



Freddie Mac and Fannie Mae

# Single Security Initiative Market Adoption Playbook

April 2019



Fannie Mae™

Freddie Mac

## Contents

### General Single Security Initiative Information

1	Introduction and Features .....	6
1.1	Purpose of the Document .....	6
1.2	Introduction.....	6
1.3	Features .....	7
2	Single Security Initiative Go-Live Timeline .....	9
3	Single Security Initiative Naming Conventions .....	10
4	Prefixes and Pool Numbers .....	11
5	Resecuritization – Commingled Issuance.....	13
6	Disclosures .....	18
7	Exchange .....	19
7.1	Exchange Milestones and Transition Timing .....	20
7.2	Mirror Securities .....	22
7.3	Exchange Transaction .....	24
7.4	Exchange Capacity .....	31
7.5	10-Days' Delay Compensation Payment .....	33
7.6	Accounting, Tax, and Regulatory Considerations .....	33
7.7	Exchange Disclosures.....	34
8	Trading.....	36
8.1	TBA CUSIP .....	36
8.2	Electronic Pool Notification (EPN).....	36
8.3	TBA Trading Screens.....	37
8.4	Bloomberg.....	38
8.5	Dollar Rolls and Repurchase Agreements (Repos) .....	40
8.6	Mortgage Indices.....	43
8.7	Investment Limits and Concentration Risks.....	43
9	Legal and Compliance .....	44
	Dealer Appendix.....	46
	Seller / Servicer Appendix.....	57



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## Single Security Initiative

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## Changes Summary

Though the chart below details many changes found in the document, this is not an inclusive list of all the changes from the September 2018 version. The Enterprises suggest that you review this document in its entirety.

Section	Summary of change
1.3	Removed resecuritization chart
2	Updated timeline to account for the start of forward trading and include more accurate dates
5	Added a new Resecuritization section
7.1	Added new information on transition timing for exchange
7.3	Added new general exchange concepts
7.5	Updated Float compensation language
7.7	Updated exchange disclosure descriptions and file descriptions
8.4	Updated Bloomberg information
Dealer Appendix	Added new information on timing



## 1 Introduction and Features

### 1.1 Purpose of the Document

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

For more details on the Single Security Initiative, refer to the Enterprises' websites:

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

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

### 1.2 Introduction

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



## 1.3 Features

Key Features of the UMBS and Supers																	
<b>Timeline</b>	The Single Security Initiative is scheduled to be implemented on June 3, 2019																
<b>Security Structure</b>	<b>Security Issuer and Guarantee Structure</b>	Each UMBS or Supers security will be issued and guaranteed by either Fannie Mae or Freddie Mac.  <i>REMIC securities will continue to be issued and guaranteed by either Fannie Mae or Freddie Mac.</i>															
	<b>Levels of Securitization</b>	Level 1 – UMBS Level 2 – Supers Level 3 – REMIC															
	<b>Resecuritization</b>	Second and third-level securitizations (called resecuritizations) of securities issued by either Enterprise. Please refer to <b>section 5</b> for more details on commingled resecuritizations: <ul style="list-style-type: none"> <li>• Supers are single-class securities that are TBA-eligible – they are similar to Giants and Megs.</li> <li>• Supers and REMICs issued after June 3, 2019 may consist of commingled collateral.</li> <li>• A commingled resecuritization could consist of one GSE wrapping collateral issued by the other, or a mixture of Freddie Mac- and Fannie Mae-issued collateral within the same Supers or REMIC.</li> </ul>															
<b>Products &amp; Pooling Rules</b>	<b>Terms</b>	<table border="1"> <thead> <tr> <th></th> <th>Minimum Term</th> <th>Maximum Term</th> </tr> </thead> <tbody> <tr> <td><b>10-year security</b></td> <td>85 Months</td> <td>120 Months</td> </tr> <tr> <td><b>15-year security</b></td> <td>85 Months</td> <td>180 Months</td> </tr> <tr> <td><b>20-year security</b></td> <td>181 Months</td> <td>240 Months</td> </tr> <tr> <td><b>30-year security</b></td> <td>181 Months</td> <td>360 Months</td> </tr> </tbody> </table>		Minimum Term	Maximum Term	<b>10-year security</b>	85 Months	120 Months	<b>15-year security</b>	85 Months	180 Months	<b>20-year security</b>	181 Months	240 Months	<b>30-year security</b>	181 Months	360 Months
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	<b>30-year security</b>	181 Months	360 Months														
	<b>Maximum Interest Rate</b>	MultiLender and Single Lender pools will still be issued once UMBS goes live. Maximum rate difference between loan interest rate and security coupon is 112.5 basis points.															
<b>Maximum Servicing Fee</b>	The Minimum Contract Servicing Spread shall remain at 25 basis points and may not exceed 50 basis points.																
<b>Minimum Submission Amounts</b>	<b>Single Lender:</b> \$1M <b>MultiLender:</b> \$1000/Lender \$1M/Security																
<b>Non-Assumable Guaranteed Rural Housing Mortgages with LTVs ≤ 105</b>	Will not be eligible for TBA pools.																
<b>Delinquent Loan Buy-outs</b>	The GSEs will, in general, remove loans from trusts when the loans are 120 days delinquent.																





<b>Key Features of the UMBS and Supers</b>	
<b>Investor Remittance Date</b>	Payment date will be the 25th (55-day delay) of the month for all product types. If the 25th falls on a holiday or weekend, the payment date will be the next business day after the 25th.
<b>Disclosures</b>	<p>The disclosure framework for the UMBS or Supers was implemented by Freddie Mac in August 2017 and Fannie Mae will adopt the new disclosure format at go-live.</p> <p>More details can be found on the <a href="#">Freddie Mac Single Security</a> website or the <a href="#">Fannie Mae Single Security</a> website.</p>
<b>Servicing and Selling Guides</b>	The Enterprises will maintain their separate Servicing and Selling Guides.
<b>Loan Removal Policies and Practices</b>	<p>The Enterprises have agreed to substantially align the following policies and practices for new securities prior to the implementation of the Single Security Initiative:</p> <ul style="list-style-type: none"> <li>• Reasonably Foreseeable Default (Imminent Default)</li> <li>• Removal Permitted Due to Servicer Performance Error</li> <li>• Compliance with Law</li> <li>• Optional Removal Delinquency Status</li> </ul> <p>For additional details on the changes, please see the FHFA Appendix D (May 2015) found here - <a href="http://www.freddiemac.com/mbs/docs/d_loan_removal_policies_practices.pdf">http://www.freddiemac.com/mbs/docs/d_loan_removal_policies_practices.pdf</a>.</p>



