AN UPDATE ON THE STRUCTURE OF THE SINGLE SECURITY

May 15, 2015

Division of Conservatorship

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Executive Summary

The *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (2014 Conservatorship Strategic Plan) includes the goal of developing a single mortgage-backed security (Single Security) that Fannie Mae and Freddie Mac (the Enterprises) could issue to finance fixed-rate mortgage loans backed by 1-4 unit (single-family) properties. This goal is part of broader efforts to build a Common Securitization Platform (CSP) and is supportive of the Federal Housing Finance Agency's (FHFA's) statutory obligation to ensure the liquidity of the nation's housing finance markets. Achievement of the Single Security will also help reduce or eliminate the cost to taxpayers of subsidizing Freddie Mac's securitization of single-family mortgage loans.

In August 2014, FHFA published a *Request for Public Input: Proposed Single Security Structure* (RFI) that set forth a proposed structure for the Single Security and invited public input. FHFA received 23 responsive letters. After careful review and consideration of each of the responses and further extensive dialogue with industry stakeholders, FHFA is issuing this Update on the Single Security structure.

This Update reviews a number of changes to the Single Security structure recommended by respondents to the RFI and discusses FHFA's decisions regarding those recommendations. FHFA's decisions generally confirm the structure set forth in the RFI. In addition, this Update provides additional details about the Single Security structure in response to stakeholder feedback. Overall, FHFA's determinations on the Single Security structure are as follows:

1. **Security Issuer and Guarantee Structure.** Each Enterprise will issue and guarantee first-level Single Securities backed by mortgage loans that the Enterprise has acquired. The Enterprises will not cross-guarantee each other's first-level securities. The Federal Home Loan Banks will not be an eligible issuer of Single Securities.

2. **Common Features.** The key features of the new Single Security will be the same as those of the current Fannie Mae Mortgage-Backed Security (MBS), including a payment delay of 55 days.

3. **Loan Products in Scope.** First-level Single Securities will finance fixed-rate mortgage loans now eligible for financing through the "To-Be-Announced" (TBA) market.

4. **Multiple-Lender Pools.** Lenders will continue to be able to contribute mortgage loans to multiple-lender pools.

5. **Re-Securitizations.** Each Enterprise will be able to issue second-level Single Securities (re-securitizations) backed by first- or second-level securities issued by either Enterprise. In order for a legacy Freddie Mac Participation Certificate (PC) to be re-securitized, the investor would have to first exchange the PC for a Single Security issued by Freddie Mac, so that the payment date of all of the securities in the collateral pool backing the re-securitization would be the same. To clarify the counterparty risk posed by commingled re-securitizations, this Update provides an analysis of the counterparty risk exposure of investors under the Enterprises' current securitization programs and the Single Security.

6. **Disclosures.** The loan- and security-level disclosures for Single Securities will closely resemble those of Freddie Mac PCs. This Update provides details about these disclosures.

7. **Alignment of Enterprise Programs, Policies, and Practices.** Current Enterprise policies and practices related to the removal of mortgage loans from securities (buyouts) are substantially aligned today and will be generally similar and aligned for purposes of the Single Security. This Update provides a summary of these policies and practices. FHFA and the Enterprises will carefully assess the potential effect on prepayment speeds of any potential changes in Enterprise programs, policies, and practices developed or considered in the future. Maintaining the current high degree of similarity between the prepayment speeds of the Enterprises' securities is an important objective for FHFA.

8. **Legacy Fannie Mae MBS and Freddie Mac PCs.** Freddie Mac will offer investors the option to exchange legacy PCs for comparable Single Securities backed by the same mortgage loans and will compensate investors for the cost of the change in the payment delay. This Update provides a description of the exchange program for legacy PCs. Fannie Mae will not offer an exchange option for legacy MBS because FHFA expects investors to treat them as fungible (interchangeable) with Single Securities.

FHFA's *2015 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions* (2015 Scorecard) directs the Enterprises to finalize the Single Security structure this year (including security features, disclosure standards, and related requirements) and to develop a plan to implement the Single Security in the market. FHFA invites further feedback on the

Single Security structure determinations described in this Update. Interested parties may submit input to the Federal Housing Finance Agency, Office of Strategic Initiatives, 400 7th Street, S.W., Washington, DC 20024 or via form on FHFA.gov. All submissions received will be made public and posted without redaction to FHFA's website. This is consistent with and furthers FHFA's existing practice to seek ongoing feedback and recommendations from stakeholders on the Single Security initiative, which remains a multi-year effort.

FHFA and the Enterprises will continue careful, deliberative engagement with industry and other stakeholders as the Single Security structure is refined and as an implementation schedule is developed. That process will provide ongoing opportunity for stakeholder input and dialogue and will allow FHFA and the Enterprises to modify the Single Security structure and implementation schedule as appropriate to mitigate any risk of market disruption.

Background

Fannie Mae and Freddie Mac each issue and guarantee mortgage-backed securities backed by pools of single-family mortgage loans. The securities issued by Fannie Mae are known as Mortgage-Backed Securities (MBS), and the securities issued by Freddie Mac are known as Participation Certificates (PCs).

Most trading of Fannie Mae MBS and Freddie Mac PCs backed by fixed-rate mortgage loans occurs in the "to be announced" (TBA) market, which is a type of forward market in mortgage-backed securities.[1] The actual security to be delivered to fulfill a TBA trade is not designated at the time the trade is made. Rather, on the trade date, six criteria are agreed on: the issuer, the maturity, the coupon rate, the face value, the price, and the settlement date. The specific securities delivered to complete the trade are "to be announced" 48 hours prior to the settlement date. Those features of the TBA market create a very efficient system for forward trading in mortgage-backed securities. The liquidity of the TBA market provides benefits to borrowers in the form of lower mortgage rates, more efficient lending processes, lower transaction costs, and the ability to "lock in" the interest rate on a fixed-rate mortgage prior to closing the loan.[2]

The objectives in developing a Single Security are to establish a single, liquid market for the mortgage-backed securities issued by both Enterprises that are backed by fixed-rate loans and to maintain the liquidity of this market over time. Achievement of those objectives would enhance the liquidity of the TBA market and further FHFA's statutory obligation to ensure the liquidity of the nation's housing finance markets.

Another objective of developing a Single Security is to reduce the costs to Freddie Mac and taxpayers that result from the persistent difference in the liquidity of MBS and PCs. Historically, TBA-eligible Fannie Mae MBS have been much more liquid than comparable Freddie Mac PCs. By dollar volume, annual issuance of MBS has exceeded issuance of PCs by about 70 percent in recent years, whereas the trading volume of MBS has been about nine times that of PCs. Also, MBS generally trade at higher prices than PCs that pay the same coupon rate and are backed by comparable loans. Further, the movement of individual large investors in and out of the market has a greater impact on the prices of PCs and results in those prices being more volatile.

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[1] Fannie Mae MBS and Freddie Mac PCs that are backed by adjustable-rate mortgages (ARMs) are not eligible for delivery into TBA contracts. Whenever this Update refers to MBS, PCs, or Single Securities, the reference is to securities backed by fixed-rate loans. Freddie Mac refers to PCs backed by fixed-rate loans as "Gold PCs."

[2] J. Vickery and J. Wright, "TBA Trading and Liquidity in the Agency MBS Market," *Federal Reserve Bank of New York Economic Policy Review*, May 2013, 1-18.

The greater liquidity of Fannie Mae's securities results from investors' preference for using MBS for hedging and as benchmarks for setting the prices of other mortgage securities and setting the rates on fixed-rate mortgages. Lower liquidity and prices of PCs result in Freddie Mac spending significant sums each year to subsidize the guarantee fees it charges sellers to induce sellers to do business with Freddie Mac. This imposes a significant cost on Freddie Mac and, ultimately, on taxpayers, since it lowers the dividend payments by Freddie Mac to the Department of the Treasury under the Senior Preferred Stock Purchase Agreement.

I. August 2014 Request for Public Input

After consultations with the Enterprises and discussions with market participants about how to structure the Single Security, FHFA formulated an initial proposal and issued a *Request for Public Input: Proposed Single Security Structure* (RFI) in August 2014. The RFI provided details about aspects of the proposed Single Security structure, including the security issuer and guarantee structure, common security features, loan/security products in scope, multiple-lender pools, re-securitizations, disclosures, and Selling and Servicing guides.

The RFI proposed that the key features of the new Single Security would be the same as those of the current Fannie Mae MBS. Those features include a payment delay of 55 days; certain pooling prefixes; mortgage coupon pooling requirements; minimum pool submission amounts; general loan requirements such as first lien position, good title, and non-delinquent status; and seasoning requirements. The objective was to make it likely that Fannie Mae MBS and Single Securities would be fungible (interchangeable) for the purpose of fulfilling TBA contracts and that investors would use Single Securities as the new benchmark securities once issuance starts. **Appendix A** of this Update is an updated summary of these features of the Single Security; it also includes information on several features that the RFI did not address.

II. Responses to the RFI

FHFA received 23 letters in response to the RFI, most of which were supportive of the proposed Single Security structure. Several focused on a number of specific benefits that would be gained through the proposal. These benefits include increased liquidity in the TBA market and lower costs to Freddie Mac and taxpayers from reducing or eliminating Freddie Mac's subsidization of the guarantee fees it charges. Other benefits mentioned by stakeholders include establishing the groundwork for the future housing finance system by making it easier for new entrants, and the potential for reducing mortgage rates for borrowers.

Many respondents had specific suggestions for improvement of FHFA's proposal. Many emphasized the need to ensure that the Enterprises are aligned on key policies and practices that affect prepayments in order to maintain the current high degree of similarity between the prepayment speeds of Fannie Mae MBS and Freddie Mac PCs. Several respondents also recommended that the proposal should be phased in over time.

Further, several respondents emphasized the importance of ensuring the fungibility of legacy Fannie Mae MBS, legacy Freddie Mac PCs that have been exchanged for Single Securities, and Single Securities issued by each Enterprise as key to the success of the initiative. Some expressed doubt that the market would view all of these securities as fungible. Others expressed concern that the proposal could have a negative effect on market liquidity—that is, the increased supply of TBA securities could lead to worse characteristics for "cheapest to deliver" collateral, which could lead to a decline of TBA prices. Other respondents noted the potential for an increase in stipulated trades in the new market which, depending on the overall marginal increase in stipulated trade volume, could detract from liquidity in the TBA market. In a stipulated trade, the buyer and seller agree on certain specific characteristics of the mortgage loans underlying the securities to be delivered or, in some cases, agree on the issuer, rather than on certain broad criteria, as in TBA trades.

A few responses suggested the proposal should not go forward in its current form. These respondents expressed concerns about the complexity of the initiative and the potential cost to the industry of implementing the Single Security.

III. Additional Developments

Following the close of the RFI input period, FHFA and the Enterprises have continued to meet regularly with representatives of trade associations, investors in mortgage securities, broker/dealers, data vendors, and other market participants that would be affected by the implementation of the Single Security. Those meetings have yielded insights about the issues raised by respondents to the RFI and provided information about the potential effects of alternative approaches to addressing those issues. FHFA and the Enterprises will continue these engagements throughout the multiyear Single Security development process.

Progress on developing a Single Security is also tied to the Enterprises' Scorecard objective of developing the CSP, which is being designed to provide new infrastructure for most of the Enterprises' current securitization functions for single-family mortgages. The Enterprises will use the CSP as the operational and technical platform through which they will issue Single Securities. In the second half of 2014, FHFA, the Enterprises, and the CSP development team began working to ensure that the CSP platform has the operational and system capabilities necessary to issue the Single Security. That work, which continues in 2015, is part of the broader effort to develop the Enterprises' operational plans to integrate with the CSP.

Since issuing the RFI, FHFA has continued to provide input and direction to the Enterprises about developing the Single Security. In January 2015, FHFA issued the 2015 Scorecard, which directs the Enterprises to finalize the Single Security structure this year (including security features, disclosure standards, and related requirements) and to develop a plan to implement the Single Security in the market.

