to exchange; however, vendor fees may apply. Gold PC holders are encouraged to consolidate holdings into Giant PCs where possible in advance of exchange to reduce the number of exchange transactions.
- For both the dealer-facilitated path and the direct-to-Freddie Mac path, settlement will occur at a minimum on the next business day (or later, if desired) for both the security and the one-time cash payment.
- Dealers or Investors using the Direct-to-Freddie path will need to set up Free Delivery / Free Receive wire instructions:
  - Deliver the 45-day security to Freddie Mac's new holding account:
    - FHLMC WASH/2BD7
    - ABA# 021033205
  - Expect to receive the 55-day Mirror delivery from Freddie Mac from:
    - FHLMC WASH/2BD5
    - ABA# 021033205

### ❖ What is eligible for exchange?

- All non-ARM, 45-day PCs and Giant PCs that are not 100% committed to a resecuritization can be exchanged.
- Exchanges are only permitted from 45-day securities to 55-day securities. There will be no mechanism to reverse exchanges.

### ❖ Preparation

#### ▪ Investor perspective

- Review holdings and determine exchange strategy. Leverage available information and tools, including: exchange-eligible PC list, exchange offering documents (drafts will be released prior to Go-live) and the float compensation tool (will be available on freddiemac.com prior to Go-live).
- Determine which exchange option works best for the organization – considering account composition, sub-account structure and complexity, flexibility of order management system (OMS), and operational impacts.
- To use the direct-to-Freddie Mac path, complete the onboarding process with Tradeweb and set Freddie Mac up as a counterparty in all necessary systems.
- Communicate with critical vendors to ensure that necessary testing has been completed and correct versions of systems have been implemented.
- Consult with tax and accounting advisors to determine tax and accounting treatment for exchanges.
- Ensure that Gold PC holdings are not on repo / loan when planning to exchange - the exact CUSIPs and par amounts from the exchange reservation must be delivered on settlement day, with no substitutions. If unable to deliver the specific collateral, the exchange transaction will be cancelled and must be rebooked for settlement at least two business days from the current business day, pending available capacity.



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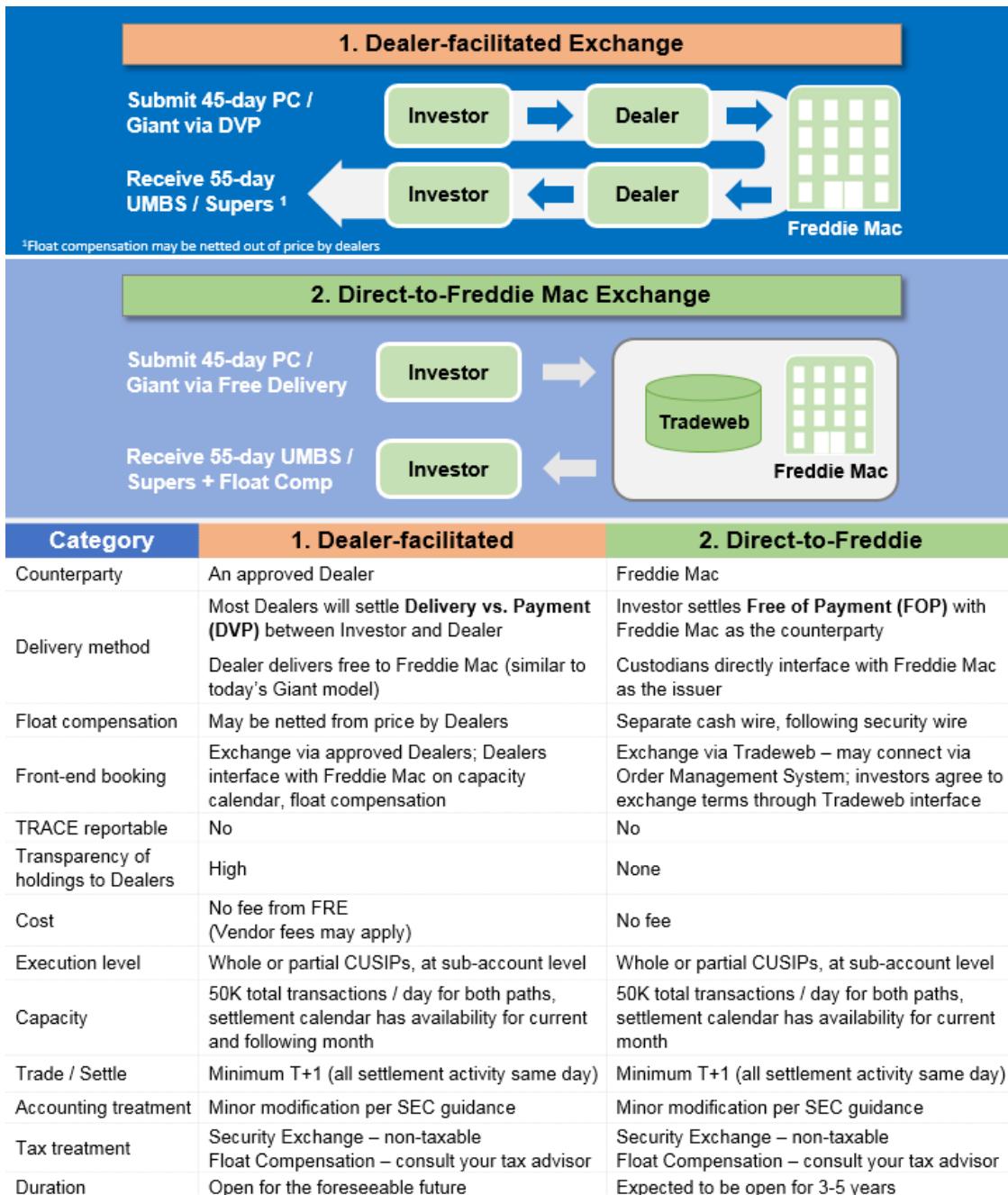
- **Dealer and custodian bank perspective**
  - Design and build processes to handle exchange transactions. This includes indicating and/or recognizing tags or codes that denote an exchange transaction (e.g. SWIFT messaging tags, SSI mnemonics, and/or other tags), and any other coding and configuration changes.
  - Review TRACE reporting impacts and determine process for suppression. Dealers may also need to develop a process for suppressing trade confirmation, or enabling agent disclosure.
- **Exchange path comparison**
  - The below chart is an overview comparison of the two paths available for exchange. The following sections detail the transaction booking and settlement processes for the dealer-facilitated and direct-to-Freddie Mac exchange paths. The Dealer Appendix provides detailed screenshots of the exchange transaction in Dealer Direct for the dealer-facilitated path. The Enterprises anticipate adding additional information regarding the direct-to-Freddie Mac exchange process as development with Tradeweb progresses.



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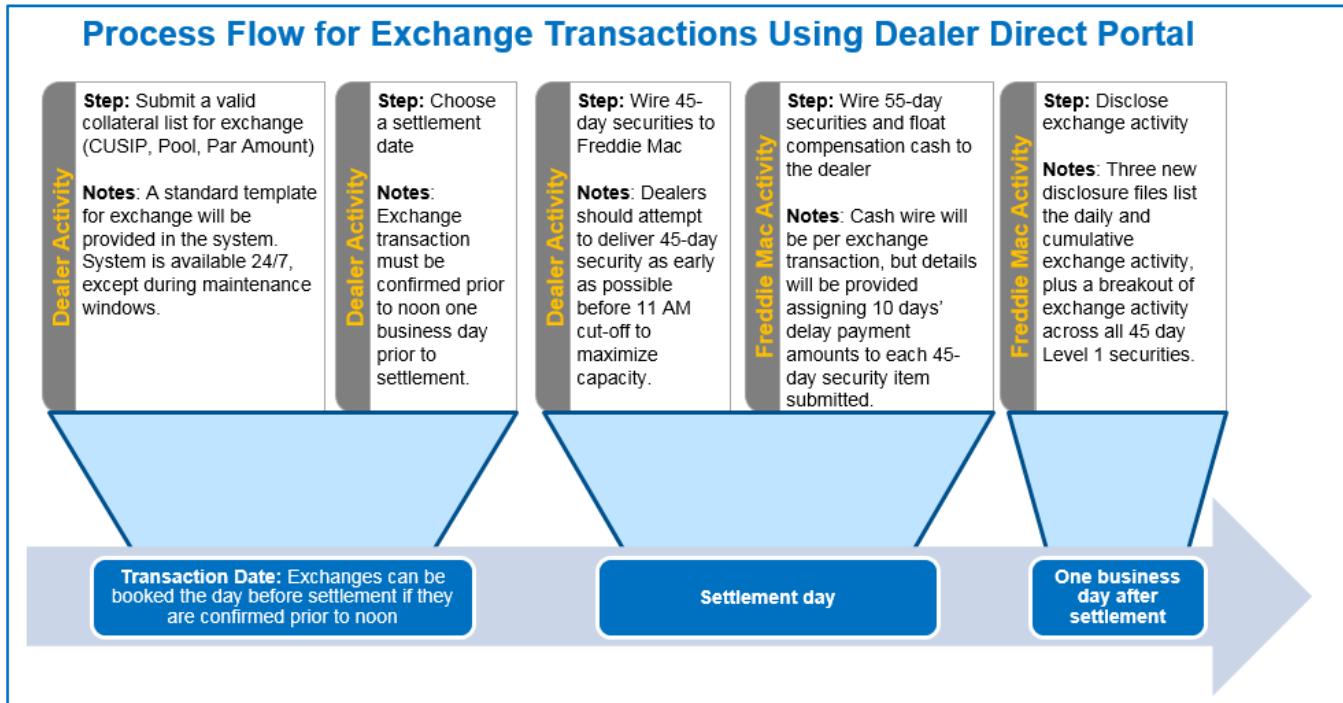


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## ❖ Dealer-facilitated path



### ▪ Transaction booking

- Freddie Mac-approved dealers will execute exchange transactions on behalf of investors using Freddie Mac's Dealer Direct<sup>SM</sup> web portal. These dealers are currently using the Dealer Direct platform and process to create Freddie Mac Giant PCs.
- The dealer will upload a file listing the Pool Number and CUSIP along with the amount of original par to be exchanged.
- The dealer will then select the desired settlement date.
- Next, the dealer will review the terms and float compensation associated with the transaction and accept.
- Dealer Direct will send an exchange confirmation email back to the dealer once the exchange transaction has been booked.
- The investor and dealer should book the buy and sell transactions in their systems as needed once the exchange confirmation is received.
- Both the investor's custodian and the dealer's custodian should be given the expect and deliver instructions for securities and cash from their clients. These instructions should come through normal communication paths typically used to instruct custodians regarding a trade (e.g., SWIFT messages, etc).
- The investor, dealer and/or custodian bank(s) should perform any required pre-settlement accounting and tax reporting.
- A dealer may create a new 55-day Supers with exchanged mirror securities as soon as the exchange transaction is completed. In theory, both transactions could occur on the same business day. However, the dealer should understand the operational risks related to delivering both the 45-day securities and the subsequent 55-day UMBS on the same day.