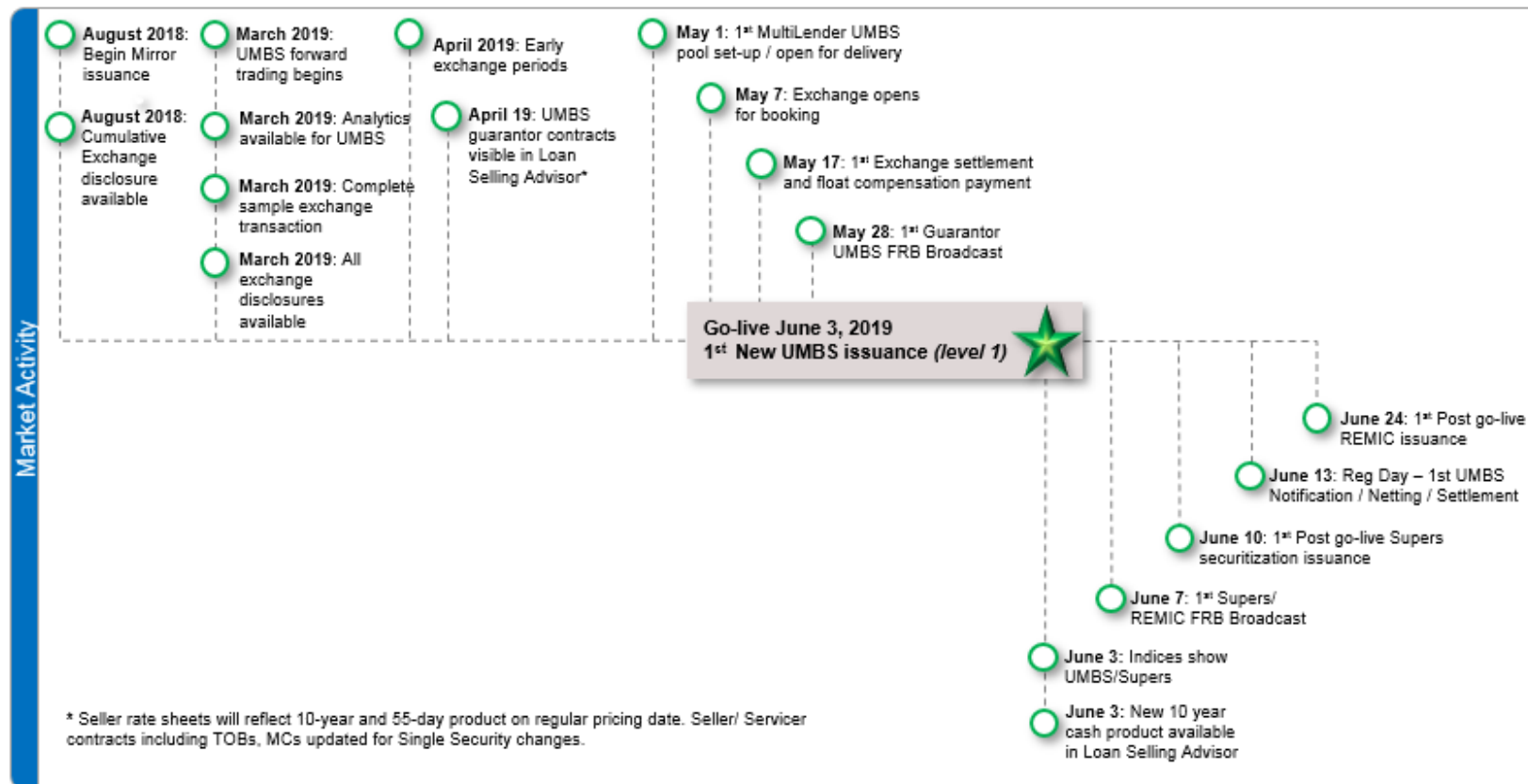


## 2 Single Security Initiative Go-Live Timeline

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

- **UMBS forward trading begins** – Of interest to investors and traders, forward trading began on March 12, 2019.
- **Go-live** – June 3, 2019 is the first day that the Enterprises will issue new UMBS.
- **First UMBS Reg Settlement** – The first opportunity to settle TBA trades with the new UMBS will be June 13, 2019.
- **Exchange** – Exchange of Freddie Mac Gold PCs will open for booking on May 7, 2019, with first settlement on May 17, 2019.

### Single Security – Transition Dates for June 3, 2019 Implementation



## 3 Single Security Initiative Naming Conventions

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

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

	Security Description	Naming Conventions
<b>Single Security Initiative</b>	All <b>new</b> or <b>exchanged</b> 55-day TBA-eligible securities All <b>TBA-eligible</b> Fannie Mae Securities issued prior to June 3	<ul style="list-style-type: none"> <li>Uniform MBS/UMBS<sup>®</sup></li> <li>Supers<sup>®</sup> (<i>refers to one or multiple securities</i>)</li> </ul>
<b>Freddie Mac Securities (Legacy TBA-eligible &amp; non-TBA-eligible)</b>	45-day securities <b>Legacy Golds</b>	<ul style="list-style-type: none"> <li>Freddie Mac Gold PC<sup>®</sup> (<i>no new issuances after Single Security Initiative go-live</i>)</li> <li>Freddie Mac Giant PC<sup>®</sup></li> </ul>
	New 55-day securities <b>non-TBA-eligible</b>	<ul style="list-style-type: none"> <li>Freddie Mac MBS</li> <li>Freddie Mac Giant MBS</li> </ul>
	75-day securities <b>ARMs/Legacy 75-day fixed-rate</b>	<ul style="list-style-type: none"> <li>Freddie Mac ARM PCs</li> <li>Freddie Mac ARM Giant PCs</li> <li>Freddie Mac PCs (<i>remaining 75-day fixed-rate</i>)</li> </ul>
<b>Fannie Mae non-TBA-eligible Securities</b>	55-day securities <b>ARMs/non-TBA-eligible</b>	<ul style="list-style-type: none"> <li>Fannie Mae MBS</li> <li>Fannie Mae Megas<sup>®</sup></li> </ul>



## 4 Prefixes and Pool Numbers

### ❖ Key changes

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

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

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

### Current State of Prefixes and Pool Numbers

	Freddie Mac	Fannie Mae
Approach	<ul style="list-style-type: none"> <li>▪ One 6-character pool number field with embedded prefix</li> <li>▪ Primarily alpha-numeric prefix, some alpha-alpha (e.g., modified / reinstated)</li> <li>▪ Logic for product type, Level 1 vs. Level 2 in embedded prefix</li> <li>▪ Pool numbers are assigned according to predefined ranges within the prefixes</li> </ul>	<ul style="list-style-type: none"> <li>▪ One 3-character (two are used) prefix field, plus a separate 6-character pool number field</li> <li>▪ Majority but not all prefixes are alpha-alpha</li> <li>▪ Pool number is generally 2 alpha + 4 numeric</li> <li>▪ Logic for product/loan characteristics is found in prefix</li> </ul>
TBA example (30-yr fixed)	C04846	CL AB4321
Non-TBA example (15-yr biweekly)	M51234	BI AD2222
As of August 25, 2017	Freddie Mac implemented the new prefix field as of August 25, 2017. Freddie Mac now populates the new field with the first 2 characters of the pool number for all legacy securities (both TBA-eligible and non-TBA-eligible. For example, C0 C04846 for TBA-eligible and M5 M51234 for non-TBA-eligible.	