FHFA Decisions on the Structure of the Single Security

Respondents to the RFI recommended a number of changes to the proposed Single Security structure. FHFA carefully reviewed and considered each of those recommendations. This section reviews and provides FHFA's decisions regarding many of the recommendations.

I. Security Issuer and Guarantee Structure

The RFI proposed that Single Securities would be issued by Fannie Mae or Freddie Mac. Each first-level Single Security would have underlying mortgage loans acquired 100 percent by one Enterprise or the other. There would be no commingling of loans purchased by the two Enterprises at this first level of securitization. FHFA has decided to retain those aspects of the proposed structure of the Single Security.

A. Issuance by the Federal Home Loan Banks

In response to the RFI, representatives of the Federal Home Loan Bank (FHLBank) System made two proposals:

1. Make the FHLBank System an eligible seller to Fannie Mae and Freddie Mac of pools of conforming fixed-rate single-family mortgages acquired by the FHLBanks from their member institutions, in exchange for first-level Single Securities; and

2. Make the FHLBank System an eligible issuer of Single Securities backed by pools of such mortgages.

Under the first proposal, FHFA recognizes that either Enterprise could make one FHLBank or a group of FHLBanks collectively eligible to swap pools of conforming loans for mortgage-backed securities it issued, including Single Securities. This would require prior FHFA approval of a new business activity request by the FHLBank(s) involved. FHFA will defer any consideration of this issue until such time as a formal FHLBank request is made.

However, with respect to the second proposal, FHFA has decided not to allow the FHLBanks to be eligible issuers of Single Securities at the time the Enterprises begin to issue Single Securities. There would be significant risks to the Single Security initiative and the FHLBanks from the FHLBank System starting to issue Single Securities at the same time as the Enterprises. Introducing into the TBA market a new issuer that has no track record in securitization and has legal authorities, institutional structure, and credit profile different from those of the Enterprises as the Enterprises begin to issue Single Securities would increase the complexity of the initiative significantly and could lead to greater price differentiation of all Single Securities by issuer/guarantor. Future housing finance reform legislation could authorize new entities to issue Single Securities through the CSP.

B. Cross Guarantee with No Identification of Issuer/Guarantor

One respondent to the RFI recommended that FHFA explore the establishment of some sort of cross-guarantee mechanism between the two Enterprises, similar to the joint and several liability of the FHLBanks for the debt securities issued by the FHLBank System. Under that proposal, both Enterprises would jointly guarantee each Single Security that either issued. The respondent also recommended that, in the context of a cross-guarantee mechanism, the issuer of each Single Security not be identified. The argument for the proposal is that it would reduce the likelihood of price differentiation and stipulated trading of Single Securities based on the issuer, thereby promoting broad market liquidity.

FHFA has decided not to adopt this recommendation. A cross-guarantee mechanism will not be necessary because investors will be able to obtain effectively the same protection through the commingled re-securitizations already contemplated by the Single Security initiative. As we discuss in more detail in the resecuritization section, an investor who owns a first-level Single Security issued by one Enterprise will be able to re-securitize it through the second Enterprise by paying any applicable fee. The timely payment of principal and interest on the resulting second-level security will be guaranteed by the second Enterprise, and that guarantee will be supported by the first Enterprise's guarantee of timely payment of principal and interest on the first-level security. As a result, the investor in the second-level security will benefit from effectively the same protection that would have existed if both Enterprises had directly guaranteed the first-level security. Further, the issuer/guarantor of a Single Security is material information that would require disclosure.

II. Common Features

Respondents uniformly expressed support for FHFA's proposal that key features of the new Single Security be the same as those of the current Fannie Mae MBS, with the exception of recommendations to change the payment delay and to align the Enterprises' pooling requirements. Each of these recommendations is addressed in more detail below.

A. Payment Delay

Two respondents recommended that investors receive payments on the 45th day after the monthly interest on a mortgage begins accruing, as is the case today for Freddie Mac PCs, rather than the 55th day, as is the case for Fannie Mae MBS. The argument for a 45-day payment delay is that it would be most efficient for investors to receive payments as quickly as processes and systems allow.

However, there is broad industry support for retaining the features of the Fannie Mae MBS, which include a 55-day payment delay. Moving away from that would raise doubts about whether the Single Security initiative would be successful in building on the current liquidity of the Fannie Mae MBS in order to achieve comparable or greater liquidity for Single Securities. Consequently, FHFA has determined that, as proposed in the RFI, Single Securities will have a 55-day payment delay.

B. Pooling Requirements

One RFI respondent recommended that FHFA align the Enterprises' pooling requirements. Pooling requirements exist because investors prefer to have a reasonable level of homogeneity in a pool of mortgage loans to allow for better analysis and prediction of the cash flows of the security. Consistent with that preference, the Securities Industry and Financial Markets Association (SIFMA) has high-level pooling requirements that are commonly known as the "TBA Good Delivery Guidelines." Examples of such requirements are the minimum size of the pool of mortgage loans backing a security and limits on each loan's original term and maximum size.

The RFI proposed a number of pooling requirements that go beyond SIFMA's guidelines and generally match Fannie Mae's current requirements. **Appendix A** summarizes those requirements. FHFA expects that the final specifications of the Single Security will generally match Fannie Mae's current requirements. FHFA and the Enterprises will continue to engage with the industry as those specifications are refined, and the Enterprises will meet those specifications.

III. Loan Products in Scope

The RFI stated that the initial focus of the Single Security initiative would be the market for TBA-eligible fixed-rate mortgage loans, including loans with maturities of 30, 20, 15, and 10 years. One respondent to the RFI recommended that the Enterprises begin by issuing Single Securities backed by a single product type that is produced in smaller volumes, such as the 15-year, fixed-rate mortgage loan. The argument for that proposal is that it would allow testing of the transition process. If any unforeseen issues were encountered, their impact on the overall secondary market would be contained and any lessons learned could contribute to the success of the overall initiative.

FHFA's has decided not to follow this respondent's recommendation. In FHFA's judgment, the best way to mitigate the operational risks associated with the Enterprises issuing Single Securities through the CSP is to conduct thorough, comprehensive, upfront testing of the systems, data flows, and business processes that the Enterprises and the CSP will use. The Enterprises and Common Securitization Solutions, LLC, the joint venture that is developing the CSP, are actively engaged in such testing. Satisfactory completion of such testing will allow the Single Security to go forward for all eligible product types simultaneously.

IV. Multiple-Lender Pools

The RFI stated that lenders would continue to be able to contribute mortgage loans to multiple-lender pools under the Single Security. One respondent to the RFI recommended that FHFA require that all first-level Single Securities be backed by multi-lender pools that are representative of combined Enterprise acquisitions in a given month. That would be similar in some respects to the Ginnie Mae II program, in which small sellers contribute to multi-lender pools that back Ginnie Mae II securities and a central paying agent collects payments from them and makes payments to investors. It would differ, however, in that sellers participate in the Ginnie Mae II program voluntarily and the pools backing individual Ginnie Mae II securities are not representative of all mortgage loans securitized through the program nationwide.

FHFA does not believe that implementation of this recommendation is necessary for the success of the Single Security initiative. To the extent that investors demand Single Securities backed by mortgage loans that are broadly representative of combined Enterprise acquisitions, dealers will be able to create such securities through commingled re-securitizations. Additionally, if either Enterprise wants to encourage sellers to create multi-lender pools, it will continue to be able to do so.

V. Re-securitizations

The proposal set forth in the RFI encompassed single-class re-securitizations issued and guaranteed by either Enterprise. Single-class securities are those from which each investor receives a proportional share of all the principal and interest payments on the underlying collateral. Re-securitization is the issuance of a second-level mortgage security where the underlying collateral consists of a group of previously issued first- or second-level mortgage securities. A single-class re-securitization enables an investor to accumulate pieces of similar, existing pass-through mortgage securities to form a larger pass-through security with its own unique characteristics. Those larger securities have lower security administration costs. Each Enterprise has its own nomenclature for the securities created through its single-class re-securitizations. Fannie Mae Megas are pass-through securities backed by Fannie Mae MBS and other Megas, whereas Freddie Mac Giant PCs are pass-through securities backed by Freddie Mac PCs or other Giant PCs.[3]

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

The RFI proposed that each Enterprise be allowed to issue and guarantee re-securitizations that were backed by 1) Single Securities issued by either or both Enterprises; 2) legacy securities issued by either or both Enterprises, or 3) a combination of Single Securities or legacy securities issued by either or both Enterprises. In order for a legacy PC or Giant PC to be re-securitized, the investor would have to exchange the PC or Giant PC for a Single Security issued by Freddie Mac, so the payment date of all of the securities in the collateral pool backing the re-securitization would be the same. More detail on the exchange option that Freddie Mac will offer investors is discussed below.

FHFA has decided to retain the approach to re-securitizations proposed in the RFI. Respondents to the RFI generally supported allowing the commingling of legacy Fannie Mae MBS, Freddie Mac Single Securities obtained through exchanges of PCs or Giant PCs, and Single Securities issued by either Enterprise as the underlying collateral for re-securitizations, as that would provide investors an incentive to treat the three groups of securities as fungible. Respondents did raise issues about the counterparty risk posed by commingled resecuritizations and the process and pricing for re-securitizations. More details on those matters are provided below.

A. Counterparty Risk

Some respondents said that the RFI did not provide sufficient detail about the counterparty risk posed by a re-securitization where the underlying collateral included securities issued/guaranteed by both Enterprises. They asked that FHFA and the Enterprises provide further clarity on that point.

To address this concern, **Appendix B** provides an analysis of the counterparty risk to investors under the Enterprises' current securitization programs and under the changes to those programs that will result from them issuing Single Securities. **Appendix B** begins with a discussion of the relevant principles for considering the counterparty risk borne by investors in Enterprise mortgage-backed securities with illustrations from typical transactions under an Enterprise's Single Security program.

As discussed in detail in **Appendix B**, both under the Enterprises' current securitization programs and under the Single Security program, the key principle in considering counterparty risk is that the investor in a security looks to the issuer of that security for performance of the issuer's guarantee. That would still be true, for example, for a second-level Single Security issued by Fannie Mae that was backed by a pool of first-level Single Securities issued by Freddie Mac. In this example, Fannie Mae would be the counterparty of an investor in the second-level security, whereas Freddie Mac's guarantee of the first-level securities would run to the trust of the second-level security, not to the investor. After the second-level security was issued, the investor would look to Fannie Mae for timely payment of principal and interest on that security.

In the hypothetical situation of a default by the issuer of either the first- or second-level securities, **Appendix B** provides additional detail as well. Assuming that Fannie Mae performed on its obligation to the investor, any payment default by Freddie Mac on any underlying first-level securities, or any receivership of Freddie Mac, would not affect the investor in the second-level security. In the same example, if Fannie Mae entered into receivership or defaulted on its guarantee of the second-level security, the investor in the second-level security would be entitled to principal and interest received on the underlying first-level securities. Under the Housing and Economic Recovery Act of 2008, that principal and interest would be unavailable to satisfy the claims of other Fannie Mae creditors if Fannie Mae were in receivership. As is true today, FHFA, in its role as receiver, would determine how to treat the claim of the investor in the second-level security regarding Fannie Mae's guarantee obligation.

B. Re-securitization Process

One respondent to the RFI recommended changes to the manner in which the Enterprises execute and price re-securitizations. Currently, for a Mega or Giant PC to be issued on a specific date, the Enterprise involved receives a request two days before that date. The respondent suggested that the two-day period be shortened to one day or to a few hours. That would allow a market maker to transform a first-level Single Security issued by one Enterprise into a second-level Single Security issued by the other more quickly than the current two-day process, thereby lessening the impact on overall market liquidity of stipulated trading based on the issuer/guarantor.