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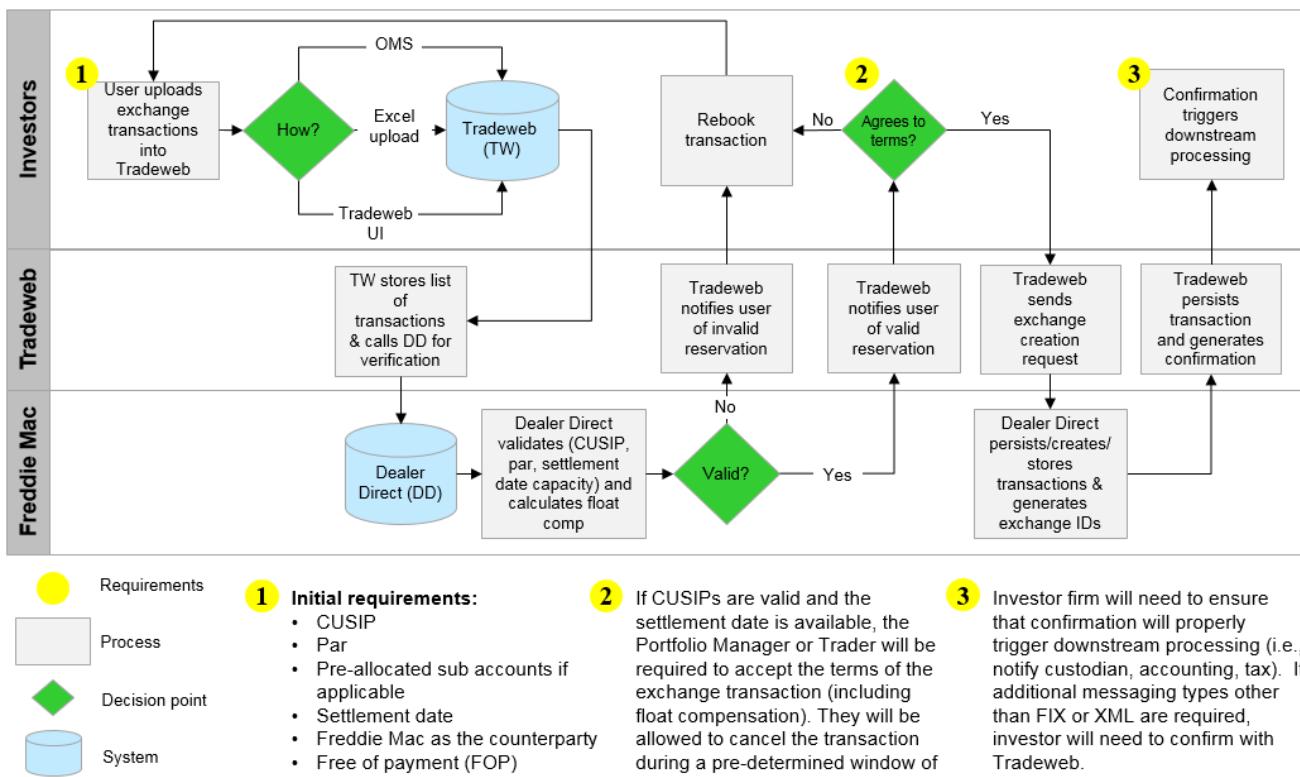
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## ▪ Settlement

- On the settlement day, the investor's custodian bank will deliver the 45-day PC DVP via Fedwire to the dealer's custodian.
- The dealer will then deliver the 45-day PC free via Fedwire to Freddie Mac's 2BD7 holding account.
- Freddie Mac will match the 45-day PC with the exchange transaction and deliver the corresponding 55-day UMBS free via Fedwire to the dealer from its 2BD5 holding account.
- Next, the dealer will deliver the 55-day UMBS to the investor DVP via Fedwire.
- In separate wires, Freddie Mac will send cash payments to the dealer for the float compensation associated with each exchange transaction settled that day. Each transaction will receive a separate wire for the aggregate amount of float compensation for all exchanges within the transaction.
- The dealer will allocate the float compensation to the corresponding investors' accounts.
- Within each exchange transaction, each individual exchange/line item will settle separately:
  - If any portion of the exchange transaction fails (e.g., any individual 45-day security line item is not delivered) on the settlement date, only the part of the transaction that corresponds with that line item will fail. The failed line item will automatically be rebooked by Dealer Direct to the next business day with available capacity, no less than two business days later.
  - All other exchanges / line items where the 45-day security is successfully delivered will settle as planned.

## ❖ Direct-to-Freddie Mac via Tradeweb path



## ▪ Transaction booking

- The investor will enter the exchange transaction in their order management system (OMS) or directly into Tradeweb. Once submitted, Tradeweb will provide list trade data for the investor to review.
- The investor should review the exchange transaction details and submit.



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- Tradeweb will submit the exchange transaction data to Freddie Mac for validation.
- Freddie Mac will validate the exchange details and either communicate issues for correction or provide confirmation of the exchange transaction.
- Once issues are resolved and confirmation is received by Tradeweb, the investor will receive confirmation from Tradeweb via FIX message. At the time of confirmation, the investor should complete internal transaction booking.
- The investor will then provide free delivery / free receive instructions to their custodian bank(s) for securities and cash via SWIFT message.
- Investors should perform any required pre-settlement accounting and tax reporting.

## ▪ Settlement

- On the settlement day, the investor's custodian bank will deliver the 45-day PC free via Fedwire to Freddie Mac's 2BD7 holding account.
- Freddie Mac will match the 45-day PC with the exchange transaction and deliver the corresponding 55-day UMBS free via Fedwire to the investor's custodian from its 2BD5 holding account.
- In a separate wire, Freddie Mac will send a cash payment to the investor's custodian for the float compensation associated with each exchange transaction settled that day.
- The investor's custodian will provide post-settlement confirmation to the investor.
- Stakeholders may contact Tradeweb directly with questions at umbs@tradeweb.com

## 7.4 Exchange Capacity

- As of April 2018, there were approximately 70,000 exchange-eligible CUSIPs. However, the actual pattern exchange transactions will take is unknown.
  - Exchange is optional. Therefore, some pieces of a CUSIP may never be exchanged.
  - Freddie Mac does not know how many different pieces of each CUSIP will be submitted in separate exchange transactions – e.g., many different investors may hold pieces of a CUSIP, money managers may choose to consolidate CUSIPs for exchange, or maintain separate transactions for each sub-account.
  - It is generally up to the investor / dealer to determine how to structure the exchange transactions – e.g., pieces of a CUSIP can be consolidated, or submitted separately.
- Freddie Mac forecasts the maximum available capacity on a given day will be a combined 50,000 exchanges across both the dealer-facilitated and direct-to-Freddie Mac exchange paths. Some additional capacity can be made available if necessary.
  - For purposes of exchange capacity, an “exchange” is an individual CUSIP or piece of a CUSIP that is submitted.
  - Par amounts greater than \$50 Million will take up more than one unit of capacity per Fedwire limits.

## ❖ Exchange transactions in the dealer-facilitated path

- In the dealer-facilitated path, multiple individual CUSIPs (or pieces of CUSIPs) can be submitted for exchange in a single transaction (see screenshot below).
  - Although each CUSIP or piece of a CUSIP exchanged will require a unit(s) of capacity, the cash wire will be paid (from Freddie Mac to the Dealer) at the aggregate transaction level.
- In addition to offering flexibility in the structuring of transactions, this method also enables flexibility in exchange settlement.
  - Each exchange line item (i.e., a single CUSIP or portion thereof) within the transaction settles separately.



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- Therefore, if the 45-day collateral for one exchange (line item) fails to deliver, the rest of the exchanges (i.e., the other CUSIPs) within the transaction can still settle.
- Any exchange that fails will automatically be rebooked in Dealer Direct on the next settlement date with a new Exchange / Transaction ID and with available capacity not less than two business days later. Failed transactions cannot be auto-rebooked for the next business day.

**In the dealer-facilitated path, each transaction can contain multiple exchanges**

**My Transactions**

Filter By Status:  Confirmed

Dealer Code	Submitter	Transaction ID	Transaction Type	Status	Trade Date	Settlement Date	Total Par Amount (\$)	Number of Collateral	Actions
JPM	JPMorganChase ExchangeTrade	01718	Exchange	Confirmed	08-23-2017	08-31-2017	2,900,000.00	4	<input type="button" value="I want to..."/>

Confirmation Number: 01718-17  
Cutoff Time for Providing Collateral: 10:25 AM  
Remaining Capacity for This Settlement Date: 190

Last Action: Collateral Overwritten  
Last Modified By: JPMorganChase ExchangeTrade  
Settlement Date: 08/31/2017  
Last Action Date/Time: 08/30/2017 11:14 AM

Price Grid in Effect: v408  
Total Float Compensation (\$): 110.84

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)	Front Comp (\$)	Comments
10382	A54958	312919QK5	1,000,000.00	Z00911	313277AM9	0.07777787	2.25	0.50	0.00	0.50	0.50	3.75	91.15	E
10383	C36725	31294FV52	500,000.00	Z00083	313277CO7	0.01175422	2.25	0.50	0.00	0.50	0.50	3.75	6.89	
10384	C36728	31294FVV5	700,000.00	Z00084	313277CW5	0.00561408	2.25	0.50	0.00	0.50	0.50	3.75	4.61	
10385	C49099	31298JDC5	700,000.00	Z00086	313277CY1	0.01152164	2.25	0.00	0.00	0.50	0.50	3.25	8.19	

Each line item is a separate "Exchange Transaction"

## ❖ Exchange transactions in the direct-to-Freddie Mac path

- In the direct-to-Freddie Mac path via Tradeweb, each exchange will be an individual transaction – i.e., a 1:1 relationship between each CUSIP / piece of a CUSIP exchanged and the exchange transaction.
  - The cash wire for float compensation will be paid at the individual exchange / transaction level.
  - Each exchange or transaction will succeed or fail on an individual basis.
  - There is no auto-rebooking in the direct-to-Freddie Mac path – if an exchange transaction fails on settlement day, the investor should re-book a new exchange transaction if they still wish to exchange that particular CUSIP.
  - Please note that “failed” exchanges may have to be cancelled with custodians / in internal systems to prevent repeated failed settlement attempts for the old exchange transaction.

## 7.5 10-Days' Delay Compensation Payment

- Freddie Mac will offer a schedule of payment rates that will be informed by fair value, with at least one payment rate for every term/coupon combination.
  - Payment rates will be expressed in ticks (1 tick = 1/32 of 1%) where the payment rate multiplied by the UPB of the exchanged securities will give the dollar value of the 10-days' delay compensation.
  - Freddie Mac may also offer compensation pay-ups for specified security characteristics that have a material impact on the value of the additional payment delay.
- Freddie Mac will use an option-adjusted spread (OAS) valuation method, leveraging widely-available models from market analytics providers, to determine the payment rates offered. Freddie Mac will value the difference



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between the prices of the 45-day and 55-day securities, holding OAS constant, to determine the compensation rate.

- Payments offered to the market could differ from model values. Freddie Mac reserves the right to change values over time, for example, in response to market movements that change the value of the 10 days of additional delay.
- Pricing grids will be published through the Freddie Mac website, Dealer Direct, and potentially other sources. The pricing grids will be available in three formats: XML, CSV, and PDF.
- Freddie Mac will start publishing the pricing grids by the end of 2018 to help investors prepare for the exchange. Sample pricing grids are posted on the [Freddie Mac Exchange website](#).
- Freddie Mac plans to develop other reports and tools that may assist investors.