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

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

### ❖ Actions market participants should consider

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

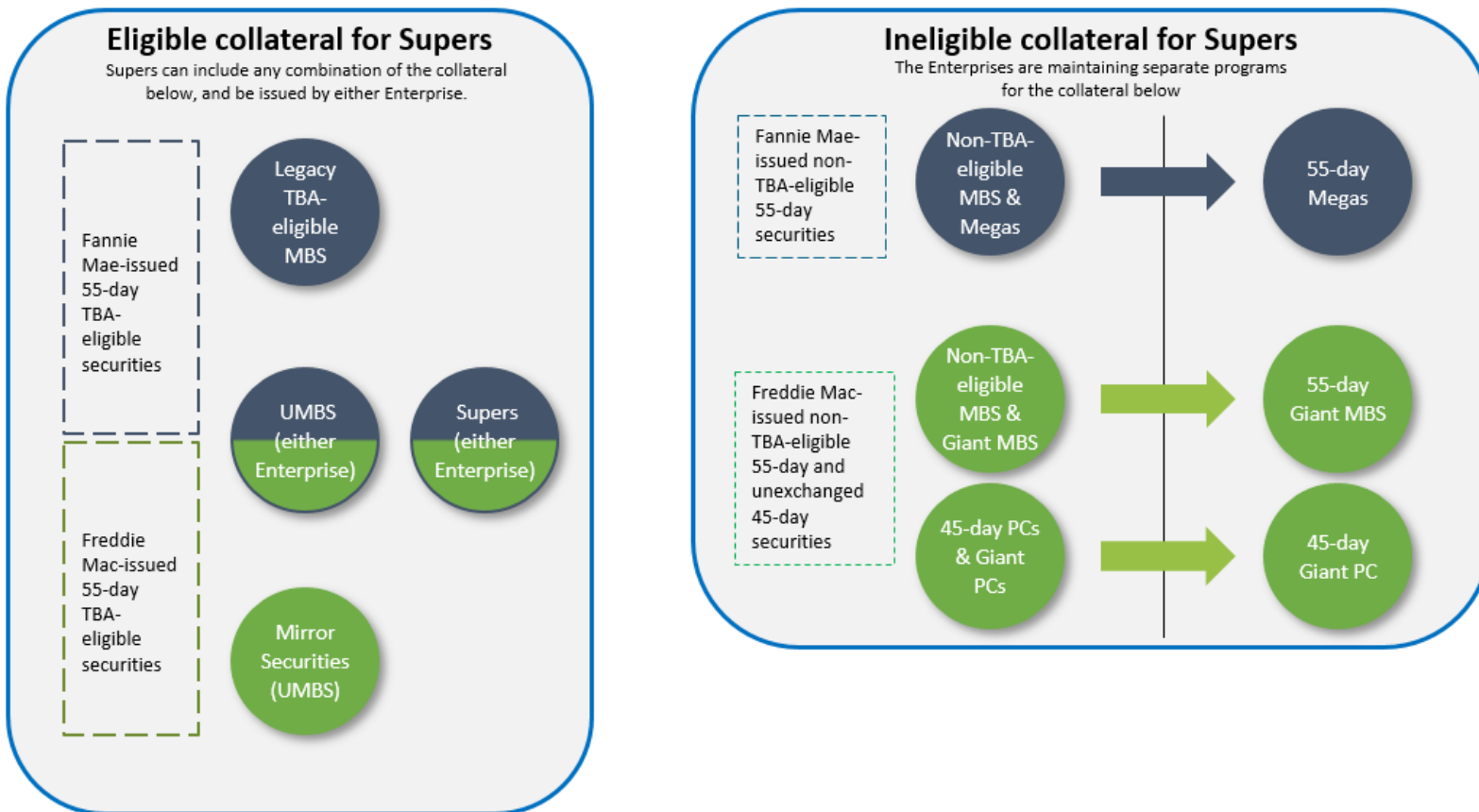


## 5 Resecuritization – Commingled Issuance

A key feature of the new UMBS TBA market will be the ability to commingle Fannie Mae- and Freddie Mac- issued UMBS and Supers in one Supers or REMIC security. Both Fannie Mae and Freddie Mac will also be able to take 100% of the other Enterprise’s UMBS and Supers and wrap them in a new Supers or REMIC security. This section details the collateral that is eligible to be resecuritized by either Enterprise and the post go-live resecuritization delivery process.

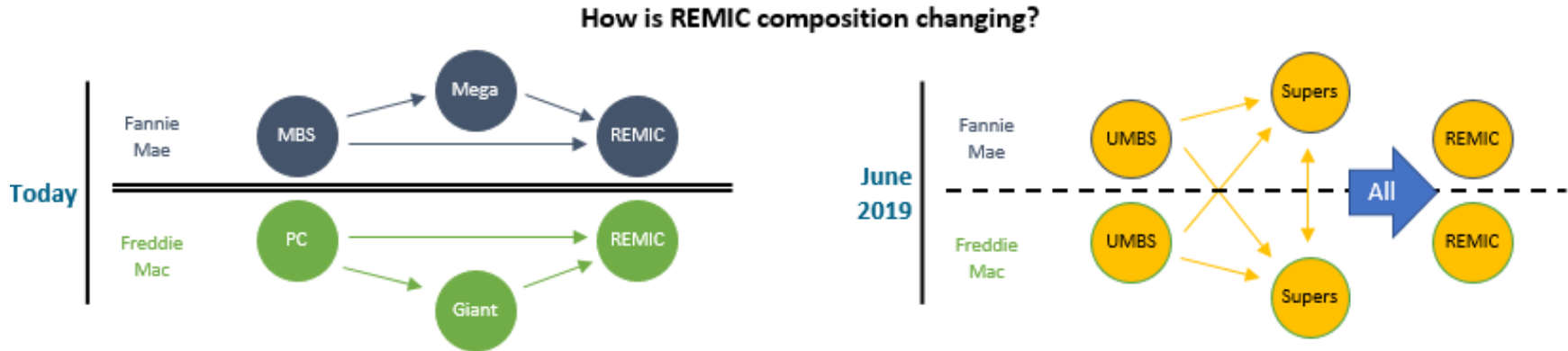
### ❖ Supers

- The following graphics display what collateral is eligible and ineligible to be commingled in Supers issued by either Enterprise.



## ❖ REMICS

- The following graphics display how REMIC composition is changing, what UMBS-eligible collateral is eligible to be commingled in REMICs issued by either Enterprise, and what non-UMBS-eligible collateral is eligible to be issued by each Enterprise.