Implementing this recommendation is not advisable at present, because market participants have an existing operational obstacle to speeding up the re-securitization process. Market participants generally use systems that process transactions at the end of the day rather than in real time. Introduction of the Single Security may spur operational innovation in the industry, including movement to real-time transaction processing, which is not widespread today. Attempting to speed up the re-securitization process before such innovation takes place would add risks that could delay the implementation of the Single Security. If movement to real-time transaction processing occurs, it may be appropriate at some future point for FHFA and the Enterprises to revisit the question of making the re-securitization process faster.

C. Re-securitization Pricing

One respondent to the RFI and other industry stakeholders in discussions have raised issues related to the pricing of re-securitizations. FHFA and the Enterprises recognize that commingled re-securitizations will be important to ensuring the liquidity of first-level Single Securities issued by each Enterprise. When the Single Security is implemented, FHFA will monitor closely the Enterprises' pricing of re-securitizations for consistency with that objective.

VI. Disclosures

The RFI proposed that Single Securities issued by each Enterprise have common disclosures that provide loan- and security-level data quite similar to the data now included in the existing disclosures for Freddie Mac PCs and Giant PCs. The purpose of such disclosures is to provide investors with information on the collateral underlying a security. Loan-level data include at-issuance data about the borrower, property, and mortgage loan and monthly data about the performance of each loan. Security-level data include summary or aggregated information about the mortgage loans in a security. For a second-level security, disclosures also include information about the underlying securities (first-level, second-level, or both) backing the second-level security. Common disclosures will help ensure that the Single Securities issued by each Enterprise are fungible.

Respondents to the RFI generally recommended that the Enterprises align on mortgage-backed security disclosures and expressed support for FHFA's proposal. At the direction of FHFA, the Enterprises have developed a set of loan- and security-level disclosures for single-class first- and second-level Single Securities. **Appendix C** provides the data attribute names, definitions, and allowable values for these disclosures.

As part of developing the loan-level disclosures for Single Securities, the Enterprises and FHFA are working to determine the best way to meet the needs of investors while also protecting borrower privacy. Balancing those objectives includes choices about how best to disclose geographic information about each property while masking other loan-level data attributes to mitigate the risk of borrower re-identification. Masking may involve, for example, rounding loan amounts or omitting the day or month on which the borrower is obligated to make his or her first mortgage payment. FHFA expects to provide further information on these two topics at a later date.

The Enterprises may refine the Single Security disclosures in the future, and FHFA will make public any such refinements. In addition, the Enterprises will make the file formats and other technical specifications related to Single Security disclosures public at a future date. FHFA and the Enterprises will provide this information far enough ahead of the initial issuance of Single Securities to give market participants adequate time to implement any necessary changes in systems and business processes.

VII. Alignment of Enterprise Programs, Policies, and Practices

A number of respondents to the RFI observed that the prepayment speeds of mortgage-backed securities issued by Fannie Mae and Freddie Mac could diverge after the Enterprises begin issuing Single Securities. A divergence of prepayment speeds could in turn lead to increasing price differentiation based on the security issuer/guarantor and, ultimately, to an erosion of the broad market liquidity that the Single Security initiative seeks to foster. Respondents generally recommended that FHFA address this issue by aligning the Enterprises' programs as well as key Enterprise policies and practices that affect prepayments. Respondents also proposed a number of specific areas in which the Enterprises should be aligned. Further, many respondents recommended that FHFA establish a clear, transparent process for ensuring continued alignment of the Enterprises' programs, policies, and practices so that the prepayment speeds of their securities remain very similar. In further discussions with market participants, they have uniformly emphasized the importance of such a process.

FHFA does not believe it would be necessary or appropriate to require complete alignment of the Enterprises' programs, policies, and practices, as innovation by each of the two companies has significant benefits to the secondary mortgage market and to borrowers. FHFA agrees, however, that alignment in some specific areas would be beneficial. FHFA's decisions about whether or not to align certain Enterprise policies and practices addressed by RFI respondents are presented below.

A. Removal of Mortgage Loans from Securities

Many RFI respondents recommended the alignment of the Enterprises' policies and practices related to the removal of delinquent mortgage loans from securities in exchange for payment of the remaining principal amount to the investor (repurchase and buy-out are other terms often used to refer to such actions).

FHFA recognizes the need for alignment of Enterprise policies and practices related to the removal of mortgage loans from securities in order to remove a potential source of future divergence in prepayment speeds. To provide clarity to market participants, **Appendix D** summarizes the key policies and practices in this area, which is one on which the Enterprises are substantially aligned today. **Appendix D** also summarizes several other policies and practices related to removals of mortgage loans from securities on which the Enterprises have agreed to align substantially before they begin to issue Single Securities. Once policies and practices in that latter group are substantially aligned, the Enterprises' policies and practices related to the removal of mortgage loans from securities will be generally similar and aligned for purposes of the Single Security.

B. Consideration of Future Changes in Enterprise Programs, Policies, and Practices

RFI respondents and other industry stakeholders have argued that changes in Enterprise programs, policies, and practices, if not implemented in a similar manner, could cause the prepayment speeds of mortgage-backed securities issued by each Enterprise to diverge. Maintaining the current close similarity of those speeds is necessary for the success of the Single Security initiative and is an important objective of FHFA.

As each Enterprise develops and considers changes in its programs, policies, or practices, the Enterprise's process includes an analysis of the likely effect of such potential changes on the prepayment speeds of its mortgage-backed securities. For each change the Enterprise finds likely to have a significant effect on prepayment speeds, the Enterprise reports such finding and any related analysis to FHFA and requests FHFA's prior approval for the change.

FHFA assesses the effects on the prepayment speeds of an Enterprise's mortgage-backed securities of any potential change in that Enterprise's programs, policies, or practices that the Enterprise has proposed for FHFA's approval or that is otherwise considered by FHFA. If FHFA finds that such a change will likely have a significant effect on such speeds, FHFA identifies and assesses potential actions before approving, disapproving, or directing the Enterprise to implement the change.

FHFA agrees with RFI respondents and other industry stakeholders that, for example, the manner in which the Enterprises implement new government housing finance programs, streamlined refinance programs, servicing initiatives, and changes in servicer compensation can have potentially significant effects on prepayment speeds. How the Enterprises change their mortgage loan eligibility requirements, guarantee fee pricing, and policies and practices related to the removal of mortgage loans from securities can also significantly affect prepayment speeds. FHFA expects that the processes followed by the Enterprises and FHFA will involve careful assessment of the potential effects on prepayment speeds of any such potential changes developed or considered in the future.

C. Legal Documents Supporting Securitization

The RFI stated that the Enterprises would retain separate Selling and Servicing Guides. Several respondents recommended that FHFA standardize all of the legal documents that support the securitization of single-family mortgage loans by the Enterprises. In addition to the Selling and Servicing Guides, those documents include each Enterprise's master trust agreement and any supplements thereto, Freddie Mac's offering circular, and Fannie Mae's base prospectus.

FHFA will not require standardization of the legal documents that support Enterprise securitization of single-family mortgage loans. Doing so would be a large undertaking and is unnecessary to ensure that the prepayment speeds of PCs, MBS, and Single Securities remain quite similar.

D. Servicer Remittance Policies

Several RFI respondents recommended or asked about the potential for alignment of the Enterprises' policies related to servicer remittance of payments to the Enterprises. There are two aspects to those requirements: (1) the collection period for payments from borrowers and the date on which servicers must remit funds to the Enterprises (the remittance cycle) and (2) whether the payments servicers make should reflect funds actually received from borrowers or what borrowers were scheduled to pay (the remittance type).

FHFA will not require the Enterprises to align their servicer remittance cycles or types. Although matching those cycles and types would better align the timing and amounts of cash flows received from servicers, doing so would likely be burdensome for servicers and the Enterprises, would require a long development time, and would have only a small effect on reported prepayments. For those reasons, alignment of remittance cycles and types is not necessary to support the Single Security at this time.

E. Mortgage Loan Eligibility Requirements

Several RFI respondents recommended aligning the Enterprises' single-family mortgage loan eligibility requirements. Those requirements specify the credit-related borrower and loan attributes of loans that are eligible for Enterprise purchase. Some of the more important attributes are the borrower's credit score, the loan-to-value (LTV) ratio, and the borrower's debt-to-income ratio based on all of his or her outstanding debt. Consistent with widespread industry usage, some respondents expressed this proposal as a request for alignment of the Enterprises' credit boxes.

FHFA will not require further alignment of the Enterprises' mortgage loan eligibility requirements. Those requirements are already closely aligned today, and complete alignment is not necessary for the success of the Single Security initiative. FHFA notes that, in today's market, differences in the credit-related attributes of specific loans backing individual MBS and PCs may affect prepayment speeds of the securities to a degree that is reflected in market pricing of the securities. This is comparable to how current MBS and PC pricing reflects differences in prepayment speeds attributable to differences in the size of the underlying mortgage loans. FHFA expects that such attribute-based price differentiation, which is consistent with a well-functioning TBA market, will continue for Single Securities. At the same time, the ongoing success of the Single Security initiative will require each Enterprise and FHFA, if appropriate, to assess potential future changes in eligibility requirements for their potential effects on prepayment speeds.

F. Seller/Servicer Profiles and Mix of Loans Delivered

Some industry stakeholders have recommended actions to mute any differences in the prepayment speeds of each Enterprise's securities that may result from differences in their respective seller populations or in the mix of loans that each receives from large-volume sellers. One RFI respondent recommended some unspecified form of active management of the seller/servicer profiles of the two Enterprises to ensure that the collateral underlying the Single Securities issued by each Enterprise continues to be similar. Similarly, some stakeholders recommended in discussion that FHFA require that any seller that does business with one Enterprise also do business with the other and that all sellers deliver to each Enterprise a representative mix (in terms of credit characteristics and, thus, prepayment expectations) of their loan deliveries to both.

FHFA will not require that every seller do business with and deliver a representative mix to each Enterprise. Such requirements are not necessary to achieve the objectives of the Single Security initiative and run counter to a desired level of competition based on service and processes between the Enterprises. Each Enterprise has its own counterparty risk management standards, and it does not seem necessary or appropriate for FHFA to override them.

VIII. Outstanding Legacy Fannie Mae MBS and Freddie Mac PCs

The RFI stated that FHFA is committed to making legacy Fannie Mae MBS and legacy Freddie Mac PCs equally fungible with Single Securities. To achieve that goal and thereby maximize secondary market liquidity, the RFI stated that investors, if necessary, would be offered the option to exchange a Freddie Mac PC for a comparable Single Security backed by the same mortgage loans. The RFI also stated that FHFA does not expect this option to be required for Fannie Mae MBS, given that they are so similar in structure to Single Securities.

Several RFI respondents expressed support for giving investors the option to exchange legacy PCs for Single Securities and allowing the option to be available for an extended period of time versus for a short period. Some respondents also stated that investors would need to be appropriately compensated for the cost of receiving payments on the new securities on the 55th day after the monthly interest on a mortgage begins accruing, as is the case today for Fannie Mae MBS and will be the case for Single Securities, rather than on the 45th day, as is the case today for Freddie Mac PCs. Some respondents to the RFI also noted that PC investors might not require compensation if the benefit of the greater liquidity of Single Securities more than offset the cost of a longer payment delay.

FHFA has determined (1) that Freddie Mac will offer investors an option to exchange legacy PCs for comparable Single Securities backed by the same pools of mortgage loans; (2) that investors who exercise this option will be compensated for the cost associated with the change in the payment delay; and (3) that this exchange program will commence on or before the first day of trading of the new Single Security and stay open for the foreseeable future. **Appendix E** provides details about the exchange process, the methodology Freddie Mac will use to establish the schedule of fees by which investors will be compensated, and the key terms of the exchange program.