## 7.6 Accounting, Tax, and Regulatory Considerations

### ❖ Accounting and tax treatment

- Those participating in an exchange will need to determine how to book exchange transactions in their systems. Considerations may include how exchanges will appear in trading systems, trading activity reports and books, and how they will flow downstream into accounting systems.
- Regulatory guidance will influence actual accounting and tax treatment; however, organizations should evaluate how exchange transactions should be treated in upstream systems to generate the desired results.
- Holders must rely on their own advisors to determine the best course of action.

### ❖ Regulatory guidance

- From an accounting treatment perspective, the Enterprises have received guidance from the SEC that it would not object to treatment of an exchange as a minor modification of the existing security. By concluding that the exchange is a minor modification, holders of the security can carry over the basis of their 45-day securities and would recognize the cash payment received as compensation for the 10-day delay in payment cycle as a basis adjustment on the 55-day Freddie Mac security they received. The Enterprises posted the [confirmation letter and companion document](#) on their websites.
- The IRS has published its [Revenue Ruling 2018-24](#) regarding certain tax treatment of the Gold PC exchange offer that Freddie Mac plans to make as part of the Single Security Initiative. According to the ruling, the exchange of 45-day Gold PC securities for 55-day Freddie Mac mortgage-backed securities will not be taxable. The IRS did not rule on the taxability of the associated float compensation payment, and is not expected to provide additional guidance on this topic.
- FINRA has stated that a member's facilitation of an exchange of a 45-day Freddie Mac PC or Giant PC for a 55-day security is not reportable under Rule 6730 as long as the prices of the PC and UMBS utilized to effect the exchange only reflect and pass through the float compensation provided by Freddie Mac. For more information, reference the [FINRA TRADE FAQ](#) page, specifically question 3.112.
- Investors must rely on their own tax and accounting advisors to determine the best course of action.

## 7.7 Exchange Disclosures

- Mirrors will appear on the current Daily New Issue File on the business day after they are issued. Freddie Mac will also produce several new disclosures to keep the market informed on progress of the exchanges. The disclosures are listed below and test files for the new exchange disclosures can be found [here](#) under 'PC Exchange Disclosure Documents'.



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Title	Timing	Content
<b>Daily New Issue File</b>	<b>On date of mirror issuance</b>	Newly issued mirrors are included in the Daily New Issue File and are disclosed like a single pool Giant. The pool number for mirror securities begins with the letter 'Z' to distinguish them from other regular new issue securities.
<b>Cumulative 45-Day to 55-Day Exchange Activity</b>	Published daily beginning August 10, 2018, <b>date of first mirror issuance</b>	Freddie Mac is publishing the daily status of all exchange-eligible securities, regardless of whether any exchange activity has occurred. The cumulative exchange file shows the mirror pools and their 45-day counterparts so market participants can map the 45-day to the 55-day pools. The file will increase as more mirrors are issued. Once exchange transactions begin this file will show the cumulative exchange activity for all exchange eligible pools.
<b>Daily 45-Day to 55-Day Exchange Activity</b>	Published daily beginning <b>on settlement of first exchange transaction</b>	Freddie Mac will provide information on all exchange transactions from the preceding business day when a 45-day security is exchanged for its corresponding 55-day mirror security, including original par amount exchanged and the CUSIPs and security identifiers of the 45-day and 55-day securities.
<b>Aggregate Level 1 Collateral Exchange Activity</b>	Published daily beginning <b>on settlement of first exchange transaction</b>	Freddie Mac will break down all exchanges to-date to their lowest level PC collateral; this will show how much of each Level 1 PC is outstanding as 45- and 55-day securities to facilitate calculations of supply and prepayments.
<b>Outstanding Supply Report</b>	Published monthly beginning <b>on settlement of first exchange transaction</b>	Freddie Mac will provide a monthly table with data on the available supply of 45- and 55-day securities on a cohort level to facilitate trading.

## ❖ Actions market participants should consider

- Determine exchange strategy if holding any eligible Freddie Mac Gold or Giant PCs. Potential considerations include: the timing of exchange, possible consolidation into Giant PCs prior to exchange, accounting and tax strategy, choose an exchange path, whether Gold PCs are out on repo, etc.
- Determine which exchange path to pursue and discuss with chosen dealer(s) or Tradeweb (complete setup), and with custodians. Investors may contact Tradeweb directly with questions at [umbs@tradeweb.com](mailto:umbs@tradeweb.com).
- Adjust and test systems, queries, reports, exchange disclosure processes, and other practices as necessary.
- Determine how to book exchange transactions in systems, i.e.:
  - Confirm the exchange treatment with accounting and tax advisors.
  - Determine how to book exchange transactions in trading / portfolio management / other operational systems (e.g., can existing transaction codes be used or will a new one be needed?)
  - Determine how data will flow into accounting systems to affect the desired accounting and tax treatments
  - Determine how to book the 10 days' delay compensation payments (e.g., how will data be associated with transactions? Will data need to be allocated to different investors or accounts?)



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- Ensure that systems and processes are prepared to correctly label the transactions as exchanges, consume exchange booking confirmation data, and instruct custodians appropriately to facilitate exchange transaction processing.
- Establish how to consume exchange pricing information for the 10 days' delay compensation – e.g., are internal system updates needed to load pricing grids automatically?
- Understand the new exchange disclosure elements and how tradable supply will be calculated. As exchanges occur, the portion of the 45-day security that has been exchanged will be removed from tradable supply and the corresponding portion of the 55-day security will be added.

## ❖ Decisions needed

- Understand details of index and analytics providers' planned treatment of mirror securities and exchanged securities.



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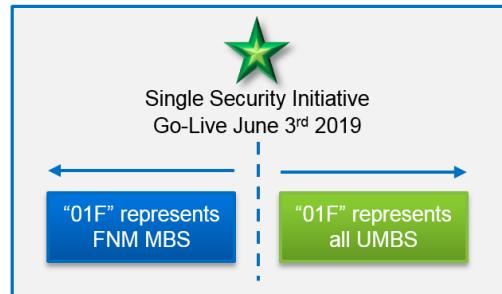
## 8 Trading

### 8.1 TBA CUSIP

#### ❖ Key changes

- To smooth the transition, the scope of Fannie Mae's current "01F" TBA CUSIP will be expanded to cover the new combined UMBS market at go-live of the Single Security Initiative.

- The "01F" identifier will continue to represent Fannie Mae MBS *until go-live*.
- At go-live and thereafter*, the TBA CUSIP starting with '01F' will be used for both Freddie Mac- and Fannie Mae-issued UMBS.
- After go-live, the TBA CUSIP starting with '02R' will continue to be the identifier for trading Freddie Mac 45-day securities.



- CUSIP Global Services**

- The definition for the product code "01" and agency code "F" combination will be updated from Fannie Mae to UMBS for the 10-year, 15-year, 20-year and 30-year products on the published TBA Grid found at: <https://www.cusip.com/cusip/tba.htm>.

- FICC**

- FICC will update their description for the TBA CUSIP starting with "01F" from Fannie Mae to include UMBS for the 10-year, 15-year, 20-year and 30-year MBSD clearing-eligible securities listed on their MBSD website at <http://www.dtcc.com/clearing-services/ficc-mbsd/ficc-mbsd-user-documentation>.
- FICC plans to provide ample opportunity to test with clearing members ahead of go-live, to ensure that settlements flow smoothly as the market transitions to the common UMBS.

#### ❖ Actions market participants should consider

- Update and test systems if '01F' identifier is hard coded as a Fannie Mae-only identifier.
- Update and test allocation and validation rules for UMBS as needed.
- Clearing members should work with FICC contacts to identify testing timelines and procedures.

### 8.2 Electronic Pool Notification (EPN)

- There will be no changes to the EPN messaging format. However, users are encouraged to populate the Pool CUSIP field for all trades, as this field can be used to look-up the Issuer of a specific UMBS or Supers security.
- FICC plans to provide ample opportunity to test with EPN users, including clearing and EPN-only members, ahead of go-live, to ensure that everything flows smoothly as we transition to the common UMBS market.

#### ❖ Actions market participants should consider

- EPN messaging members should work with FICC contacts to identify testing timelines and procedures.



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## 8.3 TBA Trading Screens

### ❖ Key changes

- 90 days prior to the first UMBS Reg settlement, the trading screens will begin to transition - continuing to use the '01F' TBA CUSIP for Fannie Mae MBS and transitioning to the new UMBS label per the table below.
- 30 days prior to the first UMBS TBA Reg settlement, the '01F' TBA label will be used for UMBS.
- Contracts for existing Freddie Mac 45-day TBA securities will continue to be available until activity indicates they are no longer needed. Trading platforms will continue to display screens and pricing for the 45-day '02R' TBA contracts as they see fit.
- The screenshots below display a Tradeweb screen 60-days prior and 30-days prior to first settlement of UMBS (June 2019):

### **60 DAYS PRIOR TO FIRST SETTLEMENT DATE (JUNE 2019)**

FNMA, UMBS and PCGLD will show on Tradeweb, with PCGLD transitioning off the main screen:

<b>2.5</b>	<b>FNMA / UMBS</b>	<b>PCGLD</b>	<b>GNMA II</b>
May	92 – 22 / 25	92 – 17+ / 22+	93 – 26 / 30
June	92 – 18+ / 21 +		93 – 23+ / 27+
July	92 – 18 / 19		93 – 24 / 26
May/Jun	032 / 042		031 / 032
Jun/July	03 / 043		025 / 026

### **30 DAYS PRIOR TO FIRST SETTLEMENT DATE (JUNE 2019)**

FNMA and PCGLD disappear, just UMBS will show on Tradeweb:

<b>2.5</b>	<b>UMBS</b>	<b>GNMA II</b>
Jun	92 – 22 / 25	93 – 26 / 30
Jul	92 – 18+ / 21 +	93 – 23+ / 27+
Aug	92 – 18 / 19	93 – 24 / 26
Jun/Jul	032 / 042	031 / 032
Jul/Aug	03 / 043	025 / 026



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## 8.4 Bloomberg

### ❖ Key changes

- Bloomberg has details regarding the UMBS and Single Security available at USEC<GO>.
- All UMBS (regardless of issuer) will leverage Fannie Mae's existing TBA Bloomberg generics, per the table below.
- Note: Freddie Mac CMOs will continue to use the 'FHR' ticker and Fannie Mae CMOs will continue to use the 'FNR' ticker; no changes to these values are expected.
- Freddie Mac Legacy PCs will continue to reflect the existing Bloomberg generics.