### What collateral is eligible to be delivered into a REMIC?

#### REMIC Collateral

- ▶ All 55-day UMBS pass-throughs and Supers
  - 30-year CL/ZL
  - 20-year CT/ZT
  - 15-year CI/ZI
  - 10-year CN/ZN
- ▶ 45-day PCs & Giants that have been exchanged for 55-day UMBS
- ▶ Unexchanged 45-day UMBS-eligible PCs & Giants

#### Re-REMIC Collateral

- ▶ All 55-day REMIC Classes issued by either Agency that at original issuance were 100% backed by UMBS Prefixes \*
- ▶ All 45-day REMIC Classes issued by either Agency that at original issuance were 100% backed (at all levels) by 45-day PCs/Giants that were UMBS-eligible \*

\* at all levels for multiple-layer Re-REMICs



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## Non-UMBS-eligible collateral for REMICs issued by each Enterprise

### Freddie Mac

#### REMIC Collateral

- ▶ All Freddie Mac issued 55-day non-UMBS and Giants
- ▶ All Freddie Mac 45-day PCs/Giants/Strips that are not eligible for Exchange into 55-day UMBS Prefixes

#### Re-REMIC Collateral

- ▶ All 55-day Freddie Mac issued REMIC Classes that at original issuance were not 100% backed\* by UMBS Prefixes
- ▶ All 45-day REMIC Classes that at original issuance were not 100% backed\* by 45-day PCs/Giants that would be Exchange-eligible into 55-day UMBS Prefixes
- ▶ All 75-day ARM collateral
- ▶ All Freddie Mac issued Excess Servicing Strip Trust Classes

\* at all levels for multiple-layer Re-REMICs

### Fannie Mae

#### REMIC Collateral

- ▶ All Fannie Mae issued 55-day non-UMBS, Megas, and Strips (fixed-rate and ARM)

#### Re-REMIC Collateral

- ▶ All 55-day Fannie Mae issued REMIC Classes that at original issuance were not 100% backed\* by UMBS Prefixes
- ▶ All Fannie Mae issued Excess Servicing Strip Trust Classes

\* at all levels for multiple-layer Re-REMICs



## ❖ Resecuritization Collateral Delivery

- The following graphics display how the current collateral delivery process is changing. It is important to note that for commingled securities issued by either Enterprise, there will be two collateral delivery sub-accounts that should be used – one for the Enterprise’s own collateral, and one for collateral issued by the other Enterprise.

Category	Current	UMBS Future State after June 3, 2019 go-live	
		Single Issuer Collateral	Commingled Collateral
Operational Process / Delivery Method <sup>1</sup>	<b>If resecuritizing through Freddie Mac</b> <ul style="list-style-type: none"> <li>45-day Giant PC collateral is delivered to one Freddie Mac sub-account at the Fed → Account 2BD2</li> <li>Receive corresponding Giant PC(s) back</li> </ul>	<ul style="list-style-type: none"> <li>If ONLY Freddie Mac-issued collateral is used, deliver Supers / REMIC collateral to <b>one Freddie Mac subaccount</b> at the Fed – • <b>Freddie only collateral delivered to Freddie Mac’s ABA #021033205, account 2BD6</b> (note, 45-day collateral still goes to 2BD2)</li> <li>Receive corresponding Supers from FRE account 7025; REMICs from FRE account 7026</li> </ul>	<ul style="list-style-type: none"> <li>Deliver Supers / REMIC collateral to <b>two Freddie Mac subaccounts</b> at the Fed<sup>3</sup></li> <li><b>All collateral to Freddie Mac’s ABA #021033205, then:</b> → <b>Freddie collateral to account 2BD6</b> → <b>Fannie collateral to account 2BX1</b></li> <li>Receive corresponding Supers from FRE account 7025; REMICs from FRE account 7026</li> </ul>
	<b>If resecuritizing through Fannie Mae</b> <ul style="list-style-type: none"> <li>55-day Mega collateral is delivered to one Fannie Mae sub-account at the Fed → Account FNCTRL</li> <li>Receive corresponding Mega(s) back</li> </ul>	<ul style="list-style-type: none"> <li>If ONLY Fannie Mae-issued collateral is used, deliver Supers / REMIC collateral to <b>one Fannie Mae subaccount</b> at the Fed: • <b>Fannie Mae’s ABA #021039539, telegraphic FMAE DC MBS, sub-account FNCTRL, reference G01859</b></li> <li>Receive corresponding Supers or REMICs from FNM account 7010</li> <li>Same settlement timing and limitations</li> </ul>	<ul style="list-style-type: none"> <li>Deliver Supers / REMIC collateral to <b>two Fannie Mae subaccounts</b> at the Fed<sup>2</sup></li> <li><b>All collateral to Fannie Mae’s ABA #021039539, then:</b> → <b>Fannie collateral to telegraphic FMAE DC MBS, sub-account FNCTRL, reference G01859</b> → <b>Freddie collateral to telegraphic FMAE DC MBS, sub-account SS MBS CFN, reference G21913</b></li> <li>Receive corresponding Supers or REMICs from FNM account 7010</li> <li>Same settlement timing and limitations</li> </ul>
<b>Diversification</b>	<ul style="list-style-type: none"> <li>Investors look at the security issuer to determine if they may be close to portfolio name limits</li> </ul>	<ul style="list-style-type: none"> <li>Look at security issuer</li> </ul>	<ul style="list-style-type: none"> <li>Look at security issuer OR look through to underlying collateral mix<sup>3</sup></li> </ul>
<b>Guarantor</b>	<ul style="list-style-type: none"> <li>Fannie Mae or Freddie Mac, depending on whether you are forming a Mega or Giant</li> </ul>	<ul style="list-style-type: none"> <li>Security issuer (top-level name) is the Guarantor</li> </ul>	<ul style="list-style-type: none"> <li>Security issuer (top-level name) is the Guarantor</li> </ul>
<b>Fails/Claims</b>	<ul style="list-style-type: none"> <li>Work with security issuer (Fannie Mae or Freddie Mac), as relevant</li> </ul>	<ul style="list-style-type: none"> <li>Work with the security issuer (Fannie Mae or Freddie Mac), as relevant</li> </ul>	<ul style="list-style-type: none"> <li>For any problem with commingled securities you can contact either of the GSEs</li> <li>Freddie &amp; Fannie have an agreed-upon process – approved by FHFA – in place to handle this situation</li> </ul>