As is further described in **Appendix E**, at their option and whenever they so choose, investors will be able to exchange a PC or Giant PC (that is not already 100 percent committed to re-securitizations) for a corresponding Single Security backed by the same pool of mortgage loans. Additionally, as part of that exchange, investors will receive compensation for the approximate fair value of the additional ten days, from the date monthly interest begins accruing, before the receipt of payments on the new security ("the float"). To make this compensation transparent, Freddie Mac plans to publish a schedule of flat fees that will be differentiated by coupon rate, remaining maturity, and product type—for example, 15-year and 30-year mortgage loans. The schedule of flat fees will be informed by various fair value methodologies, which will not be used to directly value the float but will provide a range of fair values to guide the compensation determination. The fee schedule may also be affected by other considerations, such as the goal of increasing liquidity in the new 55-day security market.

FHFA welcomes further input from market participants on the details of the exchange program for legacy PCs. FHFA recommends that investors seek appropriate legal and accounting guidance on the potential tax and accounting implications of transactions conducted under the proposed exchange program.

One RFI respondent recommended that Fannie Mae also offer an exchange option for legacy MBS. Another respondent recommended that FHFA mandate that each Enterprise offer an exchange option for its legacy mortgage-backed securities. The argument for each proposal is that it would increase the liquidity of Single Securities.

FHFA will not require Fannie Mae to offer an exchange option. There is no clear industry consensus in favor of doing so, and FHFA believes that the similar features of Fannie Mae MBS and Single Securities will lead market participants to treat them as fungible.

IX. Other Matters

Several respondents to the RFI proposed that the Single Security initiative be implemented gradually as a sequence of discrete steps that might otherwise be done simultaneously. One respondent also proposed that each step be timed so as to allow market participants to absorb it before taking the next step. The argument for those proposals is that they would mitigate any risk of market disruption and provide more time for stakeholder input.

Breaking the Single Security initiative into a sequence of steps with lengthy pauses between them would delay the initiation of issuance and trading, probably for several years, without providing any clear benefits. FHFA and the Enterprises will continue careful, deliberative engagement with industry and other stakeholders as the Single Security proposal is refined and as an implementation schedule is developed. That process will provide significant opportunity for stakeholder input and dialogue. It will also allow FHFA and the Enterprises to modify the proposal as appropriate to mitigate any risk of market disruption.

FHFA received other input about timing and implementation. One respondent to the RFI proposed that FHFA take over SIFMA's authority to set the "Good Delivery Guidelines" for TBA contracts involving Enterprise mortgage-backed securities. The rationale for that proposal is that FHFA could use such authority to make Fannie Mae MBS and Freddie Mac PCs fungible.

Another respondent stated that, if the Enterprises cannot issue Single Securities until the CSP is operational, in the meantime FHFA should ask SIFMA to declare that Fannie Mae MBS and Freddie Mac PCs are fungible, so that each Enterprise's securities could be delivered into a TBA contract. The rationale for that proposal is that declaring the two securities to be fungible would create a single, liquid market for both before the Enterprises began issuing Single Securities.

SIFMA's "Good Delivery Guidelines" are voluntary arrangements developed by participants in the TBA market that facilitate the execution of contracts to buy and sell securities backed by unknown pools of mortgage loans. It is unclear how FHFA could supplant or override such arrangements without disrupting the market. Further, given the differences between the payment delays, other features, and the liquidity of MBS and PCs, it is unlikely that SIFMA would simply change the Guidelines to make the two securities fungible. Instead, FHFA and the Enterprises will continue to engage industry stakeholders and to consult with SIFMA as the Single Security proposal is refined and an implementation schedule is developed.

Next Steps

FHFA invites further feedback on the Single Security structure determinations described in this Update. Interested parties may submit input to the Federal Housing Finance Agency, Office of Strategic Initiatives, 400 7th Street, S.W., Washington, DC 20024 or via form at FHFA.gov. All submissions received will be made public and posted without redaction to FHFA's website. The agency will continue to engage actively with industry stakeholders as the Single Security is refined and anticipates providing further information to the industry on an ongoing basis.

Appendix A: Updated Summary of Single Security Features

<table>
<tr><th>Feature</th><th>Description</th></tr>
<tr><td>Structure</td><td>First-level securitizations (currently referred to as Fannie Mae Mortgage-Backed Securities (MBS) and Freddie Mac Participation Certificates (PCs)):

A Single Security would have underlying fixed-rate mortgage loans that were purchased either 100 percent by Fannie Mae or 100 percent by Freddie Mac. Thus, there would be no commingling of underlying collateral (or loans) at this level of Single Security formation.
Second-level Single Securities or re-securitizations (currently referred to as Fannie Mae Megas, Freddie Mac Giant PCs, and multiclass Fannie Mae and multiclass Freddie Mac Stripped MBS and Real Estate Mortgage Investment Conduits (REMICs)):

Re-securitizations could have underlying legacy securities and/or Single Securities issued only by Fannie Mae, only by Freddie Mac, or a combination of Single Securities issued by both Enterprises. (Investors would have to exchange any legacy PC for a Freddie Mac-issued Single Security prior to any such re-securitization.) Either Enterprise might issue and guarantee second-level Single Securities backed by non-commingled or commingled securities. REMIC securities could also have underlying whole mortgage loans.</td></tr>
<tr><td>Issuer</td><td>Fannie Mae or Freddie Mac via the Common Securitization Platform (CSP) as its Agent</td></tr>
<tr><td>Trustee</td><td>Issuing Enterprise</td></tr>
<tr><td>Bond Administration</td><td>Issuing Enterprise (via the CSP as its Agent)</td></tr>
<tr><td>Security Guarantee</td><td>Issuing Enterprise</td></tr>
<tr><td>Loan/Security Products in Scope</td><td>30 year
20 year
15 year
10 year</td></tr>
<tr><td>Investor Remittance Date</td><td>Payment date would be the 25th (55-day delay) of the month for all product types; (unless the 25^{th} falls on a holiday or weekend, in which case the payment date will be the next business date after the 25^{th}).</td></tr>
</table>

Prefixes	**CI** — Conventional Intermediate-Term, Level-Payment Mortgages; Single-Family; maturing or due in 15 years or less. **CL** — Conventional Long-Term, Level-Payment Mortgages; Single-Family; maturing or due in 30 years or less. **CN** — Conventional Short-Term, Level-Payment Mortgages; Single-Family; maturing or due in 10 years or less. **CT** — Conventional Intermediate-Term, Level-Payment Mortgages; Single-Family; maturing or due in 20 years or less. **ZI** — Second-level Single Security collateralized by REMIC certificates that are directly or indirectly backed by Conventional Intermediate-Term, Level-Payment Mortgages; Single-Family; maturing or due in 15 years or less. **ZL** — Second-level Single Security collateralized by REMIC certificates that are directly or indirectly backed by Conventional Long-Term, Level-Payment Mortgages; Single-Family; maturing or due in 30 years or less. **ZN** — Second-level Single Security collateralized by REMIC certificates that are directly or indirectly backed by Conventional Short-Term, Level-Payment Mortgages; Single-Family; maturing or due in 10 years or less. **ZT** — Second-level Single Security collateralized by REMIC certificates that are directly or indirectly backed by Conventional Intermediate-Term, Level-Payment Mortgages; Single-Family; maturing or due in 20 years or less.
10-year Pooling Terms	10-year security Must have original terms of no less than 85 months and no more than 120 months for single- and multiple-lender securities.
15-year Pooling Terms	15-year security Must have original terms of no less than 85 months and no more than 180 months for single- multiple-lender securities.
20-year Pooling Terms	20-year security Must have original terms of no less than 181 months and no more than 240 months for single-and multiple-lender securities.
30-year Pooling Terms	30-year security Must have original terms of no less than 181 months and no more than 360 months for single- and multiple-lender securities.
Minimum Security Submission Amounts	• Fixed-rate single-lender securities have $1 million minimum. • Multiple-lender securities have a $1,000 minimum per lender and a $1 million security minimum.
General Requirements of Loans Pooled into a Single Security	Loans must be secured by a first lien and must represent the entire right, title, and interest in the mortgage note and related security instrument. Government-guaranteed and -insured loans may not be commingled with conventional loans.

Servicer Requirements	All mortgages in a single-lender security must be serviced by the same entity at the time of issuance.
Seasoning Requirements	Lenders may pool either seasoned or current loans into a single-lender security but loans that are aged more than 12 months may not be included in multi-lender securities.
De Minimis rules (SIFMA Guidelines)	Pursuant to current general pooling practices for Enterprise guaranteed securities: • Co-op share loans, certain relocation mortgages, loans with significant interest rate buydowns (extended buydowns), and high balance (super-conforming) loans may be commingled in TBA-eligible prefixes as long as they do not constitute more than 10 percent of the aggregate unpaid principal balance (UPB) of the security. If the security has two or more of these features, with the exception of a high balance (super-conforming) loans, the combination cannot exceed 15 percent of the aggregate UPB of the security. • The 15 percent combined UPB limit does not apply to high-balance (super-conforming) loans.
Removal of Mortgage Loans from Securities	See Appendix D for information on the alignment of Enterprise policies and practices related to the removal of mortgage loans from securities.
Re-Securitization Parameters – Single-Class Re-Securitizations (today's Giants and Megas)	• Fixed-rate pooling generally follows the same parameters as underlying products. • No seasoning or size limitations.
Clean-up Calls	No clean-up call option.
Note Rate Range Requirements	For single-issuer and multiple-lender securities, fixed-rate mortgage note rates must be between 25 basis points and 250 basis points over the security pass-through rate.

Appendix B: Analysis of Counterparty Risk Posed by Enterprise Securitizations

The chart on the following pages provides a comparative analysis, in legal terms, of how an investor's claim for nonpayment on an Enterprise security held by such investor would be satisfied under both: (A) current Enterprise securitizations and (B) future Enterprise securitizations under the Single Security program. This legal analysis of counterparty risk is presented at two levels: first, with respect to the basic, single-class pass-through security of each Enterprise (the "**First Level Securitization**," resulting in a "**Level 1 MBS**") and second, with respect to further securitizations of those basic securities, whether in a single-class or multiclass/REMIC form (the "**Second Level Securitization and other Re-Securitizations**," resulting in a "**Level 2 Security"**). To place the legal analysis in context, it will be helpful to discuss the relevant principles with illustrations from typical transactions under the Single Security program, as follows.

The guiding principle in considering counterparty risk, in both the current context and under Single Security, is that the holder of any security looks to the issuer of that security for performance of the issuer's guarantee. For example, if an investor purchases two Freddie Mac-issued Level 1 MBS, the investor's counterparty is Freddie Mac, as the issuer and guarantor of those Level 1 MBS securities. Accordingly, Freddie Mac's performance is directly relevant to the investor; Fannie Mae has no performance obligations regarding those securities.

This issuer-as-guarantor principle described above remains true in the case of a Level 2 Security, regardless of whether the guarantor of the Level 2 Security is different than the guarantor of any underlying Level 1 MBS. Continuing the example from above, the investor that purchased two Freddie Mac-issued Level 1 MBS could thereafter tender those two securities (and/or others issued by either Enterprise, since "commingling" of Enterprise securities is permitted in Level 2 Securities) to Fannie Mae in exchange for a Fannie Mae-issued Level 2 Security. The Level 2 Security in this example would be issued and guaranteed by Fannie Mae, and backed by the collateral tendered by the investor (i.e., the two Freddie Mac-issued Level 1 MBS, and/or other Level 1 MBS). Once the Level 2 Security in this example is issued and delivered by Fannie Mae, the investor's counterparty for that security is Fannie Mae. Freddie Mac's original guarantee of its Level 1 MBS remains in effect, but as a result of the Second Level Securitization, Freddie Mac's guarantee now runs to the trust of the Level 2 Security, not the investor.