Bloomberg Generics	Payment Delay (Days)	Agency	Product	UMBS details
<b>FNCL</b>	55	Fannie Mae & Freddie Mac	30-yr Fixed-Rate Conventional	To include: <ul style="list-style-type: none"> <li>Fannie Mae past issuance (55-day)</li> <li>Fannie Mae new UMBS issuance (55-day)</li> <li>Freddie Mac new UMBS issuance (55-day)</li> </ul> <p>*Freddie Mac 45-day exchanged for 55-day UMBS</p>
<b>FNCT</b>	55	Fannie Mae & Freddie Mac	20-yr Fixed-Rate Conventional	
<b>FNCI</b>	55	Fannie Mae & Freddie Mac	15-yr Fixed-Rate Conventional	
<b>FNCN</b>	55	Fannie Mae & Freddie Mac	10-yr Fixed-Rate Conventional	
<b>FGLMC</b>	45	Freddie Mac	30-yr Fixed-Rate Conventional	Will continue to reflect Freddie Mac legacy Gold product (45-day) that has not been exchanged for UMBS.
<b>FGTW</b>	45	Freddie Mac	20-yr Fixed-Rate Conventional	
<b>FGCI</b>	45	Freddie Mac	15-yr Year Fixed-Rate Conventional	

*\*The exchanged PCs will continue to be reflected in the original cohort year. For example, a 45-day PC originally issued in 2013, and exchanged in 2019, would still be reflected in the 2013 cohort under FNCL. (That is, it would move from FGLMC 4 2013 to FNCL 4 2013 despite the mirror security having a 2018 issuance date and an actual exchange date of 2019. Generics are based on loan age.)*

- Bloomberg will assign a new two-character pool level agency code 'FR' to Freddie Mac for all 55-day MBS fixed rate pools (non-TBA-eligible pools)
- Bloomberg "Generic" support will reflect a UMBS view, including Freddie Mac new issue 55-day UMBS or MBS, Freddie Mac legacy PCs exchanged, and Fannie Mae 55-day new issue UMBS or existing MBS.
- Bloomberg will support a pool look-up for a UMBS pool using either 'FR' or 'FN'. Users will not have to know the issuer to do a pool look-up.
  - For example, if a user is looking up a UMBS issued by Freddie Mac but enters 'FN+pool number', the corresponding Freddie Mac pool will be returned, and vice versa.
  - Users will need to continue to specify 'FG' or 'FH' for Freddie Mac 45-day and/or 75-day pools, similar to current practice.
  - Users will need to specify 'FR or FN' for non-TBA 55-day pools.



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- The screen below shows a sample of a 55-day mirror security displayed on Bloomberg:

FN ZJ1324		Not Priced		--/ --		Yield --/ --		Coupon 4.000%		--		
As of --		UMBS						Prepay 143 PSA				
FN ZJ1324 Mtge		Export						Page 1/2		Security Description		
FNCL 4 S	4.330(255)92	CUSIP	3131WRPH2	PoolLevel		\$5 Buy		%6 Sell				
1) Summary		2) Comments										
Pool	FN ZJ1324			16) Seasoning	FNCL 4 S					As Of	09/2018	
Type	(CL) UMBS Conventional Conv 30 years Level pay			17) Vintage	FNCL 4 2010					Issue Date	08/01/2018	
Traits	30/360			18) UMBS	FG A97294					Maturity Date	02/01/2041	
11) Seller	SCR - Mirror U.S. Bank N.A.											
12) Pool Information												
Coupon	4.000	WAC		4.330	Orig WAC	4.343				Balance		
		WARM		255	Orig WAM	359				Factor	0.22849175	
		WALA		92						Orig Amt	231,640,297	
										Curr Amt	52,927,897	
13) Collateral Information										Prepay	CPR	
WAOLTV	71	AOLS		265,094	Orig TPO	63.63				1 Month	5.6	
WAOLTV-HPI*	55	WAOLS		288,124	Curr TPO	58.94				3 Month	10.8	
WAOCLTV	72	MAXLS		585,000						6 Month	13.4	
WAOCs	769	WAOLT		359						1 Year	16.2	
										Life	15.9	
14) # Loans	245	Delay	54 ( 24 )							15) States	8UPB	
TRACE Eligible										California	12.8	
16) Paydown Information										Minnesota	7.5	
										Virginia	7.2	
Prepay History	Sep18	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct17
1 Month CPR	5.6	23.9	1.2	22.4	20.8	3.6	24.6	12.3	22.5	17.5	23.1	12.2
3 Month CPR	10.8	16.5	15.3	16.0	16.8	13.9	19.9	17.5	21.1	17.7	18.0	18.4
6 Month CPR	13.4	16.6	14.6	18.0	17.2	17.6	18.8	17.7	19.7	17.2	18.3	15.3
12 Month CPR	16.2	17.2	17.2	17.6	17.7	16.4	17.6	16.9	16.9	17.0	17.7	19.1
Life CPR	15.9	16.0	15.9	16.0	16.0	15.9	16.0	15.9	16.0	15.9	15.9	15.8

- Please note the following characteristics of the Mirror security in the Bloomberg screenshot above:
  - FN ticker and CL prefix to denote that the Mirror is a UMBS
  - In place of the seller name, Bloomberg lists the seller name as SCR – Mirror
  - Issue Date for the Mirror is 08/01/2018, however the vintage is FNCL 4 2010 reflecting the underlying collateral
  - Payment Delay is 54
  - Prepay History reflects the speeds of the underly 45-day Gold pool

## ❖ Actions market participants should consider

- Understand the new Bloomberg screens, formats and labeling for UMBS.
- Provide internal training and materials, and update other processes or activities as needed.
- Determine if any hard coding was used around ticker symbols and definitions in systems. If so, determine what needs to be updated and tested.



# Single Security Initiative

## 8.5 Dollar Rolls and Repurchase Agreements (Repos)

- The following table details key characteristics and common questions related to dollar rolls and repos.

	Dollar Rolls	Repurchase Agreements (Repos)															
<b>Definition</b>	<p>Dollar rolls are transactions where TBA contracts for the same product and coupon, but different settlement months, are simultaneously bought and sold. Rolls can be traded for any settlement dates. Normally the market functions on a one-month roll (month to month) for the three forward settlement months reported on the standard trading screens. Roll prices are quoted for the “front roll” and the “back roll,” for example:</p> <p>August front roll/September back roll</p> <table border="1"> <thead> <tr> <th>Coupon</th><th>Gold Dollar Price</th><th>Gold Roll</th></tr> </thead> <tbody> <tr> <td>Aug</td><td>Aug-Sep</td><td></td></tr> <tr> <td>3.5</td><td>99-3</td><td>3 2/4</td></tr> <tr> <td>4</td><td>101-20</td><td>4 2/4</td></tr> <tr> <td>4.5</td><td>103-25.25</td><td>4 3/4</td></tr> </tbody> </table>	Coupon	Gold Dollar Price	Gold Roll	Aug	Aug-Sep		3.5	99-3	3 2/4	4	101-20	4 2/4	4.5	103-25.25	4 3/4	A repo contract is an interest-bearing cash loan against securities collateral. The difference between the sale and repurchase price of securities specified in a repo contract is reflected in the implied interest rate.
Coupon	Gold Dollar Price	Gold Roll															
Aug	Aug-Sep																
3.5	99-3	3 2/4															
4	101-20	4 2/4															
4.5	103-25.25	4 3/4															
<b>Used by</b>	Mortgage bankers, banks, insurance companies, money managers and pension funds	Mortgage bankers, banks, insurance companies, money managers and pension funds															
<b>Used for</b>	Mortgage pipeline management, non-interest income enhancement	Generate cash for investment or short term operating needs															
<b>Areas Impacted by UMBS</b>	Investment policies Trading/investment operations Pooling and netting operations	Investment policies															
<b>Common Questions</b>																	
<b>Are UMBS acceptable collateral?</b>	Yes	Yes. The UMBS is by definition “... government-guaranteed mortgage agencies Mortgage-Backed Securities (MBS)”. This is the same definition that Fannie Mae and Freddie Mac securities fall under today.															



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	Dollar Rolls	Repurchase Agreements (Repos)
<b>Can the backend of my dollar roll be a UMBS?</b>	<p>Yes. The new UMBS are acceptable. UMBS are issued by either Freddie Mac or Fannie Mae.</p> <p>Caution: If for accounting, such as financing treatment, or other contractual reasons you need to deliver the same issuer on the back end of the roll as you have on the front end of the trade you will need to specify in your roll transaction that requirement.</p>	
<b>Common Questions</b>		
<b>Can I substitute 45-day collateral out on repo in order to exchange it for a 55-day?</b>		Yes, if you have possession of the security to be exchanged. Once the collateral is released from repo and the security is back in your possession, the exchange can take place.
<b>What type of collateral is acceptable for substitution?</b>		Please refer to your repo agreement.
<b>What should I be concerned about over the transition months</b>	<p>The transition months to be most aware of are May to June 2019. The process you follow may not change, however, you may need to write your trade tickets differently.</p> <p>For example, in May you could sell Freddie Mac TBA in the front and buy back UMBS in June</p> <p>We caution that each time you roll you should be clear on what are getting back. If you need a specific issuer back – specify or stipulate that at the time of the roll.</p> <p>See table below.</p>	No concern over transition. Repos require you to own the collateral you are borrowing against. You will get the exact same security back whether it be a PC, MBS or UMBS.
<b>Do my agreements need to change to reflect the UMBS?</b>	We advise that all agreements be reviewed to make sure that UMBS is included in the definitions for consistency.	We advise that all agreements be reviewed to make sure that UMBS is included in the definitions of acceptable collateral and definitions be added for consistency.

- During the transition period, we anticipate that investors will have several options to close out or roll their open positions depending on the trade type.
- The following table outlines the current assumptions about how TBA trading in FNCL and FGLMC products will be affected by the go-live of the Single Security initiative. In the following trading scenarios, Single Security



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Implementation takes place in June 2019. (Please note – the following scenarios are not finalized and can be affected by SIFMA views regarding the fungibility of Fannie Mae-issued and Freddie Mac-issued UMBS and Supers for delivery into TBA contracts.)

Trade Type	Transaction Date	To Close Position	To Roll Position
FNCL Sale - Fannie Mae MBS	Before Implementation (March 2019 trade, April 2019 settle)	Pair off position or deliver Fannie Mae MBS	May 2019 TBA 01F
	Before Implementation (April 2019 trade, May 2019 Settle)	Pair off position or deliver Fannie Mae MBS	Roll position by selling May 2019 Fannie Mae 01F TBA and buying June 2019 01F UMBS TBA*
FNCL Sale - UMBS*	During Implementation (May 2019 trade, June 2019 settle)	Pair off position or deliver UMBS	Roll position with UMBS TBA* (Sell June 2019 UMBS TBA – buy July 2019 UMBS TBA)
	After Implementation (June 2019 trade, July 2019 settle)	Pair off position or deliver UMBS*	Roll position with UMBS TBA* (Sell July 2019 TBA – buy Aug 2019 TBA)
FGLMC Sale – Freddie Mac PCs	Before Implementation (March 2019 Trade, April 2019 settle)	Pair off position or deliver 45-day Freddie Mac PCs	Roll short position with Freddie Mac TBA 02R
	Before Implementation (April 2019 Trade, May 2019 settle)	Pair off position or deliver 45-day Freddie Mac PCs	Roll position by selling May 2019 02R Freddie TBA and buying June 2019 UMBS TBA 01F*
	During Implementation (May 02R 2019 trade, June 2019 01F settle) *	Pair off position or deliver 45-day Freddie Mac PCs	Roll position by selling June 2019 01F TBA – buy July 01F 2019 TBA
	After Implementation (June 2019 01F trade, July 2019 01F settle)	Pair off position or deliver 45-day Freddie Mac PCs	Roll position by selling July 2019 01F TBA – buy August 01F 2019 TBA

\* UMBS TBA contracts may be satisfied by delivery of existing Fannie Mae MBS or new Fannie Mae-issued UMBS, legacy Freddie Mac PCs that have been exchanged for their 55-day mirror securities, new issue 55-day Freddie Mac-issued UMBS, and single-issuer or commingled Supers issued by either Enterprise. These securities trading groupings may be impacted by SIFMA decisions regarding TBA fungibility.