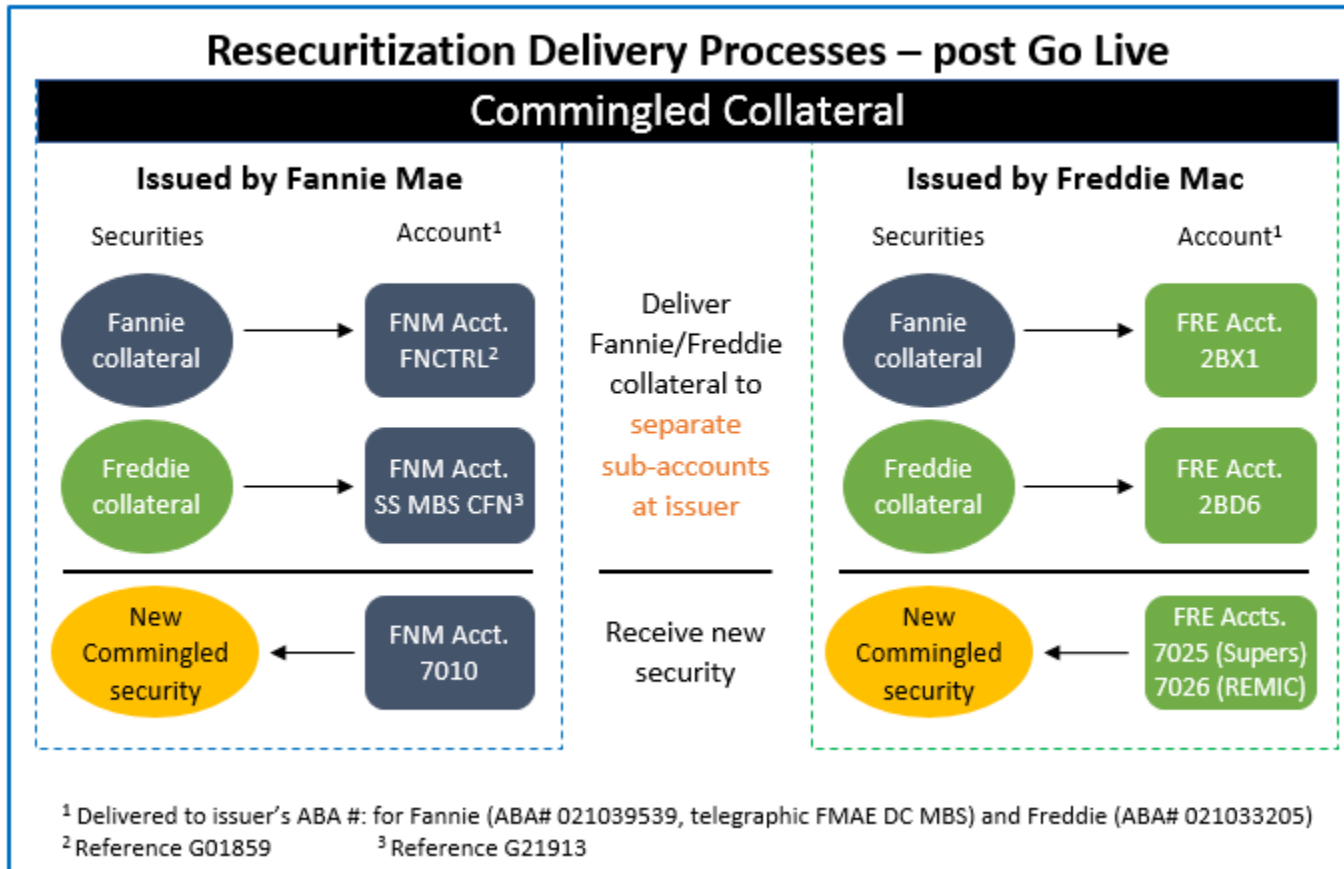
<sup>1</sup> Pricing for commingled securitizations must be discussed separately with the security issuer

<sup>2</sup> Fed netting/clearing requirement

<sup>3</sup> See section 7.7 of the Market Adoption Playbook for IRS guidance related to 817(h); this may impact diversification measurement and monitoring for certain investors







## 6 Disclosures

### ❖ Key changes

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

### ❖ Actions market participants should consider

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



### 7 Exchange

Freddie Mac will provide holders of 45-day, TBA-eligible and non-TBA-eligible PCs and Giant PCs the option to exchange their eligible 45-day securities for 55-day Freddie Mac securities. For TBA-eligible security exchanges, the 55-day corresponding security will be a UMBS or Supers; while for non-TBA eligible security exchanges, the corresponding 55-day security will be a Freddie Mac MBS or Giant MBS. Most elements of the new 55-day security will exactly match those of the 45-day PC or Giant PC being exchanged – most fundamentally, the cash flows of the new security will ultimately be backed by the same loans as the original PC or Giant PC. The exchange offer will open broadly on May 7, 2019, the month prior to the Single Security Initiative go-live. Freddie Mac will offer holders of exchange-eligible 45-day PCs and Giant PCs the ability to choose between two exchange paths:

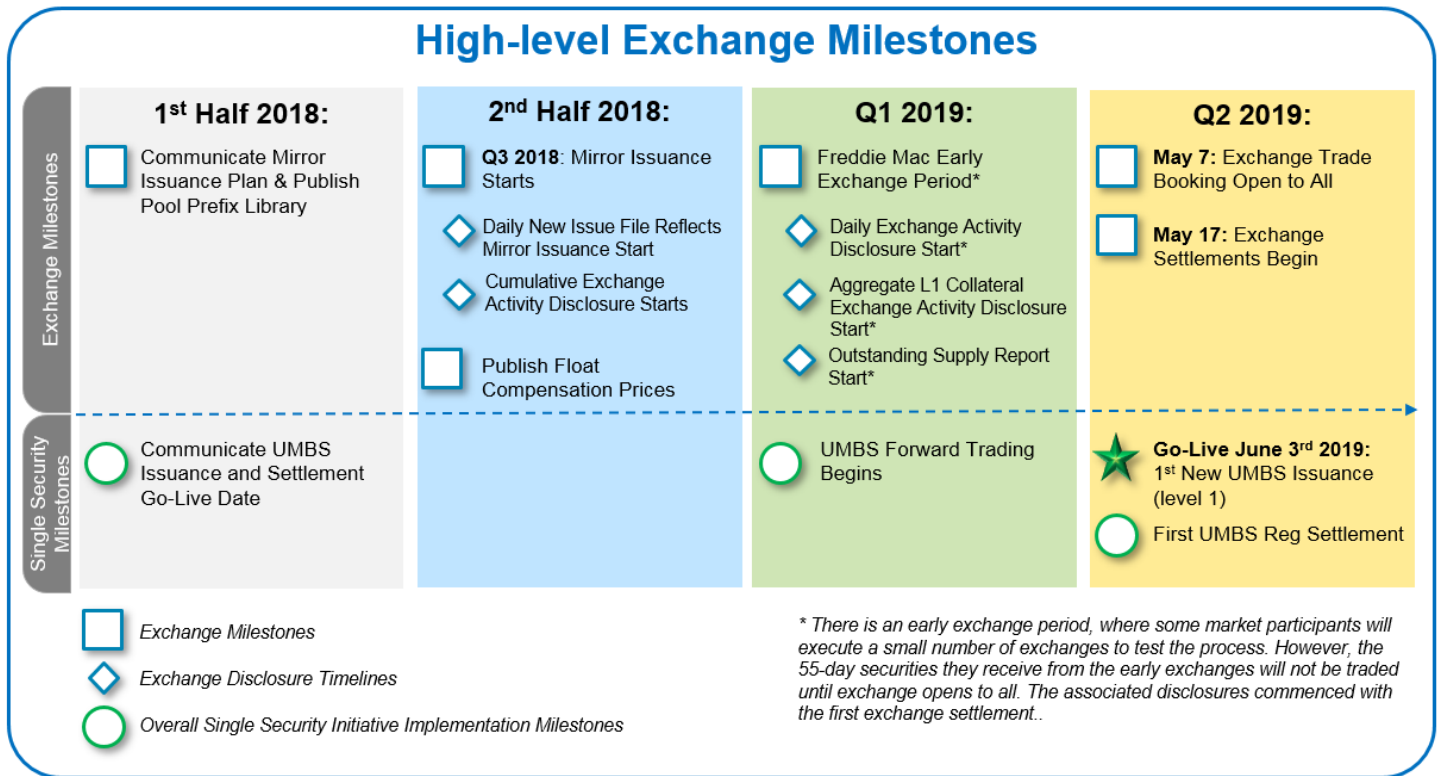
- The dealer-facilitated exchange path – Authorized exchange dealers submit exchange requests on behalf of investors through Freddie Mac’s Dealer Direct® portal. The dealer-facilitated path will stay open for the foreseeable future.
- The direct-to-Freddie Mac exchange path – Investors exchange directly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

To facilitate exchanges, Freddie Mac is creating 55-day mirror securities on a one-for-one basis for all exchange-eligible 45-day PCs and Giant PCs. Issuance of mirror securities began in August 2018 and will continue until go-live for all 45-day exchange-eligible PCs. Mirror security issuance will occur as needed after go-live for any 45-day Giant PCs created after go-live. Please refer to the Cumulative 45-Day to 55-Day Exchange Activity file on the [Exchange Data Files website](#) to find a list of securities that have been mirrored. The Gold PC exchange is described in more detail in the sections below. Additional details are also available on the [Freddie Mac Exchange website](#).