Let us return to the example from above, for purposes of analysis. After the Level 2 Security issuance date, the investor in the Level 2 Security would look to Fannie Mae for timely payment of principal and interest on the Level 2 Security. Assuming that Fannie Mae performs, any hypothetical payment default by Freddie Mac on any underlying Level 1 MBS, or any hypothetical receivership of Freddie Mac, would not affect the Level 2 Security investor. If, however, Fannie Mae was to default on its guarantee of its Level 2 Security or was to enter into receivership, the analysis differs.[1] First, since the trust for the Level 2 Security owns the underlying Level 1 MBS, the Level 2 Security investor would continue to be entitled to principal and interest received on the underlying Level 1 MBS. The Housing and Economic Recovery Act of 2008 (HERA) provides that the underlying Level 1 MBS are unavailable to satisfy the claims of other Fannie Mae creditors if Fannie Mae enters into receivership.[2] Second, FHFA, in its role as receiver, would need to determine, consistent with applicable law, how to treat the Level 2 Security investor's claim regarding Fannie Mae's guarantee obligations.

Whether under current Enterprise securitization programs or the Single Security, neither Enterprise's securities are guaranteed by, or represent the debts or obligations of, the United States or any federal agency or instrumentality other than the issuing Enterprise. Through the Senior Preferred Stock Purchase Agreements,[3] however, the United States Department of the Treasury provides each Enterprise with financial support, under certain conditions, to eliminate deficits in their net worth. As of March 31, 2015, the amounts of available funding remaining under these agreements were $140.5 billion for Freddie Mac and $117.6 billion for Fannie Mae.

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[1] If either Enterprise was to enter receivership, that event would trigger a guarantor default without any further action by certificate holders. For either Enterprise, such a guarantor default would allow investors representing a majority of the voting rights of the trust to select a new trustee/administrator.

[2] See 12 U.S.C. 1367(b)(19)(B). A similar analysis would apply to the underlying Level 1 MBS issued by Freddie Mac if both Freddie Mac and Fannie Mae were in receivership at that time.

[3] Amended and Restated Senior Preferred Stock Purchase Agreement between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation dated as of September 26, 2008, as amended (for Freddie Mac), and Amended and Restated Senior Preferred Stock Purchase Agreement between the United States Department of the Treasury and Federal National Mortgage Association dated as of September 26, 2008, as amended (for Fannie Mae).

FIRST LEVEL SECURITIZATION		
	TODAY **(UNDER CURRENT ENTERPRISE PROGRAMS)**	**FUTURE** **(UNDER SINGLE SECURITY PROGRAM)**
Name of Security Created	• Gold PC (Freddie Mac) or MBS (Fannie Mae)	Single-Class Pass-Through Level 1 Agency MBS (“**Level 1 MBS**”)
Issuer of Security	• Issuing Enterprise (either Freddie Mac or Fannie Mae)	NO CHANGE
Original Purchaser of Underlying Assets and Depositor into the Trust	• Issuing Enterprise (100%)	NO CHANGE
Guarantor	• Issuing Enterprise	NO CHANGE
Guarantee Terms	• For Gold PCs and MBS, timely principal and interest	NO CHANGE
If Loan Defaults	• Issuing Enterprise pays on guarantee • If default continues, loan generally is repurchased from pool at 120 days delinquency, per the Issuing Enterprise’s loans-in-acceleration (“LIA”) policy; repurchase proceeds are passed through to investors as prepayment.	NO CHANGE
If Issuing Enterprise Defaults on its Guarantee Obligations or if Issuing Enterprise in Receivership	• Investors continue to have an interest in the underlying assets of the trust and thus would be entitled to principal and interest received on those assets in accordance with the terms of the trust (as set forth in the Trust Agreement). • Underlying assets are legally isolated (not available for general creditors of the Issuing Enterprise) by trust structure and pursuant to the Housing and Economic Recovery Act of 2008 (“HERA”). • Funding available to each Enterprise under its Senior Preferred Stock Purchase Agreement (SPSPA) with the U.S. Department of the Treasury limits the risk of a guarantor payment default. In the event of such payment default, and in the event the U.S. Department of the Treasury fails to perform its obligations to the relevant Enterprise in respect of the financial support committed under that Enterprise’s SPSPA, affected investors are entitled to file claims in the United States Court of Federal Claims for relief requiring the U.S. Department of the Treasury to pay liquidated damages to the relevant Enterprise.[i] In the event of such payment default, investors would have an unsecured claim against the Issuing Enterprise for any funds owed by the Issuing Enterprise as guarantor. If the Issuing Enterprise were to be in receivership, FHFA would evaluate such claims pursuant to HERA.	NO CHANGE

FIRST LEVEL SECURITIZATION		
	TODAY (UNDER CURRENT ENTERPRISE PROGRAMS)	**FUTURE (UNDER SINGLE SECURITY PROGRAM)**
	• Failure by the Issuing Enterprise to make a guarantee payment would constitute a Guarantor Event of Default: For Freddie Mac, if such payment failure lasts for 30 days; and for Fannie Mae, 15 days after at least 5% of the relevant certificate holders give notice of such failure (assuming the failure is not cured). For either Enterprise, such Guarantor Event of Default would allow investors representing a majority of the voting rights of the trust to select a new trustee/administrator.	
If Non-Issuing Enterprise in Receivership	• No impact to investors or the Issuing Enterprise because there is no “commingling” of loans underlying Gold PCs or MBS.	NO CHANGE

SECOND LEVEL SECURITIZATION AND OTHER RE-SECURITIZATIONS		
	TODAY (UNDER CURRENT ENTERPRISE PROGRAMS)	**FUTURE (UNDER SINGLE SECURITY PROGRAM)**
Name of Security Created	• Giant (Freddie Mac), Mega (Fannie Mae), Freddie Mac REMIC or Fannie Mae REMIC	• Single-Class Pass-Through Level 2 Agency MBS or REMIC (**“Re-Securitization MBS”**)
Issuer of Security	• Issuing Enterprise (either Freddie Mac or Fannie Mae)	NO CHANGE
Original Issuer of Underlying Securities	• Issuing Enterprise (100%)	• Any mix of TBA-eligible or REMIC securities from either or both Enterprises (commingling of Level 1 MBS and/or Re-Securitization MBS originally issued by either Enterprise permitted)
Guarantor to Investors	• Issuing Enterprise	• NO CHANGE (i.e., Enterprise issuing most recently-issued Re-Securitization MBS)

SECOND LEVEL SECURITIZATION AND OTHER RE-SECURITIZATIONS		
	TODAY **(UNDER CURRENT ENTERPRISE PROGRAMS)**	**FUTURE** **(UNDER SINGLE SECURITY PROGRAM)**
Guarantee Terms	• For Gold Giants, Megas and REMICs, timely principal and interest[ii]	NO CHANGE
If Loan Defaults	• Issuing Enterprise pays on guarantee • If default continues, loan generally is repurchased from pool at 120 days delinquency per the Issuing Enterprise's LIA policy; repurchase proceeds passed through to investors as prepayment.	Same as today, plus: • Issuing Enterprise will fully guarantee its Re-Securitization MBS, regardless of the original issuer of the underlying securities.[iii]
If *Issuing Enterprise* Defaults on its Guarantee Obligations or if Issuing Enterprise in Receivership	• Investors continue to have an interest in the underlying assets of the trust and thus would be entitled to principal and interest received on those assets in accordance with the terms of the trust. • Underlying assets are legally isolated (not available for general creditors of the Issuing Enterprise) by trust structure and pursuant to HERA (12 U.S.C. 1367(b)(19)(B)(i)). • Funding available to each Enterprise under its SPSPA with the U.S. Treasury limits the risk of a guarantor payment default. In the event of such payment default, and in the event the U.S. Treasury fails to perform its obligations to the relevant Enterprise in respect of the financial support committed under that Enterprise's SPSPA, affected investors are entitled to file claims in the United States Court of Federal Claims for relief requiring the U.S. Treasury to pay liquidated damages to the relevant Enterprise.[iv] In the event of such payment default, investors would have an unsecured claim against the Issuing Enterprise for any funds owed by the Issuing Enterprise as guarantor. If the Issuing Enterprise	Same as today, plus: • Investors will continue to receive guarantee payments that are passed through from the Non-Issuing Enterprise, to the extent the Non-Issuing Enterprise's Level 1 MBS backs the Re-Securitization MBS.

SECOND LEVEL SECURITIZATION AND OTHER RE-SECURITIZATIONS		
	<u>TODAY</u> (UNDER CURRENT ENTERPRISE PROGRAMS)	**<u>FUTURE</u> (UNDER SINGLE SECURITY PROGRAM)**
	is in receivership, FHFA, as receiver, would evaluate such claims pursuant to HERA. • Failure by the Issuing Enterprise to make a guarantee payment would constitute a default: For Freddie Mac, if such payment failure lasts for 30 days; and for Fannie Mae, 15 days after at least 5% of the relevant certificate holders give notice of such failure (assuming the failure is not cured). For either Enterprise, such default would allow investors representing a majority of the voting rights of the trust to select a new trustee/administrator.	
If *<u>Non-Issuing Enterprise</u>* Defaults on its Guarantee Obligations or if Non-Issuing Enterprise in Receivership	• No impact to investors or Issuing Enterprise because no commingling of loans underlying second-level securities or REMICs.	• Issuing Enterprise will fully guarantee its Re-Securitization MBS[v] • No rights of investors to makes claims against the Non-Issuing Enterprise
If *<u>Issuing Enterprise</u>* Defaults on its Guarantee Obligations and *<u>Both Enterprises</u>* in Receivership	• Not applicable because no commingling of loans underlying second-level securities or REMICs. Analysis is similar to discussion above under "*If Issuing Enterprise Defaults on its Guarantee Obligations or if Issuing Enterprise in Receivership*."	• Investors continue to have an interest in the underlying assets of the trust and thus would be entitled to principal and interest received on those assets in accordance with the terms of the trust and HERA (underlying assets would not be available for the general creditors of the Enterprises). • Investors will continue to receive guarantee payments that are passed through from the Non-Issuing Enterprise, to the extent the Non-Issuing Enterprise's Level 1 MBS backs the Re-Securitization MBS. • Funding available to each Enterprise under its SPSPA with the U.S. Treasury limits the risk of

SECOND LEVEL SECURITIZATION AND OTHER RE-SECURITIZATIONS		
	TODAY **(UNDER CURRENT ENTERPRISE PROGRAMS)**	**FUTURE** **(UNDER SINGLE SECURITY PROGRAM)**
		guarantor payment default. In the event of such payment default, and in the event the U.S. Treasury fails to perform its obligations to the relevant Enterprise in respect of the financial support committed under that Enterprise's SPSPA, affected investors are entitled to file claims in the United States Court of Federal Claims for relief requiring the U.S. Treasury to pay liquidated damages to the relevant Enterprise.[vi] In the event of such payment default, investors would have an unsecured claim against the Issuing Enterprise for any funds owed by the Issuing Enterprise as guarantor. FHFA, as receiver, would evaluate such claims pursuant to HERA.[vii] • Failure by the Issuing Enterprise to make a guarantee payment would constitute a default: For Freddie Mac, if such payment failure lasts for 30 days; and for Fannie Mae, 15 days after at least 5% of the relevant certificate holders give notice of such failure (assuming the failure is not cured). For either Enterprise, such default would allow investors representing a majority of the voting rights of the trust to select a new trustee/administrator. • No rights of investors to make claims against the Non-Issuing Enterprise

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[i] See Letter Opinion for the Secretary of the Treasury, dated September 26, 2008, from the Office of Legal Counsel, U.S. Department of Justice.

[ii] For Freddie Mac Giants, in addition to a guarantee of principal by the final payment date, Freddie Mac guarantees timely payment of interest and payment of principal as principal payments are made on the underlying assets. Freddie Mac Giants backed by Gold PCs ("Gold Giants") therefore receive the benefit of the guarantee of timely payment of both interest and principal on such Gold PCs.