## ❖ Actions market participants should consider

- Work with vendors to adapt and test trading systems to accept both Fannie Mae- or Freddie Mac-issued securities as the result of an FNCL trade.

## ❖ Decisions needed

- SIFMA update to good delivery guidelines to reflect fungibility of Fannie Mae-issued and Freddie Mac-issued UMBS and Supers for delivery into TBA contracts.

## 8.6 Mortgage Indices

### ❖ Key changes

- The goal of the Single Security Initiative is for indices to transition gradually, as two separate TBA markets combine.



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- No investor should be immediately over- or under-weight in their holdings relative to the indices simply due to go-live of the Single Security Initiative.
- Over time, we believe Freddie Mac Gold and Giant PC tradable supply will diminish until it drops out of cohorts entirely.

## ❖ Decisions needed

- Treatment of the new UMBS by index providers is still being worked through.
- Index composition by program after Single Security Initiative implementation is being discussed. Currently indices include all TBA-eligible securities without regard to payment delay.
- The index providers are looking at whether they will provide a view that segments by payment delay.
- We have asked the index providers about the planned frequency of index updates during the transition to UMBS.

## 8.7 Investment Limits and Concentration Risks

### ❖ Key changes

- U.S. regulation - Changes could be made to rules and regulations for investors, for example:
  - Under current IRS §817(h) – which largely applies to insurance companies - limits are 55% in any one issuer, 70% in any two issuers, 80% in any three issuers, and 90% in any four issuers.
  - The Enterprises, FHFA, and industry groups have submitted a proposal to the IRS to clarify how to treat UMBS under 817h. IRS response is still TBD.

### ❖ Actions market participants should consider

- Update and test trading logic with new limits/rules, or adapt to how issuer is identified for UMBS and Supers
- Consult with relevant external regulators regarding any possible changes or restrictions to investment limits or concentration risk
- Consult with internal compliance, legal, investment boards, and client services to determine impact of the new UMBS and update investment guidelines as needed.



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## 9 Legal and Compliance

### ❖ Key changes

Legal Document	Change Type	Description
Freddie Mac Master Trust Agreements and Offering Circulars for 55-day securities: Freddie Mac UMBS, MBS, Supers, Giant MBS, and REMICs, as well as applicable mirror securities	New Documents	Will largely be based on the current Freddie Mac legal documents governing Freddie Mac 45-day securities (i.e., PCs, Giant PCs and REMICs) but will be adapted to account for the changes in payment delay, commingling (if applicable) of Freddie Mac and Fannie Mae securities and other Single Security Initiative features
Freddie Mac Exchange Offering Circular	New Document	Will describe the terms of the exchange offer, including the financial compensation for the change in payment delay
Exchange Agreement (with Dealers)	New Document	Agreement under which dealers will effect the exchange offer
Freddie Mac Single-Family Seller/Servicer Guide	Revised Document	Will be updated to account for new Single Security Initiative features and labels
Fannie Mae Mega/Supers MTA and Prospectus	Revised Document	Minor changes will be made to account for Single Security features, including commingling
Fannie Mae and Freddie Mac Securities Purchase Agreements with Dealers	Revised Document	Will be adapted to allow for purchase of securities from both Fannie Mae and Freddie Mac in commingled resecuritizations

### ❖ Decisions needed

- SIFMA needs to determine when and how they will update documents they govern, including the Good Delivery Guidelines and possibly Master Securities Forward Transaction Agreements (MSFTA).



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# Single Security Initiative Market Adoption Playbook

## Dealer Appendix

Exchange Process of Freddie Mac PCs



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## Dealer Appendix

This section provides details around the exchange process of legacy 45-day PC and Giant PC securities to 55-day securities (UMBS and Supers for TBA-eligible securities; Freddie Mac MBS and Giant MBS for non-TBA-eligible securities). Dealers will access Freddie Mac Dealer Direct<sup>SM</sup> to initiate, modify, and monitor exchange transactions.

### ❖ Transaction Overview

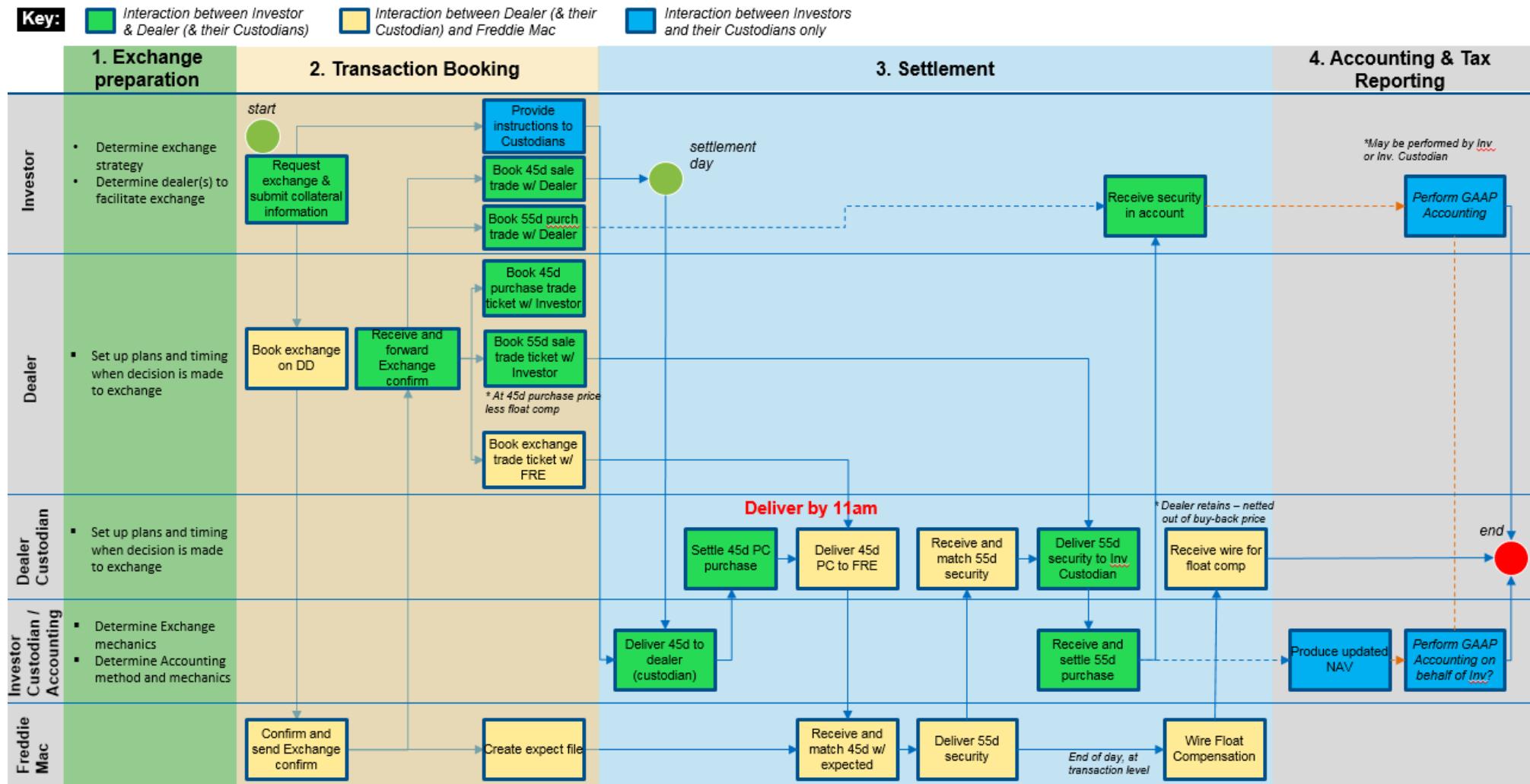
Dealers will initiate an exchange of their proprietary holdings or on behalf of an investor. An exchange transaction can be booked up until noon the day prior to settlement. Dealers/investors also can select current month or next month for settlement. The diagram on the next page displays the process flow of an exchange from initiation to settlement.



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# Single Security Initiative



# Single Security Initiative



## ❖ Exchange Transaction Booking

### How to enter an exchange transaction

- To enter an exchange transaction, login to Freddie Mac Dealer Direct in the same way with the same ID/Password used today to create Giant PCs.
- Freddie Mac will work with all exchange Dealers to ensure appropriate access prior to the opening of the exchange offer.

A screenshot of the Freddie Mac Access Manager for e-Business Login. The page features a top navigation bar with the Freddie Mac logo and "Freddie Mac Login Management". Below this is a section titled "Access Manager for e-Business Login" containing fields for "Username" and "Password", each with a "Forgot your username?" or "Forgot your password?" link, and a "Login" button. At the bottom of the page are links for "Questions? Call 1-800-FREDDIE." and the copyright notice "© Freddie Mac".

- After successfully logging into Dealer Direct, land on the “My Transactions” page shown below and select “I want to create... An Exchange” under the “Action” drop down menu.

A screenshot of the Dealer Direct (SIT2) interface. The top navigation bar includes the Freddie Mac logo and the title "Dealer Direct™ (SIT2)". Below this is a secondary navigation bar with tabs for "Transactions", "Pricing", "Reports", "Settlement Calendar", and "Support". The main content area starts with a "New Transaction" section where "Action: I want to create..." is selected and "An Exchange" is chosen. This leads to the "My Transactions" section, which displays a table of one record. The table columns are: Dealer Code, Submitter, Transaction ID, Transaction Type, Status, Trade Date, Settlement Date, Total Original Par (\$), Number of Collateral, and Actions. The single record shown is: BAR, barclay exchange, 01165, Exchange, Confirmed, 06-13-2018, 06-21-2018, 21,000, 1, and "I want to...". A note at the bottom says "Total of 1 records." and there are options to "Display 20 records per page" and "Filter By Status: Confirmed".