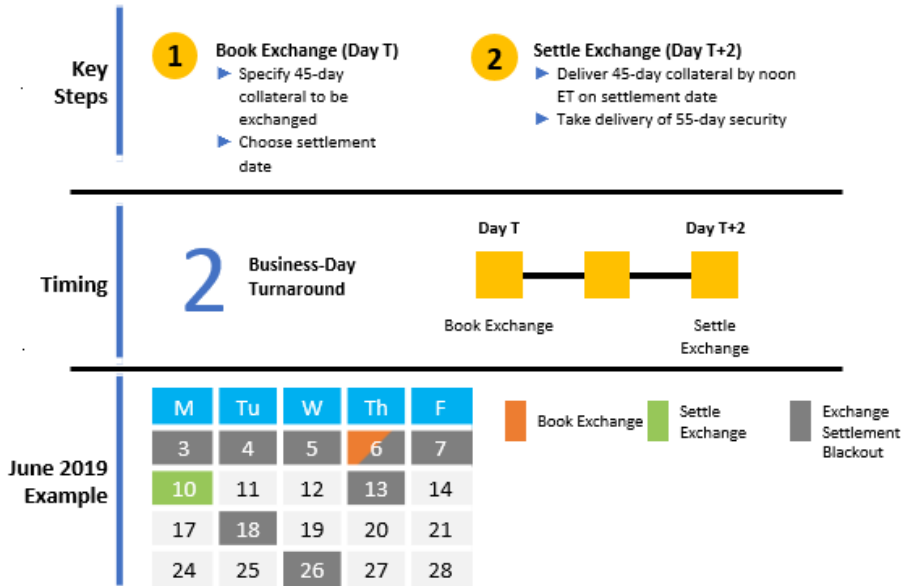
## 7.1 Exchange Milestones and Transition Timing

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

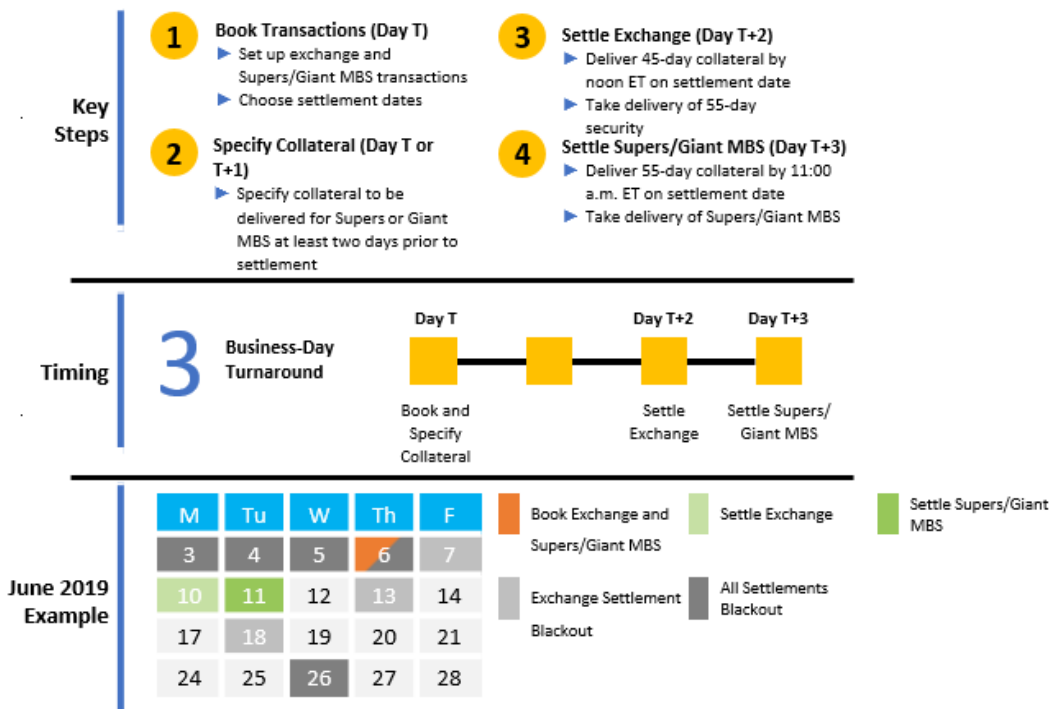


# Single Security Initiative

Freddie Mac will implement capacity restrictions and T+2 settlement during a 3-6 month transition period when the exchange opens on May 7, 2019. Daily exchange capacity will be restricted to 10,000 exchanges at opening and will ramp up to 50,000 exchanges at the end of the transition period. The following graphic details the minimum amount of time an exchange will take in June 2019.



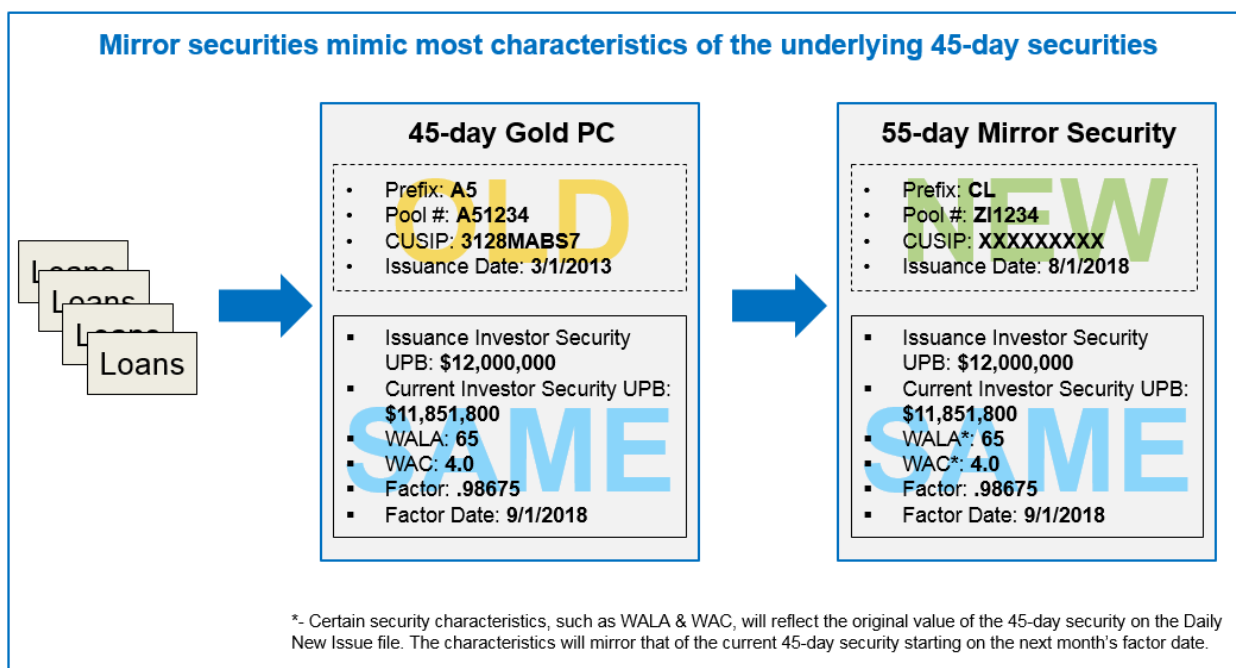
The following graphic details the minimum amount of time exchanging a 45-day Gold PC for a UMBS and resecuritizing that UMBS in a Supers will take during the transition period. If an investor planned to exchange and include that exchanged security in a REMIC, it would take a minimum of 5 business days to complete the full transaction over the transition period. The timelines will be shorter once the transition period ends and exchange moves to T+1 settlement.