[iii] If a defaulting loan backs a Level 1 MBS or Re-Securitization MBS issued by the Non-Issuing Enterprise, the Issuing Enterprise will also have an unsecured indemnity or contractual claim against the Non-Issuing Enterprise for the Non-Issuing Enterprise's underlying guarantee payments.

[iv] See Letter Opinion for the Secretary of the Treasury, dated September 26, 2008, from the Office of Legal Counsel, U.S. Department of Justice.

[v] To extent the Non-Issuing Enterprise's Level 1 MBS backs the Re-Securitization MBS, the Issuing Enterprise will also have an unsecured indemnity or contractual claim against the Non-Issuing Enterprise for the Non-Issuing Enterprise's underlying guarantee payments.

[vi] See Letter Opinion for the Secretary of the Treasury, dated September 26, 2008, from the Office of Legal Counsel, U.S. Department of Justice.

[vii] To extent the Non-Issuing Enterprise's Level 1 MBS backs the Re-Securitization MBS, the Issuing Enterprise will also have an unsecured indemnity or contractual claim against the Non-Issuing Enterprise for the Non-Issuing Enterprise's underlying guarantee payments.

Appendix C: Data Attributes, Definitions, and Enumerations for Single-Class Single Security Disclosures

This appendix provides information on the data that Fannie Mae and Freddie Mac will disclose on single-class Single Securities. Single-class securities are those where each investor receives a proportional share of all the principal and interest payments on the underlying collateral.

The body of the appendix consists of five tables. Each table lists data attributes to be disclosed for single-class First- and/or Second-Level Securities. Separate sections of each table provide a definition and the allowable values ("enumerations") of each data attribute. Where a data attribute requires an actual value, the enumeration section is blank.

Table 1 provides the loan-level data attributes that will be disclosed for single-class First-Level Single Securities. Note that the geographical indicator of the location of the property and any masking of other numeric data attributes are yet to be determined.

Table 2 provides the core security-level data attributes that will be disclosed for single-class First- and Second-Level Single Securities. The core data attributes provide security-specific information, e.g., Issue Date and Pool Factor, or data derived by aggregating loan-level data, e.g., Weighted Average Borrower Credit Score.

Table 3 provides the security-level data attributes for which quartile values will be disclosed for single-class First- and Second-Level Single Securities.

Table 4 provides the security-level data attributes for which stratified data will be disclosed by their corresponding enumerations for single-class First- and Second-Level Single Securities. Note that the data type, code, and length values are not provided in this table, as the values will reflect those of the corresponding loan-level data attributes.

Table 5 provides the data attributes that will be disclosed for single-class Second-Level Single Securities and for the securities directly underlying Second-Level Single Securities.

Fannie Mae and Freddie Mac may refine the information on the data they will disclose for single-class Single Securities presented in this appendix. Such refinements will be made public.

Table 1: Loan-Level Data for First-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
LL - 01	Loan Identifier	The unique alpha and/or numeric designation assigned to each loan.		Alpha-Numeric		12
LL - 02	Mortgage Loan Amount	The dollar amount of the loan as stated on the note at the time the loan was originated.		Numeric		9 digits before the decimal, 2 digits after
LL - 03	Investor Loan UPB - Issuance	The unpaid principal balance (UPB) of the loan as it contributes to the balance of the security at the time the security was issued.		Numeric		9 digits before the decimal, 2 digits after
LL - 04	Investor Loan UPB - Current	The unpaid principal balance (UPB) of the loan as it contributes to the current balance of the security.		Numeric		9 digits before the decimal, 2 digits after
LL - 05	Amortization Type	The indicator showing whether the interest rate on the loan is fixed-rate or adjustable-rate.	Fixed-Rate Adjustable-Rate	Alpha	FRM = Fixed-Rate ARM = Adjustable-Rate	3
LL - 06	Interest Rate - Origination	The interest rate of the loan as stated on the note at the time the loan was originated.		Numeric		2.3
LL - 07	Interest Rate - Issuance	The interest rate of the loan in effect at the time the security was issued.		Numeric		2.3
LL - 08	Interest Rate - Current	The interest rate of the loan in effect during the current reporting period.		Numeric		2.3
LL - 09	Net Interest Rate - Issuance	The interest rate of the loan at the time the security was issued, less applicable servicing and guarantee fees.		Numeric		2.3

Table 1: Loan-Level Data for First-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
LL - 10	Net Interest Rate - Current	The interest rate of the loan in effect during the current reporting period, less applicable servicing and guarantee fees.		Numeric		2.3
LL - 11	First Payment Date	The due date of the first scheduled payment on the loan.		Date		MMCCYY
LL - 12	Maturity Date	The month and year in which the final payment on the loan is scheduled to be made at the time the loan was originated.		Date		MMCCYY
LL - 13	Loan Term	The number of months between loan origination and the loan maturity date.		Numeric		3
LL - 14	Remaining Months to Maturity	The number of scheduled monthly payments that, after giving effect to curtailments, will reduce the Investor Loan UPB - Current to zero.		Numeric		3
LL - 15	Loan Age	The number of scheduled payments from the time the loan was originated up to and including the current reporting period.		Numeric		3 Value can be Negative
LL - 16	Loan-To-Value (LTV)	The ratio obtained by dividing the amount of the mortgage loan at origination by either the lesser of the sales price or the appraised property value for a purchase or the appraised property value for a refinance.		Numeric	999 = Not Available	3

Table 1: Loan-Level Data for First-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
LL - 17	Combined Loan-To-Value (CLTV)	The ratio obtained by dividing the amount of all known outstanding mortgage loans at origination by either the lesser of the sales price or the appraised property value for a purchase or the appraised property value for a refinance.		Numeric	999 = Not Available	3
LL - 18	Debt-To-Income (DTI)	The ratio obtained by dividing the total monthly debt expense by the total monthly income of the borrower at the time the loan was originated.		Numeric	999 = Not Available	3
LL - 19	Borrower Credit Score	The standardized credit score used to evaluate the borrower during the loan origination process.		Numeric	999 = Not Available	3
LL - 20	Number of Borrowers	The number of borrowers who are obligated to repay the loan at the time the loan was originated.	1 2 3 4 5 6 7 8 9 10 Not Available	Numeric	01 02 03 04 05 06 07 08 09 10 99 = Not Available	2
LL - 21	First Time Home Buyer Indicator	The indicator showing whether the borrower is a first time home buyer.	Yes No Not Available	Alpha-Numeric	Y = Yes N = No 9 = Not Available	1

Table 1: Loan-Level Data for First-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
LL - 22	Loan Purpose	The indicator that describes the purpose of the loan.	Purchase Refinance - Not Specified Refinance - Cash Out Refinance - No Cash Out Not Available	Alpha-Numeric	C = Refinance - Cash Out N = Refinance - No Cash Out R = Refinance - Not Specified P =Purchase 9 - Not Available	1
LL - 23	Occupancy Status	The indicator that describes the property occupancy status at the time the loan was originated.	Primary Residence Second Home Investment Property Not Available	Alpha-Numeric	P = Primary Residence S = Second Home I= Investment Property 9 = Not Available	1
LL - 24	Number of Units	The number of dwelling units in the mortgaged property at the time the loan was originated.	1 2 3 4 Not Available	Numeric	01 02 03 04 99 = Not Available	2
LL - 25	Property Type	The indicator that describes the type of property that secures the loan.	Cooperative Condominium Planned Unit Development Single-Family Manufactured Housing Not Available	Alpha-Numeric	CP = Cooperative CO = Condominium PU = Planned Unit Development SF = Single-Family MH = Manufactured Housing 99 = Not Available	2

Table 1: Loan-Level Data for First-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
LL - 26	Channel	The indicator that describes the source from which the issuer obtained the loan.	Broker Correspondent Retail Third Party Origination - Not Specified Not Available	Alpha-Numeric	R = Retail B = Broker C = Correspondent T = Third Party Origination - Not Specified 9 = Not Available	1
LL - 27	Geographical Indicator	The indicator used to determine the location of the property.		TBD	TBD	TBD
LL - 28	Seller Name	The name of the entity that sold the loan to the Issuer.		Alpha		50
LL - 29	Servicer Name	The name of the entity that services the loan during the current reporting period.		Alpha		50
LL - 30	Mortgage Insurance Percentage	The percentage of mortgage insurance coverage obtained at origination in effect at the time the security was issued.	"Value" No MI Not Available	Numeric	000= No MI 999=Not Available	3
LL - 31	Mortgage Insurance Cancellation Indicator	An indicator that denotes if the mortgage insurance has been cancelled after the time the security was issued.	Yes No Not Applicable	Alpha-Numeric	Y = Yes N = No 7 = Not Applicable	2
LL - 32	Loan Correction Indicator	The indicator that denotes if any of the attributes for the loan have changed from previous disclosures.	Yes No Added Deleted	Alpha	Y = Yes N = No A = Added D = Deleted	1
LL - 33	File Creation Date	The date that the file was generated		Date		MMDDCCYY

Table 2: Core Security-Level Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
Core - 01	Prefix	The designation assigned by the Issuer which denotes the terms of the loans and security.		Alpha-Numeric		3
Core - 02	Security Identifier	The unique designation assigned by the Issuer to the security.		Alpha-Numeric		6
Core - 03	CUSIP	The unique designation assigned by the CUSIP Service Bureau to the security.		Alpha-Numeric		9
Core - 04	Security Description	The unique designation of the security including abbreviated FED CODE , WA Net Interest Rate, Prefix and Security Identifier.		Alpha-Numeric		20
Core - 05	Issuer	The name of the entity that issued the security.	Fannie Mae Freddie Mac	Alpha	FNM = Fannie Mae FRE = Freddie Mac	3
Core - 06	Issue Date	The date on which the security was issued.		Date		MMDDCCYY
Core - 07	Maturity Date	The month and year in which the final payment on the security is scheduled to be made at the time the security was issued.		Date		MMCCYY
Core - 08	Updated Longest Maturity Date	The updated month and year in which the final payment on the security is scheduled to be made based on the active loans in the security.		Date		MMCCYY
Core - 09	Investor Security UPB - Issuance	The aggregate Investor Loan UPB - Issuance of the loans as they contribute to the balance of the security at the time the security was issued.		Numeric		14.2

Table 2: Core Security-Level Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
Core - 10	Investor Security UPB - Current	The aggregate Investor Loan UPB - Current of the loans as they contribute to the balance of the security.		Numeric		14.2
Core - 11	Security Factor	The decimal value that, when multiplied by Investor Security UPB - Issuance amount, equals the Investor Security UPB - Current amount.		Numeric		1.8
Core - 12	WA Net Interest Rate	The weighted average Net Interest Rate of the active loans in the security.		Numeric		2.3
Core - 13	WA Interest Rate - Issuance	The weighted average Interest Rate - Issuance of the loans at the time the security was issued.		Numeric		2.3
Core - 14	WA Interest Rate - Current	The weighted average Interest Rate - Current of the active loans in the security.		Numeric		2.3
Core - 15	WA Remaining Months to Maturity - Current	The weighted average Remaining Months to Maturity of the active loans in the security during the current reporting period.		Numeric		3
Core - 16	WA Remaining Months to Maturity - Issuance	The weighted average Remaining Months to Maturity of the loans at the time the security was issued.		Numeric		3
Core - 17	WA Loan Age	The weighted average Loan Age of the active loans in the security.		Numeric		3
Core - 18	WA Loan Term	The weighted average Loan Term of the active loans in the security.		Numeric		3
Core - 19	WA Mortgage Loan Amount	The weighted average Mortgage Loan Amount of the active loans in the security.		Numeric		9.2