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- The template for uploading an exchange transaction will be the same template used to create a Giant via Bulk Upload. Data will be validated upon upload.
- The template has 4 data fields:
  - Pool Number
  - CUSIP
  - Par of the 45-day securities to be exchanged
  - Comment (optional)

Exchange\_10rows.csv - Notepad

```

File Edit Format View Help
P00001,31283NAA0,5000,comment
P50074,31288LCK5,5000,comment
P51343,3128C6P45,5000,comment
P58019,3128CD4C5,5000,comment
A54950,3128KHQB5,5000,
A54958,3128KHQK5,5000,
D81282,3128FQM74,30000,
C38725,31294FVS2,30000,
C38728,31294FWV5,30000,
C49099,31298JDC5,30000,

```

https://fnbp.fmmrei.flhmc.com/dealerDirect\_sit2/dealerDirect/#dealer/transactions

Dealer Direct

Transactions Pricing Upload Completed

Success: Upload completed. 21 records were successful. 0 records failed

Rows #	Pool Number	CUSIP	Par Amount (\$)	Comment	Errors ▾
1	G71407	312898R40	1.000		
2	J20827	3128X4L44	1.000		
3	B71408	312889R57	1.000		
4	G31003	313244KR9	1.000		
5	V60045	3132KEBN4	1.000		
6	J21160	31306YJD4	1.000		
7	G30819	31324AD29	1.000		
8	G60534	31335ASX7	1.000		
9	G60533	31335ASW9	1.000		
10	G60530	31335AS16	1.000		
11	G30703	3132J4AD1	1.000		
12	G31046	31324AL49	1.000		
13	G60571	31335AT40	1.000		
14	G60572	31335AT57	1.000		
15	A90316	312939KS1	1.000		
16	G11737	31293K4W5	1.000		
17	C10246	31292UHX6	1.000		
18	C11511	31292VVC4	1.000		
19	C90221	3133HIG64	1.000		
20	B71409	312898R65	1.000		

Remaining Time: 14:49

Details

Check Availability

Fri Sa

6 Availability: 5006	7
13 Availability: 5000	14
20 Availability: 5000	21
27 Availability: 5000	28

Continue Discard File and Cancel

- Once the exchange file is uploaded, a settlement date calendar will appear. The calendar will take exchange capacity and current scheduled trades into account and present available settlement dates for exchange(s).
  - Exchanges cannot settle during the first five business days of the month because current month factors are not yet available.
  - Exchanges can be booked for future settlement for the current month and the next month.
  - Capacity:
    - Capacity for each day is managed internally by the Freddie Mac team.



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- Freddie Mac forecasts the capacity on a given day will be 50,000 exchanges; some additional capacity can be made available if necessary.
- The exchange settlement calendar will be dynamic. As exchanges are booked, available capacity decreases. Conversely, if an exchange is cancelled the capacity will increase accordingly.
- There will be no charge or penalty for cancelled exchanges.

Transactions    Pricing    Reports    Settlement Calendar    Support

Remaining Time: 1 4 : 4 9

Exchange

1 Upload an Exchange File    2 Select Settlement Date    3 Review Exchange Details

Click to select an exchange file to upload    Enter the number of Securities you wish to Exchange: [ ]    Check Availability

June 2018							July 2018						
Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa
					1	2	1	2	3	4	5	6	7
3	4	5	6	7	8	9	8	9	10	11	12	13	14
10	11	12	13	14	15	16	15	16	17	18	19	20	21
17	18	19	20	21	22	23	17	18	19	20	21	22	23
24	25	26	27	28	29	30	24	25	26	27	28	29	30

- The next screen displays the final exchange transaction details. If all details are correct, accept the exchange transaction here.

https://fbnp.fmmrl.fhlmc.com/dealerDirect\_zit2/dealerDirect/#dealer/transactions

Dealer Direct

Remaining Time: 1 4 : 1 8

Exchange

1 Upload an Exchange File    2 Select Settlement Date    3 Review Exchange Details

Trade Date/Time: June 13th 2018, 10:03 AM    Price Grid in Effect: v269  
Cutoff Time for Providing Collateral: 03:30 PM    Total Fair Value (\$): 13.08  
Number of Collateral: 21    Total Incentive (\$): 0  
Submitter: barclay exchange    Total Float Compensation (\$): 13.08  
Current User: barclay exchange

45 Day Securities to Deliver			55 Day Securities to Be Received			Pricing Information in Ticks												
Pool #	CUSIP	Original Par (\$)	Pool #	CUSIP	Term (Yrs)	Coupon	Factor	Base	Loan Bal	FICO	LTV	WALA	Total Fair Value (\$)	Fair value (\$)	Incentive (Ticks)	Incentive (\$)	Total Float Comp (\$)	Comments
B71407	312989R40	1,000	ZI0849	31327T5K9	30	2.000	0.48821785	2.625	1.250	0.000	0.000	0.000	3.875	0.59	0.000	0.00	0.59	
J20827	31306X4L4	1,000	ZI2760	31327WB66	10	2.000	0.23852295	1.287	0.000	-0.587	0.000	0.000	0.700	0.05	0.000	0.00	0.05	
B71408	312989R57	1,000	ZI0850	31327T5L7	30	2.340	0.25124344	2.625	0.000	0.000	0.000	2.547	5.172	0.41	0.000	0.00	0.41	
G31003	3132J4KR9	1,000	ZS1279	31328VM57	20	2.500	0.92115404	2.500	2.500	0.000	0.000	0.000	5.000	1.44	0.000	0.00	1.44	
V60045	3132KEBN4	1,000	ZA0263	31326SJH4	15	2.500	0.50054662	2.500	0.000	0.000	0.000	0.000	2.500	0.39	0.000	0.00	0.39	
J21160	31306YJD4	1,000	ZI2771	31327WC11	10	2.500	0.23551952	2.578	0.000	0.000	0.000	-0.125	2.453	0.18	0.000	0.00	0.18	
G30819	3132J4DZ9	1,000	ZS1133	31328VHK0	20	3.000	0.74513147	2.500	2.500	0.000	0.000	0.000	5.000	1.16	0.000	0.00	1.16	
G60534	31335ASX7	1,000	ZS1665	31328VZ79	30	3.000	0.76613243	2.625	2.500	0.000	0.000	0.000	5.125	1.23	0.000	0.00	1.23	
G60533	31335ASW9	1,000	ZS1664	31328VZ61	30	3.000	0.76940252	2.625	2.500	0.000	0.000	0.000	5.125	1.23	0.000	0.00	1.23	
G60530	31335AST6	1,000	ZS1661	31328VZ38	30	3.000	0.76201487	2.625	2.500	0.000	0.000	0.000	5.125	1.22	0.000	0.00	1.22	
G30703	3132J4AD1	1,000	ZS0944	31328VBN0	20	3.500	0.57763400	2.750	0.125	0.000	0.000	0.000	2.625	0.47	0.000	0.00	0.47	

- Once the exchange transaction is accepted, the following email confirmation will be sent to the user.



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Screenshot of an email inbox showing a confirmation message from Freddie Mac.

**Email Headers:**

- From: dealer\_direct@freddiemac.com
- To: Prabish, Priya
- Cc: Basak, Kumarjit
- Date: Wed 6/13/2018 10:15 AM

**Email Content:**

Freddie Mac confirmation 01166-01 : Exchange Transaction CONFIRMED

If there are problems with how this message is displayed, click here to view it in a web browser.

**Attachments:**

- ExchangedCollateral\_0...

**Trade Details:**

- Trade Date/Time: June 13<sup>th</sup>, 2018 at 10:14 AM
- Pricing Date: June 13<sup>th</sup>, 2018
- Submitter: barclay exchange
- Last Modified By: barclay exchange
- Last Action: Transaction Confirmed
- Status: Confirmed
- Settlement Date: June 27<sup>th</sup>, 2018
- Cutoff time for Providing Collateral: 03:30 PM

**Exchange Details:**

- Number of Exchange Collateral: 21
- Price Grid in Effect: v269
- Total Float Compensation (\$): \$13.08

For collateral delivery and settlement support, call (571) 382-4020 or email sf\_sam@freddiemac.com. For Giant/Supers trade support, call (800) 366-2572 or email giants@freddiemac.com.

[Click here](#) to return to the Transactions tab of Freddie Mac Dealer Direct™.

**Securities Issuance & Administration:**

- (571) 382-4020
- [sf\\_sam@freddiemac.com](mailto:sf_sam@freddiemac.com)
- Moving Housing Forward: We're making a difference and moving housing forward. [Learn more](#)

- The screenshots below show the confirmed exchange transaction in Dealer Direct.

Screenshot of the Dealer Direct interface showing the 'Transactions' tab.

**New Transaction**

Action: [I want to create...](#)

**My Transactions**

Filter By Status: Confirmed

Dealer Code	Submitter	Transaction ID	Transaction Type	Status	Trade Date	Settlement Date	Total Original Par (\$)	Number of Collateral	Actions
BAR	barclay exchange	01165	Exchange	Confirmed	06-13-2018	06-21-2018	21,000	21	<a href="#">I want to</a> <a href="#">Change Settlement Date</a> <a href="#">Cancel Transaction</a> <a href="#">Remove Collateral</a> <a href="#">View History</a> <a href="#">Resend Confirmation</a> <a href="#">Download Collateral File (CSV)</a>

Confirmation Number: 01165-01  
Cutoff Time for Providing Collateral: 03:30 PM  
Last Action: Transaction Confirmed  
Last Modified By: barclay exchange

Price Grid in Effect: v269  
Total Fair Value (\$): 13.08  
Total Incentive (\$): 0  
Total Float Compensation (\$): 13.08

Last Action Date/Time: 06/13/2018 10:03 AM  
Factor Date: 05/01/2018

**45 Day Securities to Deliver**   **55 Day Securities to Be Received**   **Pricing Information in Ticks**

Exch. ID	Pool #	CUSIP	Original Par (\$)	Pool #	CUSIP	Term (Yrs)	Coupon	Factor	Base	Loan Bal	FICO	LTV	WALA	Total Fair Value (Ticks)	Fair value (\$)	Incentive (Ticks)	Incentive (\$)	Total Float Comp (\$)	Comments
1562648	B71407	312989R40	1,000	Z10849	31327T5K9	30	2.000	0.48821785	2.625	1.250	0.000	0.000	0.000	3.875	0.59	0.000	0.00	0.59	
1562649	J20827	31306X4L4	1,000	Z12760	31327WB66	10	2.000	0.23852295	1.287	0.000	-0.587	0.000	0.000	0.700	0.05	0.000	0.00	0.05	
1562650	B71409	312990P57	1,000	Z10960	31327T5K7	30	2.240	0.76119244	2.625	0.000	0.000	0.000	0.547	6.172	0.44	0.000	0.00	0.44	

# Single Security Initiative

- The submitter will receive a confirmation email containing exchange details as well as the confirmation file.