## 7.2 Mirror Securities

### ❖ What is a mirror security?

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



### ❖ Mirror issuance

- Freddie Mac is issuing mirror securities through the Federal Reserve Bank of New York into Freddie Mac's exchange account.
- Freddie Mac will hold each mirror security until an exchange of the corresponding 45-day security is executed. Thus, mirror security issuance and eventual exchange transactions will not increase the aggregate outstanding supply.



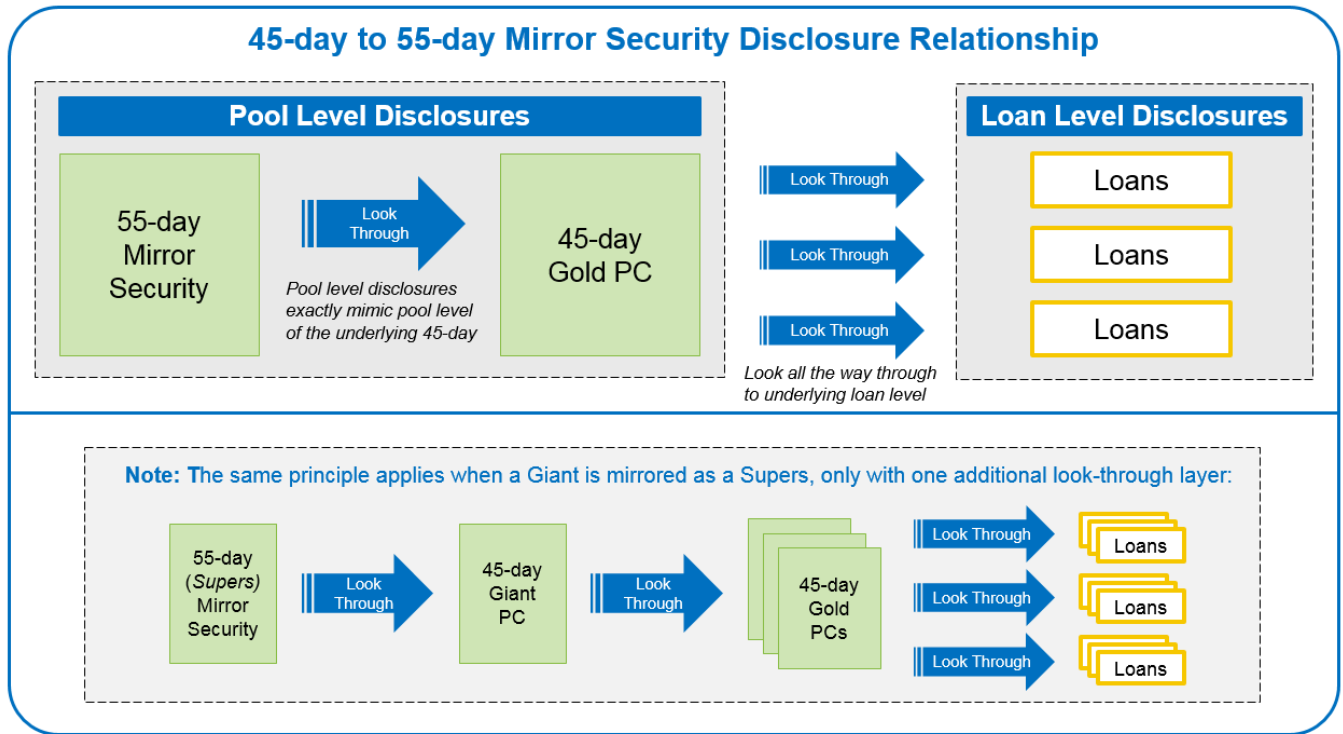
- The initial mirror security issuance period began in August 2018 and covers all existing 45-day exchange-eligible securities outstanding at that time. Exchange-eligible 45-day securities issued between the initial mirror security issuance period and the Single Security Initiative go-live will be mirrored prior to go-live.
- The current list of exchange-eligible securities can be found on the Cumulative 45-Day to 55-Day Exchange Activity file on the [Exchange Data Files website](#). This Cumulative file is the list of all PC and Giant PC securities that have been mirrored and are therefore eligible to be exchanged.
- Exchanges for exchange-eligible collateral cannot be booked until mirror securities have been issued.
- Mirror securities appear in the Daily New Issue File on the business day after they are issued. See section 7.7 Exchange Disclosures for more details.

### ❖ Treatment of mirrors

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

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





- **Indices** – The issuance of the mirror securities should not affect indices since the mirror securities are not part of tradable supply until the underlying 45-day security or a piece of the 45-day security is exchanged. The major index providers have communicated how they will pick up Freddie Mac exchange activity and update their index cohorts to reflect the populations of 45-day and 55-day securities.
- **Analytics** – Freddie Mac is working to ensure that the issuance of mirror securities does not have any unintended effects on analytics.
  - At issuance, mirror securities should not affect analytics such as prepayment analysis or calculation of tradable supply, since they are not part of tradable supply until exchanged.
  - Bloomberg has introduced a new UMBS screen to show mirror securities. The screen is available through USEC<GO>.
  - Bloomberg has created DES pages for all mirror securities issued to date. Please refer to section 8.4 for more information on Bloomberg screens.

## 7.3 Exchange Transaction

### ❖ General exchange concepts

- Exchange transactions will be initiated at the option of investors and will not be mandatory.
- Investors who exchange portions of the same 45-day security will receive pro-rata portions of the corresponding 55-day security in return. Each investor can decide to exchange his or her portion independently of other holders of the same 45-day security.
- Holders of TBA-eligible 45-day securities will receive 55-day UMBS or Supers in the exchange, while holders of non-TBA-eligible 45-day securities will receive Freddie Mac 55-day non-TBA-eligible MBS or Giant MBS.
- Holders will also receive one-time payment to compensate them for the additional 10 days' delay in payment.