Table 2: Core Security-Level Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
Core - 20	Average Mortgage Loan Amount	The simple average Mortgage Loan Amount of the active loans in the security.		Numeric		9.2
Core - 21	WA Loan-To-Value (LTV)	The weighted average Loan-To-Value (LTV) ratio of the active loans in the security.		Numeric		3
Core - 22	WA Combined Loan-To-Value (CLTV)	The weighted average Combined Loan-To-Value (CLTV) ratio of the active loans in the security.		Numeric		3
Core - 23	WA Debt-To-Income (DTI)	The weighted average Debt-To-Income (DTI) ratio of the active loans in the security.		Numeric		3
Core - 24	WA Borrower Credit Score	The weighted average Borrower Credit Score of the active loans in the security.		Numeric		3
Core - 25	Loan Count	The total number of active loans in the security.		Numeric		9
Core - 26	Third Party Origination UPB Percent	The percentage of the aggregate Investor Loan UPB of the active loans in the security that were originated by a third party, to include Broker and Correspondent originations.		Numeric		3.2
Core - 27	Seller Name	The name of the entity that sold the loans to the Issuer.		Alpha		100
Core - 28	Seller City	The city of the address of the entity that sold the loans to the Issuer.		Alpha		50
Core - 29	Seller State	The state or territory of the address of the entity that sold the loans to the Issuer.		Alpha		2
Core - 30	Servicer Name	The name of the entity that services the loans in the security.		Alpha		100

Table 2: Core Security-Level Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
Core - 31	Delinquent Loans Purchased (Loan Count)	The number of loans that were purchased from the security due to delinquency status during the current reporting period.		Numeric		9
Core - 32	Delinquent Loans Purchased (Prior Month UPB)	The aggregate prior period Investor Loan UPB of the loans that were purchased from the security due to delinquency status during the current reporting period.		Numeric		14.2
Core - 33	Security Data Correction Indicator	The indicator used to denote the data correction status of the security based on the current reporting period.		Alpha	Y = Yes N = No	1
Core - 34	Security Status Indicator	The indicator used to denote the status of the security based on the current reporting period.	Active Paid Off Collapsed Dissolved	Alpha	A = Active P = Paid Off C = Collapsed D = Dissolved	1
Core - 35	Security Notification Indicator	The indicator used to denote that the disclosure is preliminary and subject to change.	Preliminary Final Not Applicable	Alpha-Numeric	P = Preliminary F = Final 7 = Not Applicable	1
Core - 36	Eligible for Resecuritization	The indicator used to denote that the security is eligible for resecuritization.	Y = Yes N = No	Alpha	Y = Yes N = No	1
Core - 37	Security Factor Date	The date on which the corresponding factor is effective.		Date		MMDDCCYY

Table 3: Quartile Data for First-and Second-Level Single Securities

Ref #	Attribute Name	Attribute Definition	Data Type	Code	Length
Quar - 01	Mortgage Loan Amount	Quartile of Mortgage Loan Amount for the active loans in the security.	Numeric		14.2
Quar - 02	Interest Rate	Quartile of Interest Rate for the active loans in the security.	Numeric		2.3
Quar - 03	Loan Term	Quartile of Loan Term for the active loans in the security.	Numeric		3
Quar - 04	Loan Age	Quartile of Loan Age for the active loans in the security.	Numeric		4
Quar - 05	Remaining Months to Maturity	Quartile of Remaining Months to Maturity for the active loans in the security.	Numeric		3
Quar - 06	Loan-To-Value (LTV)	Quartile of Loan-To-Value (LTV) ratio for the active loans in the security.	Numeric		3
Quar - 07	Combined Loan-To-Value (CLTV)	Quartile of Combined Loan-To-Value (CLTV) ratio for the active loans in the security.	Numeric		3
Quar - 08	Borrower Credit Score	Quartile of Borrower Credit Score for the active loans in the security.	Numeric		3
Quar - 09	Debt-To-Income (DTI)	Quartile of Debt-To-Income (DTI) ratio for the active loans in the security.	Numeric		3

Quartiles are based on the Investor UPB of all the active loans in the security across the following quartile data points: Minimum, 25%, Median, 75%, Maximum

Minimum The minimum value associated to the distribution of the [attribute] when distributed into groups having equal frequencies.	25% The single value associated to the 25th percentile of the distribution of the [attribute] when distributed into groups having equal frequencies.	Median The single value associated to the 50th percentile of the distribution of the [attribute] when distributed into groups having equal frequencies.	75% The single value associated to the 75th percentile of the distribution of the [attribute] when distributed into groups having equal frequencies.	Maximum The maximum value associated to the distribution of the [attribute] when distributed into groups having equal frequencies.

Table 4: Security Stratified Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations
Strat - 01	Borrower Credit Score Not Available	The stratification by Borrower Credit Scores that are not available for the active loans in the security.	
Strat - 02	Channel	The stratification by Channel of the active loans in the security.	Broker Correspondent Retail Third Party Origination - Not Specified Not Available
Strat - 03	Combined Loan-To-Value (CLTV) Not Available	The stratification by Combined Loan-To-Value (CLTV) ratios that are not available for the active loans in the security.	
Strat - 04	Days Delinquent	The stratification by the number of days the loans are delinquent of the active loans in the security.	30-59 60-89 90-119 120+
Strat - 05	Debt-To-Income (DTI) Not Available	The stratification by Debt-To-Income (DTI) ratios that are not available for the active loans in the security.	
Strat - 06	First Time Home Buyer Indicator	The stratification by First Time Home Buyer Indicator of the active loans in the security.	Yes No Not Available
Strat - 07	Geographical Indicator	The stratification by Geographical Indicator of the active loans in the security.	To be determined

Table 4: Security Stratified Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations
Strat - 08	Loan Purpose	The stratification by Loan Purpose of the active loans in the security.	Purchase Refinance - Not Specified Refinance - Cash Out Refinance - No Cash Out Not Available
Strat - 09	Loan-To-Value (LTV) Not Available	The stratification by Loan-To-Value (LTV) ratios that are not available for the active loans in the security.	
Strat - 10	Mortgage Insurance Cancellation Indicator	The stratification by Mortgage Insurance Cancellation Indicator of the active loans in the security.	Yes No Not Applicable
Strat - 11	Mortgage Insurance Coverage	The stratification by the presence of mortgage insurance at the time the security was issued, of the active loans in the security.	Loans With Mortgage Insurance Loans Without Mortgage Insurance
Strat - 12	Non-Standard Loan Type	The stratification by the non-standard loan products of the loans in the security at the time the security was issued. Not Applicable for Single Class Resecuritizations This stratification will only be provided at the time the security was issued.	Cooperative FHFA High Cost Area Interest-rate buydown Relocation

Table 4: Security Stratified Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations
Strat - 13	Not Paying Principal in First Distribution	The stratification by the loans that will not receive a principal distribution in the first investor payment, at the time the security was issued. This stratification will only be provided at the time the security was issued.	
Strat - 14	Number of Borrowers	The stratification by Number of Borrowers of the active loans in the security.	1 2 >2 Not Available
Strat - 15	Number of Units	The stratification by Number of Units of the active loans in the security.	1 2 3 4 Not Available
Strat - 16	Occupancy Status	The stratification by Occupancy Status of the active loans in the security.	Primary Residence Second Home Investment Property Not Available
Strat - 17	Origination Year	The stratification by the year of origination of the active loans in the security.	

Table 4: Security Stratified Data for First-and Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations
Strat - 18	Property Type	The stratification by Property Type of the active loans in the security.	Cooperative Condominium Planned Unit Development Manufactured Housing Single-Family Not Available
Strat - 19	Seller Name	The stratification by Seller Name of the active loans in the security.	
Strat - 20	Servicer Name	The stratification by Servicer Name of the active loans in the security.	

For the stratification of the attributes above, the following information will be provided:

- Aggregate Investor Loan UPB
- Percentage Investor Loan UPB
- Aggregate Loan Count
- Percentage Loan Count

In addition, the following information will be provided for both Seller Name and Servicer Name stratifications:

- Ranges of Interest Rate
- Ranges of Weighted Average Loan Age
- Ranges of Weighted Average Remaining Months to Maturity

Table 5: Data on Securities Underlying Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
L2 Coll - 01	Collateral CUSIP	The CUSIP for each security that directly underlies the resecuritization.		Alpha-Numeric		9
L2 Coll - 02	Collateral Security Identifier	The Security Identifier for each security that directly underlies the resecuritization.		Alpha-Numeric		6
L2 Coll - 03	Trust Identifier	The legal entity that owns a pool of assets for the benefit of investors.		Alpha-Numeric		50
L2 Coll - 04	Class Identifier	The designation pertaining to a specific security issued from a REMIC or Stripped MBS trust.		Alpha-Numeric		4
L2 Coll - 05	Group Identifier	One or more certificates, all of which have the same underlying pool of assets.		Alpha-Numeric		5
L2 Coll - 06	Collateral Prefix	The Prefix for each security that directly underlies the resecuritization.		Alpha-Numeric		3
L2 Coll - 07	Collateral Issuer	The Issuer for each security that directly underlies the resecuritization.	Fannie Mae Freddie Mac	Alpha	FNM = Fannie Mae FRE = Freddie Mac	3

Table 5: Data on Securities Underlying Second-Level Single Securities

Reference #	Single Security Attribute Name	Single Security Attribute Definition	Enumerations	Data Type	Code	Length
L2 Coll- 08	Collateral WA Net Interest Rate - Current	The WA Net Interest Rate - Current for each security that directly underlies the resecuritization.		Numeric		2.3
L2 Coll - 09	Collateral Issue Date	The Issue Date for each security that directly underlies the resecuritization.		Date		MMDDCCYY
L2 Coll - 10	Collateral Maturity Date	The Maturity Date for each security that directly underlies the resecuritization.		Date		MMCCYY
L2 Coll - 11	Collateral Investor Security UPB - Issuance	The Investor Security UPB - Issuance for each security that directly underlies the resecuritization.		Numeric		12.2
L2 Coll - 12	Collateral Contributing Investor Security UPB - Issuance	The pro-rata share of the Investor Security UPB - Issuance amount for each security that directly underlies the resecuritization.		Numeric		12.2
L2 Coll - 13	Collateral Contributing Investor Security UPB - Current	The pro-rata share of the Investor Security UPB - Current amount for each security that directly underlies the resecuritization.		Numeric		12.2

Appendix D: Current Alignment and Prospective Future Alignment of Fannie Mae and Freddie Mac Policies and Practices Related to the Removal of Mortgage Loans from Securities

Introduction

The *Request for Input: Single Security Structure* (RFI) released by the Federal Housing Finance Agency (FHFA) in August 2014 outlined the key features of a proposed Single Security and invited industry feedback. In addition to reviewing written responses to the RFI, FHFA and Fannie Mae and Freddie Mac (the Enterprises) have met with key investors, industry groups, and other interested parties to gather additional feedback on the proposal.

One of the most common themes in the industry feedback has been the need to understand better where the Enterprises' key policies and practices are currently substantively aligned today and, where appropriate, to increase that alignment so that the Enterprises' securities can be seen as more fungible. Industry feedback has focused particularly on the need for alignment of Enterprise policies and practices related to the removal of mortgage loans from mortgage securities (also known as loan "buy-outs" or "repurchases"), because such actions can have a large effect on security prepayments.

The purpose of this document is to summarize the key current loan removal policies and practices of the Enterprises where the Enterprises' are already substantially aligned and to provide information on several additional policies and practices where the Enterprises have agreed to become substantially aligned as part of the Single Security initiative.[1]

It should be noted that two types of loan removals discussed below—"Optional Removal Delinquency Trigger" and "Removal Due to Breach of Delivery-Based Representations and Warranties"—comprise well over 90 percent of all loan removals by the Enterprises, and that the Enterprises are already substantially aligned with respect to their policies and practices related to these types of removals. In addition, FHFA has worked with the Enterprises since 2012 on the "Representation and Warranty Framework" to create greater certainty with respect to when the Enterprises can exercise their right to put back loans to a seller.

[1] Each Enterprise's legal documents describe the factors (such as loss mitigation strategies, cost of funds, accounting implications, etc.) that it considers in deciding whether to remove a mortgage loan from a security where such removal is permitted but not required.