To: Moriarty, Molly

[ExchangedCollateral\\_02769.csv](#) 3 KB

**From:** [dealer\\_direct@freddiemac.com](mailto:dealer_direct@freddiemac.com) [mailto:[dealer\\_direct@freddiemac.com](mailto:dealer_direct@freddiemac.com)]  
**Sent:** Friday, August 24, 2018 1:43 PM  
**To:** Baker, Chadwick Shannon <[chadwick\\_baker@freddiemac.com](mailto:chadwick_baker@freddiemac.com)>  
**Cc:** Basak, Kumarjit <[kumarjit\\_basak@freddiemac.com](mailto:kumarjit_basak@freddiemac.com)>; Baker, Chadwick Shannon <[chadwick\\_baker@freddiemac.com](mailto:chadwick_baker@freddiemac.com)>  
**Subject:** TEST ONLY - Freddie Mac confirmation 02769-01 : Exchange Transaction CONFIRMED

Trade Date/Time: **August 24<sup>th</sup>, 2018 at 13:42 PM** Last Action: **Transaction Confirmed**  
Pricing Date: **August 24<sup>th</sup>, 2018** Status: **Confirmed**  
Submitter: **ctg exchange1** Settlement Date: **August 31<sup>st</sup>, 2018**  
Last Modified By: **ctg exchange1** Cutoff time for Providing Collateral: **11:00 AM**

## Exchange Details

Number of Exchange Collateral: **5**  
Total Float Compensation (\$): **\$1,791.46**

Price Grid in Effect: **v24**



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# Single Security Initiative



Total Original PAR (\$)	85,567,112									
Number of Collateral	5									
Total Float Fair Value (\$)	1,791.46									
Total Incentive (\$)	0									
Total Float Compensation (\$)	1,791.46									
Transaction ID	Exchange ID	Transaction Version	Last Action	Submitter	Trade Date	Settlement date	Pricing Grid version Id	Transaction Status	45-Day Pool Number	
2769	17465		1 Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	G11908	
2769	17466		1 Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	G30178	
2769	17467		1 Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	A20085	
2769	17468		1 Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	A30136	
2769	17469		1 Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	B70242	

45-Day CUSIP	55-Day Pool	55-Day CUSIP	Original Par (\$)	Term (Yrs)	Coupon	Factor Date	Factor	Base(Ticks)	Loan Bal(Ticks)
3128M1AH2	ZS0335	31328ULR2	44,735,788	15	5.5	8/1/2018	0.03192027	2.625	0
3128CUFT8	ZS0619	31328UVM2	24,000,000	20	7.5	8/1/2018	0.00096679	2.75	0
31296WCW5	ZI0015	31327TAR8	1,319,843	30	10.5	8/1/2018	0.06702039	3.125	0
31297KEH1	ZI0027	31327TA56	2,757,479	30	5	8/1/2018	0.17355728	3.125	0
31298HT8	ZI0821	31327T4F1	12,754,002	30	9	8/1/2018	0.00372487	3.125	0

FICO(Ticks)	LTV(Ticks)	WALA(Ticks)	Total Fair Value (Ticks)	Fair value (\$)	Incentive (T)	Incentive (\$)	Total Float Comp (\$)	Comments
0	0	0	2.625	1171.39	0	0	1171.39	Comments
0	0	0	2.75	19.94	0	0	19.94	
0	0	0	3.125	86.38	0	0	86.38	
0	0	0	3.125	467.36	0	0	467.36	
0	0	0	3.125	46.39	0	0	46.39	



ExchangedCollateral\_  
02769.csv

## ❖ Exchange Transaction Settlement

- The 45-day security will be delivered via the Fedwire. This process is unchanged from how a security is delivered to create a Giant today.
- The 45-day security will be auto-matched to the corresponding 55-day security within Freddie Mac systems.
- Upon a successful match, the 55-day security will be immediately wired back to the Dealer or Custodian Bank.
- The transaction is not DVP (Delivery vs. Payment). At the end of the day, the 10 days' delay compensation is calculated for each transaction, based on how many exchanges within the transaction settled successfully. A separate cash wire will be sent for each transaction.
- Dealers or custodian banks will be responsible for distributing the 55-day securities and the 10 days' delay compensation to the appropriate accounts.
- What if a transaction or part of a transaction fails?
  - The 45-day security that fails to match will be DK'd back to the submitting dealer. Therefore, no security will be held overnight.
  - If the dealer fails to deliver an individual 45-day pool for exchange on settlement day, a new exchange transaction with that failed pool/CUSIP and par amount, automatically be booked for the next available settlement day with available capacity, no less than two business days later.

## ❖ Exchange Key Daily Events



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## Settlement Day - 1

Time	Key Events
8:00 AM	Freddie Mac's Operations support hours start
12:00 PM	<ul style="list-style-type: none"><li>Cutoff for dealers to request an exchange for next day settlement</li><li>Existing transactions settling the next day will move to "Locked" status preventing modification by any dealer</li></ul>
5:30 PM	Freddie Mac's Operations support hours end

## Settlement Day

Time	Key Events
8:00 AM	Freddie Mac's Operations support hours start
8:30 AM	<ul style="list-style-type: none"><li>Fed Security delivery window opens</li><li>Delivery of the 45-day security for exchange by dealer begins</li></ul>
11:00 AM	Good Delivery Guideline cutoff for delivery of 45-day security to be exchanged (same as guidelines for Giant PCs today)
3:30 PM - 4:30 PM	<ul style="list-style-type: none"><li>Dealer Direct updates transaction status to "Settled," any individual exchange that failed settlement is auto-rebooked for next available settlement day, no less than two business days later.</li><li>Transaction gets updated to "Failed" in Dealer Direct only if all exchange IDs within the transaction fail</li><li>After transaction status updates, Dealer Direct immediately sends 10 days' delay compensation to Wire Room to disburse (wires are sent out as soon as received)</li></ul>
5:30 PM	Freddie Mac's Operations support hours end

## Settlement Day + 1

Time	Key Events
6:30 AM	Exchange disclosures published for previous business day's activity. (Cumulative 45-day to 55-day Exchange Activity, Daily 45-day to 55-day Exchange Activity, Aggregate Level 1 Collateral Exchange Activity)

### ❖ Modifying an exchange transaction

- Dealers will be allowed to make any of the following modifications after an exchange has been agreed to (and before it settles):
  - Change the settlement date
  - Cancel the exchange
  - Remove Exchanges from a transaction)
- Modification will only affect the settlement date in the following two scenarios:
  - The settlement date is explicitly modified by the Dealer.
  - The Dealer uploads or overwrites 45-day securities that require them to pick a new date with capacity for exchange.

### ❖ Reporting will be available for exchange activity via Dealer Direct

- Details of each exchange transaction can be accessed via Dealer Direct.
- Reports displaying the same information from the "My Transactions" page can be run in Dealer Direct. Reports can be filtered by date range or any status (confirmed, locked, settled, failed, and cancelled).



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# Single Security Initiative Market Adoption Playbook

## Seller / Servicer Appendix



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## Seller / Servicer Appendix

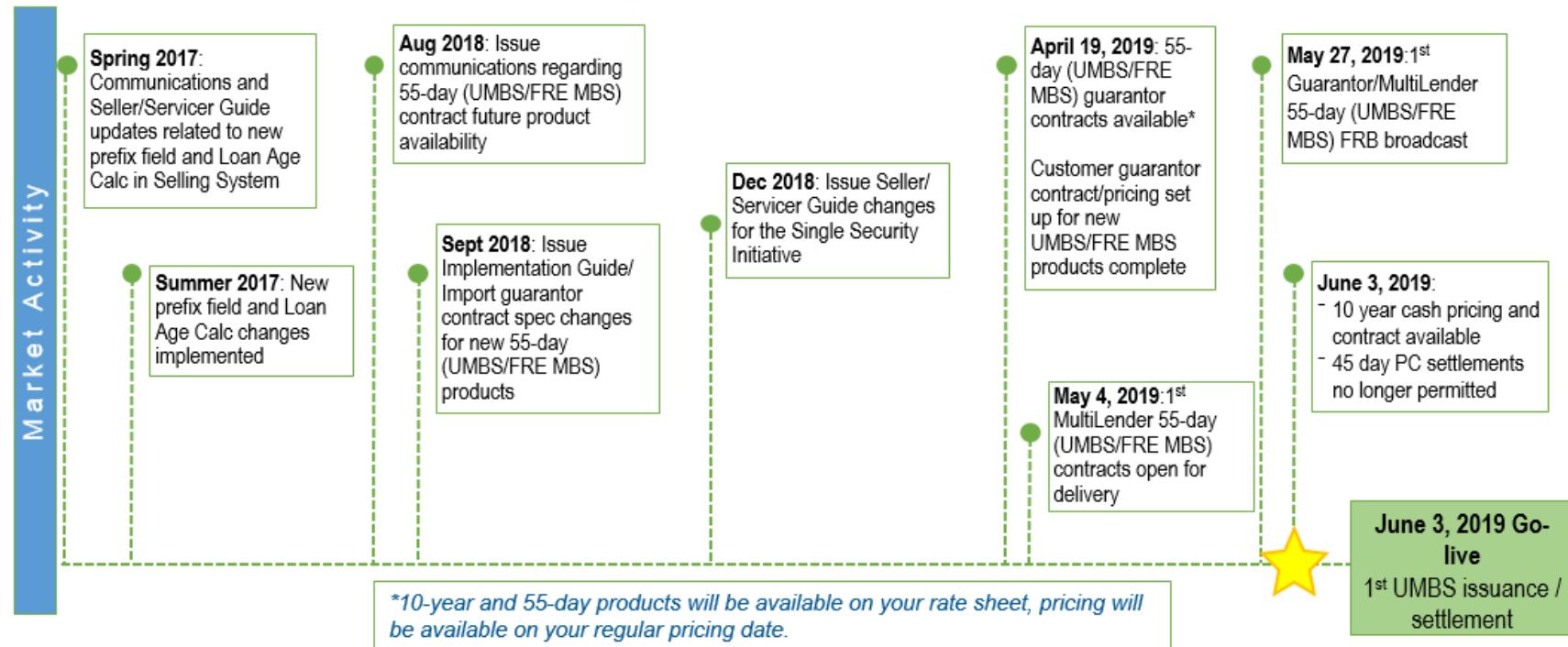
This appendix provides additional detail regarding the impact of the Single Security Initiative implementation to Seller / Servicers. One of the Initiative's goals is to minimize effects on the business practices of Seller / Servicers. Nevertheless, the Initiative includes certain changes to TBA-eligible securities, non-TBA-eligible securities, and the loans that make up those products, as highlighted in the sections below.

The details below pertain only to Freddie Mac product changes because Fannie Mae does not anticipate any product changes in connection with the Single Security Initiative since UMBS will adopt the features of Fannie Mae MBS. Therefore, Seller / Servicer partners will continue to interact with Fannie Mae in the same manner as today.



## Timeline

The timeline below shows dates relevant to Seller / Servicers in relation to the first new UMBS issuance on June 3, 2019. Details on these items are provided in the following sections.





## Effects of the Single Security Initiative Implementation on Freddie Mac Seller / Servicers

**Items not changing with Implementation. Seller / Servicers will continue:**

- Taking out Guarantor and Cash contracts in the Loan Selling Advisor<sup>SM</sup>
- Delivering loans through the Loan Selling Advisor<sup>SM</sup>.
- Using Loan Product Advisor and Loan Quality Advisor.
- Receiving securities in a Guarantor or MultiLender transaction for the loans they sell to Freddie Mac.
- Servicing loans pursuant to their Purchase Documents. *However, please be aware of the Investor Reporting Change Initiative. Details can be found at: [http://www.freddiemac.com/singlefamily/service/investor\\_reporting\\_changes.html](http://www.freddiemac.com/singlefamily/service/investor_reporting_changes.html).*

### Description of New Security Products from the Seller's Perspective

When the Single Security Initiative is implemented on June 3, 2019, Freddie Mac will replace its current 45-day securities with new 55-day UMBS as well as 55-day non-TBA-eligible (Freddie Mac MBS) security products. Freddie Mac will also introduce a 55-day, 10-year TBA-eligible security product. The following sections describe the overall changes, followed by specific changes to the Guarantor/MultiLender execution path and the cash execution path. ARM products will remain the same.

#### ❖ Key changes - overall

##### Effective Now

- Freddie Mac has created a new prefix field for the 55-day securities.
  - A new prefix field appeared on screens in the Loan Selling Advisor<sup>SM</sup> as of Freddie Mac's Mirror Contracting Release, which deployed in late August 2017, when Freddie Mac adopted the Single Security Initiative disclosure format for its single-family securities, including Mortgage Participation Certificates (PCs). The new prefix field is now also available for customizable export to Sellers. The new UMBS and 55-day Freddie Mac MBS prefix values will not take effect until the UMBS implementation in 2019.
  - Until the new products are offered, the prefix value reflected in the new field will be the same as the first two characters of the existing pool number. *For example, a pool number of C04846 for a TBA-eligible security will now be C0 C04846.*
- In preparation for the Single Security Initiative implementation, the Loan Age calculation was modified as of August 28, 2017. The modified calculation uses the scheduled first payment date instead of the note date. The change means more loans are eligible for allocation to the 0-2 WALA MultiLender pools.

