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16 November 2018

Mr. Alfred M Pollard
General Counsel
Federal Housing Finance Agency
Constitution Center (OGC Eighth Floor)
400 7th St., SW
Washington, DC 20219

VIA E-MAIL: RegComments@fhfa.gov

**Re: Uniform Mortgage Backed Security – Proposed Rule
Regulatory Information Number: RIN 3590-AA94**

Dear Mr. Pollard:

Wellington Management Company LLP (“**Wellington Management**”) appreciates the opportunity to respond to the request for comments from the Federal Housing Finance Agency (“**FHFA**”) on the proposed rule (the “**Proposed Rule**”) to require the Federal National Mortgage Association (“**Fannie Mae**”) and the Federal Home Loan Mortgage Association (“**Freddie Mac**”, together with Fannie Mae, the “**Enterprises**”) to maintain policies that promote aligned investor cash flows both on current To-Be-Announced (“**TBA**”) eligible mortgage backed securities (“**MBS**”) and, upon its implementation, on the Uniform Mortgage-Backed Security (“**UMBS**”). Wellington Management is a private partnership registered as an investment adviser with the Securities and Exchange Commission and a large investor in MBS. As of September 30, 2018, we managed over \$1 trillion in assets for our clients and invested over \$53 billion in agency MBS.

We have been actively partnering with the Securities Industry and Financial Markets Association (“**SIFMA**”) on their response to the Proposed Rule, and we agree with the concerns and solutions they discuss in their letter. We write separately to underscore the critical importance of alignment of the Enterprises policies to ensure that TBA mortgage cash flows in MBS are aligned, especially upon the implementation of UMBS. Once UMBS is implemented, investors in the TBA market will not know the identity of the issuer of MBS purchased through TBA until 48 hours prior to settlement. To the extent that material misalignment exists between the MBS issued by the Enterprises, we, as fiduciaries to our clients, would have significant reservations investing their assets in UMBS, as we would be unable to determine the full economic characteristics of an investment at the time of purchase. This concern could lead us to purchase MBS primarily or exclusively on a “stipulated” basis or through the selection of specified pools, both of which are less advantageous than purchasing through the current TBA market.

We agree with SIFMA that the Proposed Rule’s definition of “alignment” (based on cohort) is insufficient to ensure that the MBS that will be delivered under TBA will be sufficiently aligned to avoid material economic differences. Specifically, we support a determination of “alignment” based on the worst quintile of each Enterprises production on a rolling three month basis by averaging the worst 1 month data and excluding specified pools. We believe this

approach more closely matches the "cheapest to deliver" securities that are delivered under a TBA, which, in our experience are the 20% with the worst prepayment profile (i.e., the worst quintile).

We also agree with SIFMA that the FHFA should have greater authority to enforce alignment and to address prior misalignment. Under the Proposed Rule, the FHFA's authority appears to be limited to consultation and review, without any reference to an enforcement capability. We believe the any final rule should clearly and specifically describe the potential consequences to the Enterprises for a material misalignment.

As noted above, we believe alignment among the Enterprises is a critical prerequisite for the successful implementation of UMBS. The Enterprises, by definition, have incentives to compete, and these incentives could lead to misalignment. While prepayment activity among the Enterprises has narrowed recently, we believe this convergence is a product of the current market conditions (i.e., lower refinance incentives and slower prepayments across the market). We are concerned that, without appropriate metrics for measuring alignment and without sufficient tools to enforce alignment, these competitive incentives will result in securities issued by the Enterprises that are different enough that UMBS becomes an unattractive investment option for our clients.

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We appreciate the opportunity to comment on the Proposed Rule. If you have any questions about our comments or would like any additional information, please contact me or Lance Dial, Managing Director and Counsel at the number above.

Very truly yours,



Michael Garrett
Senior Managing Director
Wellington Management Company LLP