Policies and Practices Where the Enterprises Are Already Substantially Aligned

The Enterprises' loan removal policies and practices are already substantially aligned today in the following areas:

- **Optional Removal Delinquency Trigger.** The permitted removal from a security of a loan where the borrower has missed four monthly installments. The current practice of both Enterprises is to remove substantially all loans that reach 120 days of delinquency.

- **Removal Due to Breach of Delivery-Based Representations and Warranties.** The permitted removal of a loan from a security where there has been a material breach of a representation or warranty by a seller or a material loan documentation defect.[2]

- **Court or Governmental Actions.** The required removal of a loan from a security if the Enterprise was not authorized to acquire the loan (i.e., the loan was not Charter compliant or in violation of law) or if a court has ordered the removal of the loan from the security.

- **Removal in the Case of a Purchase by a Mortgage Insurer or Other Third-Party Guarantor.** The required removal of a loan from a security if a mortgage insurer or other third-party guarantor exercises its option to purchase the loan.

- **Final Payment Date.** The required removal of a loan from a security due to the maturing of—and the final payment on—a security.

- **Removal to Maintain Tax Status of Trust.** The permitted removal of a loan from a security if necessary or advisable to maintain the security's status as a fixed investment trust or grantor trust for purposes of Federal tax law.

- **Mandatory Removal Delinquency Trigger.** The required removal from a security of a loan that is 24 months past due.

- **Removal Due to Court-Ordered Change in Loan Terms.** The permitted removal of a loan from a security if a bankruptcy court has approved a plan that materially affects the mortgage terms or authorizes transfer or substitution of real property.

[2] Each Enterprise's Selling and Servicing guide defines its representation and warranty framework.

- **Loss of Security.** The permitted removal of a loan from a security if the loan ceases to be secured by the related mortgage property and the debt has been accelerated.

- **Real Estate Owned (REO) and Trusts.** The general practice of removing loans from securities as they transition to REO.

Policies and Practices Where the Enterprises Have Agreed to Substantially Align

In addition to the policies and practices listed above where the Enterprises are already substantially aligned today, the Enterprises have agreed to substantially align the following policies and practices for prospective Single Security securities prior to the issuance of any Single Securities:

- **Reasonably Foreseeable Default (Imminent Default).** The permitted removal of a loan from a security if default is deemed to be imminent.

- **Removal Permitted Due to Servicer Performance Error.** The permitted removal of a loan from a security in a case of a failure by a seller or servicer to comply with requirements set forth in the Enterprise's Seller/Servicer Guide.

- **Compliance with Law.** The permitted removal of a loan from a security if compliance with applicable law (e.g., the Servicemembers Civil Relief Act) requires a change in certain significant loan terms, e.g., the interest rate or unpaid principal balance.

- **Optional Removal Delinquency Status.** The permitted removal of a loan from a security if four consecutive payment dates have passed while the loan is delinquent, i.e., a delinquent loan where the borrower has resumed making payments but cannot make up the arrearages (including circumstances where the borrower has failed to make up at least one month's arrearage).

In addition, each Enterprise has agreed to eliminate the provisions in its legal documents that allow it to substitute mortgage loans under certain circumstances as an alternative to removal.

Although the specific language in the provisions in the Enterprises' trust agreements or other legal documents is not always exactly the same, once the policies and practices listed above are substantially aligned, the Enterprises' loan removal policies and practices will be generally similar and aligned for purposes of the Single Security.

Going Forward

FHFA recognizes that the success of the Single Security initiative will require continued close alignment of the Enterprises' policies and practices on removal of mortgage loans from mortgage securities. As proposals to revise those policies and practices arise, the Enterprises and FHFA will analyze their potential effects on security prepayment speeds, and FHFA will seek to ensure continued alignment in this area, to the extent feasible. FHFA recognizes that Enterprise-specific proposals may arise that FHFA will need to address. In considering and making decisions about potential changes to the Enterprises' loan removal policies and practices, the Director of FHFA will have the discretion to balance policy objectives that he believes to be appropriate, given FHFA's statutory obligations.

Appendix E: Exchange Option for Investors in Legacy Freddie Mac Participation Certificates

Freddie Mac will offer investors in legacy Participation Certificates (PCs) backed by fixed-rate mortgage loans the option to exchange such a PC for a comparable Single Security issued by Freddie Mac backed by the same pool of mortgage loans. This document provides information about the exchange program, which will commence on or before the first day of trading of the new Single Security and be open for the foreseeable future. The first section below outlines the exchange process. The second section discusses how Freddie Mac will calculate the compensation to be paid to investors to compensate for the change in the payment date. The third section defines key program terms.

Overview of the Exchange Process

At their option, investors in an outstanding Freddie Mac PC that is backed by fixed-rate mortgages and eligible to be delivered into "to-be-announced" (TBA) contracts and is not already 100 percent committed to re-securitizations will have the option to exchange the PC for a Single Security issued by Freddie Mac that is backed by the same pool of mortgage loans.[1] As part of that exchange, investors will receive compensation from Freddie Mac for the additional ten days of payment delay, from the 45th day to the 55th day from the date monthly interest begins accruing.

Each new Single Security issued though the exchange program will have the same characteristics as the corresponding PC for which it was exchanged, such as unpaid principal balance, pool factor, and weighted average coupon. However, the structure of the new securities will be similar to current Giant PCs (Giants) in that each security will be backed by the original PC, instead of being backed by the loans directly. Thus, Single Securities issued through the exchange program will have the same disclosures as single-class Single Security re-securitizations, and investors will have to refer to the underlying PC for loan-level disclosures.

When an investor exchanges a PC, they will receive an equal par amount of the corresponding Single Security. If another holder of the same PC exchanges their bond at a later date, they will receive a corresponding piece of the Single Security with the same pool number and CUSIP.

[1] Freddie Mac refers to PCs backed by fixed-rate mortgage loans as "Gold PCs" and Giant PCs backed by Gold PCs as "Gold Giant PCs". For simplicity, this appendix refers to those securities as PCs and Giants, respectively.

Investors should seek appropriate legal and accounting guidance on the potential tax and accounting implications of transactions conducted under the exchange program.
Investors desiring to exchange PCs will be required to do so through a member of a pre-determined dealer group that will be authorized to submit exchange transactions to Freddie Mac. The use of a dealer group will increase the efficiency and capacity of the exchange process. Freddie Mac currently uses a dealer group to conduct Giant transactions.

Dealers conducting exchanges will submit exchange transactions through an online exchange portal that Freddie Mac will create to process the exchange transactions. The portal will link the dealers with Freddie Mac's back-end infrastructure, including the exchange account, the wire room, and operations support personnel. The portal will also keep track of the progress of the exchange and will be the main system responsible for producing the "exchanged par," a new disclosure element that will describe the amount of each PC that has been exchanged.

The date a dealer submits an exchange request will be considered the "trade date" for the new Single Security. The dealer will enter into the portal the CUSIP, pool number, and par amount of the security to be exchanged. The portal will validate the trade and display a float compensation value and the CUSIP of the corresponding new Single Security that the investor can expect to receive in return. The dealer will be required to confirm those trade details. On the settlement date, which will generally be at least two days after the trade date, the dealer will wire the PCs to Freddie Mac's Federal Reserve Bank account. The Freddie Mac wire room will validate the collateral and send the corresponding new security and float compensation to the dealer.

Methodology for Calculating Float Compensation

Freddie Mac intends to compensate investors, when 45-day PCs are exchanged for 55-day Single Securities, for the approximate fair value of the additional ten days from the mortgage payment due date to the receipt of payments on the new securities ("the float"). That practice will follow the precedent established by the exchange Freddie Mac initiated in 1990, when investors were required to pay Freddie Mac for the value of the delay in payments when they exchanged 75-day PCs for 45-day PCs. The respondents to the *Request for Input: Proposed Single Security Structure* (RFI) published by FHFA in August 2014 stated that compensation for the change in the payment date would be warranted.

The approach that will be used to determine the approximate fair value of the float is guided by two complementary but sometimes competing principles: (1) the level of precision of the calculation and (2) a desire to use a simple and durable calculation mechanism. Investors and

Freddie Mac will want assurance that when there is an exchange, the fair value of the exchanged Single Security plus the cash compensation is equal to that of the current PC. The more precise the approach used to determine the fair value of the float, the more likely it is to produce a non-biased exchange. The effort to be precise could, however, undermine the exchange process because of the range of fair value assumptions and methodologies. Also, the exchange should remain open for the foreseeable future, which implies that the methodology selected should be highly durable and not require an inordinate infrastructure for Freddie Mac to support over the coming years.

The valuation methodologies Freddie Mac could use range from a flat fee based on the current unpaid principal balance (UPB) exchanged to a constant yield or constant option-adjusted spread (OAS) approach. The flat fee would be the simplest to administer but would not be as precise, whereas an OAS approach would be more precise but would embed a number of assumptions which could be disputed and would require more infrastructure. In short, determining the best way to value the float requires a judgment call.

Given the range of available methodologies and the desire to balance the competing principles of precision versus simplicity and durability, Freddie Mac plans to use a schedule of flat fees that will be informed by fair value methodologies. One or more flat fees for each product type (15-year mortgages, 30-year mortgages, etc.) will be offered. The fee schedule will be informed by various fair value methodologies, including a constant yield calculator, the Freddie Mac internal OAS model, and third-party OAS models. Those models will not be used to directly determine the float compensation but will provide a range of fair values to guide the compensation determination. The compensation schedule may also be affected by other considerations, such as the goal of increasing early liquidity in the new Single Security market. Thus, the final compensation offered by Freddie Mac may differ from the fair values produced by the models. Investors will see one transaction price per cohort (product, term, and coupon), as they do now with Giant and Real Estate Mortgage Investment Conduit (REMIC) fees. To provide general information about the level of compensation, Freddie Mac will publish an illustrative fee schedule prior to commencement of trading of the Single Security.

The expectation is that the compensation schedule will be relatively consistent over time. However, Freddie Mac will reserve the right to revise the compensation schedule at any time as market conditions warrant or in response to potential selection biases observed over time.

Definitions of Key Terms

***Scope of Exchange* –** The Freddie Mac exchange program will be open to holders of 15-, 20- and 30-year TBA-eligible PCs and Giants. However, PCs and Giants that are 100 percent allocated to resecuritizations will not be mirrored or exchanged. Freddie Mac may choose to offer an exchange mechanism for holders of non-TBA PCs backed by fixed-rate mortgage loans, if it is decided that would be advantageous from a business perspective. Freddie Mac is not planning to offer an exchange for REMICs or securities backed by adjustable-rate mortgage loans.

***Timing of Exchange* –** The exchange will be open on or before the first day of Single Security trading and will stay open for the foreseeable future.

***Float Compensation* –** As discussed above, in order to facilitate investor exchange and fairly compensate investors for the time value of money lost by receiving payments ten days later, Freddie Mac will compensate investors for the approximate value of the foregone float.

***Trading Window* –** A trade can be submitted on any day of the month; however, trade settlement may be restricted on certain blackout dates. For example, trades will be unable to settle during the first four business days of the month, because collateral factors are not yet available for the month. That reflects current practice with the issuance of Giants.

***Dealer Group* -** The group will be based on Freddie Mac's existing dealer networks for Giants and REMICs. Up to ten users from each dealer may be authorized to use the exchange portal.

***Exchanged Par* –** Freddie Mac will disclose a new data element for each exchanged Single Security that will enable market participants to determine the outstanding balances of PCs and Single Securities. The exchanged par will represent the dollar amount of the UPB of each PC that has been exchanged.

***Exchange Support* –** Support for the exchange process will be provided by the Security Operations Team at Freddie Mac. That team will provide support if users encounter difficulties using the portal. The team will also assist dealers in conducting special transactions, such as any transactions that need to be fulfilled on the next day or transactions where the collateral delivered to Freddie Mac does not match that which was entered into the portal on the trade date.