##### Effective Before or At Implementation

- Freddie Mac will publish a list of new 55-day security products (and their Loan Selling Advisor<sup>SM</sup> Product IDs).
- Pricing will be displayed to Sellers the same way it is currently in the Loan Selling Advisor<sup>SM</sup>. Any changes in pricing of the new products will be reflected in the Loan Selling Advisor<sup>SM</sup> and will not affect the way Sellers interact with the system.
- Freddie Mac will add a buy-up/buy-down grid for the 10-year products.



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- Freddie Mac will work with affected Sellers ahead of the UMBS implementation to complete any required Master Commitment updates. We expect that most updates will be related to the addition of the 10-year mortgage product.

## ❖ Key changes - Guarantor/MultiLender products

### Product Changes

- Freddie Mac will add equivalent 55-day Guarantor/MultiLender products for most of the existing 45-day Guarantor/MultiLender products that Freddie Mac has today.
- Specific security products will be added for 30-year, 20-year, and 15-year non-TBA-eligible High LTV loans.
- Freddie Mac will introduce a new 55-day, 10-year TBA-eligible security. Freddie Mac will not introduce a 10-year non-TBA eligible security product.
- 10-year loans with special characteristics, such as high LTV ratios (over 105%) and super-conforming loan amounts, will continue to be pooled into 15-year security products.

### Pricing and Contracting Changes

- Today, Sellers receive pricing for a 15-year mortgage when they deliver a 10-year loan. With the implementation of UMBS, Freddie Mac will offer distinct pricing specifically for 10-year mortgages.
- For Guarantor execution, 10-year loans for delivery into TBA-eligible securities will be priced as 10-year loans. However, loans with special characteristics, such as high LTV ratios (over 105%) and super-conforming loans, delivered into non-TBA-eligible securities will receive a 15-year price, as they do today.
- Sellers will receive a new rate sheet, buy-up/buy-down grid, and Credit Fee in Yield for 10-year loans.
- Only Sellers with Master Commitments that allow them to take out 15-year Guarantor/MultiLender contracts will need to have these Master Commitments amended to include the new 10-year Guarantor/MultiLender product. *Note – the 10-year product will be added to Seller Master Commitments if the current Master Commitments permit 15-year loans.*

## ❖ Key changes - cash contract products

### Product Changes

- Freddie Mac will introduce a new 10-year cash contract product when the Single Security Initiative is implemented.

### Pricing and Contracting Changes

- Today, Sellers receive a 15-year price when they deliver 10-year loans for cash. With the implementation of the Single Security Initiative, Freddie Mac will begin offering a specific 10-year price for 10-year cash loan delivery.
- For cash executions, all 10-year loans, including loans with special characteristics such as high LTV ratios and super-conforming, will receive 10-year pricing.  
*(Note: For loans with special characteristics not eligible for TBA pooling, if Freddie Mac includes them in a cash pool, they will still be pooled into 15-year non-TBA-eligible securities, even if these loans were priced as 10-year loans upon delivery.)*
- Sellers will receive a new rate sheet for cash delivery of 10-year loans.
- Only Sellers with Master Commitments that allow them to deliver 15-year loans for specified cash products will need to have these Master Commitments amended to include the new 10-



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year cash contract products. If a Seller's current contracting only refers to eligible products in the Freddie Mac *Single Family Seller/Servicer Guide* (Guide), then an update of the Master Commitment is not required.

## ❖ Key changes - changes to maturity terms with the introduction of 10-year products

Current State			Future State (After Single Security Initiative Implementation)		
Guarantor Products	Minimum (months)	Maximum (months)	Guarantor Products	Minimum (months)	Maximum (months)
15-year	1	180	15-year	85	180
10-year	N/A		10-year	85	120
Cash Contract Products	Minimum (months)	Maximum (months)	Cash Contract Products	Minimum (months)	Maximum (months)
15-year	120	180	15-year	121	180
10-year	N/A		10-year	85	120

- For new UMBS / Freddie Mac MBS securities (Guarantor and MultiLender transactions):
  - The 10-year UMBS maturity term will be 85 - 120 months (Non-TBA-eligible 10-year securities will not be offered).
  - The 15-year UMBS and 55-day Freddie Mac MBS maturity term will be 85 – 180 months (adding an 85-month minimum, which does not exist today).
- For Freddie Mac cash contract products:
  - The 15-year cash contract product maturity term will be 121-180 months which represents a change to the 15-year cash contract product with a 121-month minimum maturity to prevent overlap with the new 10-year offering.
  - The 10-year cash contract product maturity term will be 85-120 months.

## ❖ Actions market participants should consider

- Evaluate effects of new products, naming conventions, prefixes, and Loan Selling Advisor<sup>SM</sup> Security Product IDs for best execution, loan delivery, pooling systems, and reporting tools.
- Evaluate the effects of new cash contract products for systems or business areas involved in cash loan delivery.
- Ensure that import specification uses the correct Loan Selling Advisor<sup>SM</sup> Security Product IDs for new 55-day products.
- Update and test systems, reporting, etc. to account for the new 10-year products, and the accompanying addition of the 85-month minimum on 15-year products.
- Adjust and test systems and reporting as necessary to accommodate new \$1 million minimum pooling sizes for non-TBA-eligible Guarantor pools.
- Adjust and test systems, analytics, and processes as needed for new 10-year pricing.
- Sellers should expect to work with their Freddie Mac relationship managers to update Master Commitments where applicable.
- Schedule internal changes in advance to account for internal policies and funding cycles to ensure readiness for the Single Security Initiative implementation on June 3, 2019.
- Discuss changes with vendors.
- Determine testing timeline for updates required to affected systems.



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# Single Security Initiative



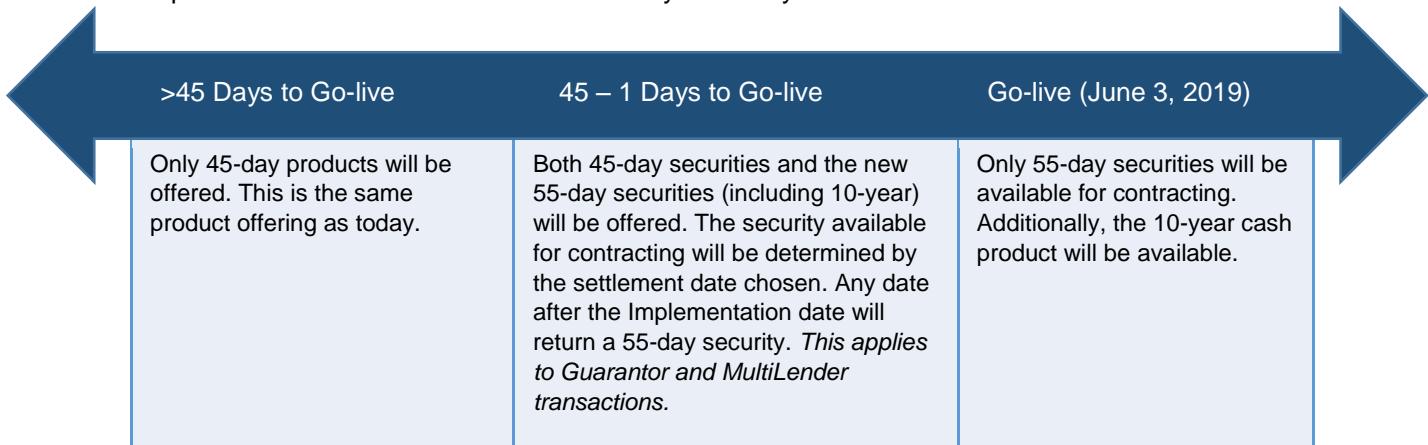
## ❖ Decisions needed

- Freddie Mac will advise stakeholders when the Loan Selling Advisor<sup>SM</sup> testing environment will be available to Seller/Servicers for testing.

## Transition from 45-day to 55-day Securities Products

### ❖ Key changes

The following section refers to fixed-rate security products only. Freddie Mac's 75-day ARM products will continue to be offered as they are today.



- There are 3 phases of transition to the UMBS for Freddie Mac fixed-rate security products:
  - Until 45 days before the Single Security Initiative Go-live – only 45-day securities will be available, the same as today.
  - Inside 45 days until the Single Security Initiative go-live – both 45-day and 55-day products are available. The security product available for any given delivery during this period depends on the settlement date chosen.
    - If the settlement date is prior to Single Security Initiative go-live, the Seller will be able to deliver loans against a 45-day security.
    - If the settlement is after go-live, the Seller will be able to deliver loans against a 55-day security.
  - On or after go-live – only 55-day securities will be available for contracting.
- During the transition period, Sellers will see two versions of a single Product ID – one for 45-day products (to be selected when the settlement date is prior to Single Security Initiative implementation date) and the other for corresponding 55-day products (to be selected when the settlement date is on/after the Single Security Initiative implementation date).
  - Note: *This information applies to Guarantor and MultiLender contracts. Cash contract products remain unchanged until the introduction of the 10-year mortgage at Single Security Initiative implementation.*
  - The screenshot below displays how this will be reflected in the system during this period



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The screenshot shows the Freddie Mac Loan Advisor Suite interface. At the top, there's a navigation bar with links for 'Loan Selling Advisor\*', 'CONTRACTS', 'LOANS', 'DATA SETS', 'THIRD PARTY', 'SETTLEMENTS', and a user ID '123456'. Below the navigation is a section titled 'Request Price'. A sub-section titled 'Pricing Identifier\*' contains a dropdown menu labeled 'Select' with two options: 'M10000001 | Settlement Date from 07/01/2018 to 05/31/2019 | PT From 07/01/2018 to 05/31/2019 | Rem: \$XX,XXX,XXX.XX' and 'M10000001 | Settlement Date from 06/01/2019 to 06/30/2019 | PT From 06/01/2019 to 06/30/2019 | Rem: \$XX,XXX,XXX.XX'. A note at the bottom of this section states: 'NOTICE: Loan Selling Advisor only maintains loan and loan purchase data back to January 1, 2010. Older data is stored elsewhere under our record retention policy.' There's also a 'NEXT' button and a help icon.

- Upon Go-live of the Single Security Initiative, 10-year cash products will become available and Freddie Mac will modify the maturity terms permitted for the 15-year cash contracts.
- Freddie Mac will publish Guide updates with details around the transition period.

## ❖ Actions market participants should consider

- Sellers should schedule any outstanding or planned 45-day Guarantor and MultiLender transactions to settle prior to the Single Security Initiative implementation date.

## Servicing Buyers

### ❖ Key changes

- For each of the new 10-year cash products, servicing buyers will need to determine the following:
  - Bid or no bid option
  - Pricing for products they choose to bid on

### ❖ Actions market participants should consider

- Servicing buyers will need to decide whether to bid on 10-year Guarantor and cash products and whether to change current bidding options on GRH mortgages.



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