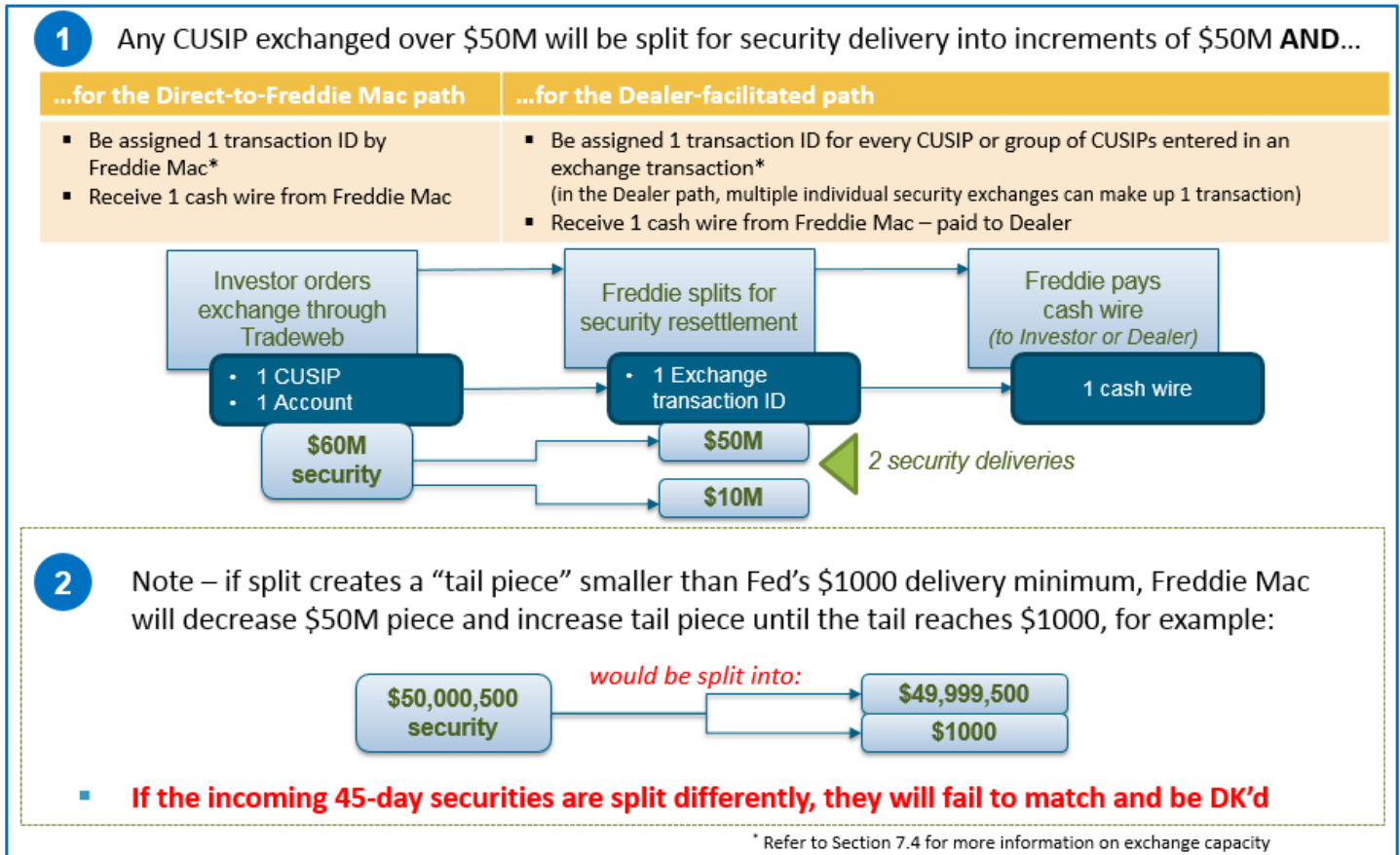


- Freddie Mac will not charge a fee to exchange; however, vendor or dealer fees may apply. Gold PC holders are encouraged to consolidate holdings into Giant PCs where possible in advance of exchange to reduce the number of exchange transactions.
- For both the dealer-facilitated path and the direct-to-Freddie Mac path, settlement will occur at a minimum on the next business day (T+1 or later, if desired) for both the security and the one-time cash payment. During the transition period AFTER the exchange first opens, settlement will be T+2.
- Dealers or investors using the direct-to-Freddie path will need to set up Free Delivery / Free Receive wire instructions:
  - Deliver the 45-day security to Freddie Mac's new holding account:
    - FHLMC WASH/2BD7
    - ABA# 021033205
  - Expect to receive the 55-day mirror security from Freddie Mac from:
    - FHLMC WASH/2BD5
    - ABA# 021033205
- Freddie Mac does not use SWIFT, and will use the Fedwire system. For each float compensation cash wire, Freddie Mac will populate two fields with the UMBS indicator + the Exchange Transaction ID (for a maximum of 12 characters), e.g., UMBS12345678. The UMBS indicator + unique Exchange Transaction ID will appear in both of the following fields for the cash wire associated with each exchange transaction:
  - Fed Tag 3320 – Senders Reference
  - Fed Tag 4320 – Reference for Beneficiary
- Investors should include the following tags in their SWIFT MT54x messages to their custodians:
  - Tag 20C – include the unique Exchange ID that you receive from Freddie Mac / Tradeweb at booking confirmation (particularly important in the direct-to-Freddie Mac path through Tradeweb).
  - Tag 22F – include "UMBS" to denote that this is an exchange transaction (particularly important if using the Dealer-facilitated path).
- Note that some custodians may also require an MT210 message for pre-advice of the cash wire – please consult your custodians to determine if this is needed.
- Fedwire restrictions set a maximum of \$50,000,000, and a minimum of \$1,000 for each security wire.
  - When transactions are entered into Tradeweb or Dealer Direct, Freddie Mac will operationally split the expected settlement amounts into the appropriate pieces for the security wire expect files.
  - The wires to Freddie Mac will need to be appropriately split on settlement day. If they aren't split to match what Freddie Mac has in its "expect" file, then the transaction will fail.



# Single Security Initiative

- The following chart shows examples of the necessary split for delivery:



## ❖ What is eligible for exchange?

- All non-ARM, 45-day PCs and Giant PCs that are not 100% committed to a resecuritization can be exchanged.
- Exchanges are only permitted from 45-day securities to 55-day securities. There will be no mechanism to reverse exchanges.
- Only securities that have an existing mirror security can be exchanged; Freddie Mac cannot process an exchange for a newly-issued 45-day security before the mirror security has been created.

## ❖ Preparation

- Investor perspective**
  - Review the Exchange Offer Circular and related documents located on [Freddie Mac's Legal Documentation website](#).
  - Review holdings and determine exchange strategy. Leverage available information and tools, including: [Cumulative 45-Day to 55-Day Exchange Activity file](#), the [float compensation calculator](#), and the [Indicative Price Grids](#).
  - Determine which exchange option works best for the organization – considering account composition, sub-account structure and complexity, flexibility of order management system (OMS), and operational impacts.



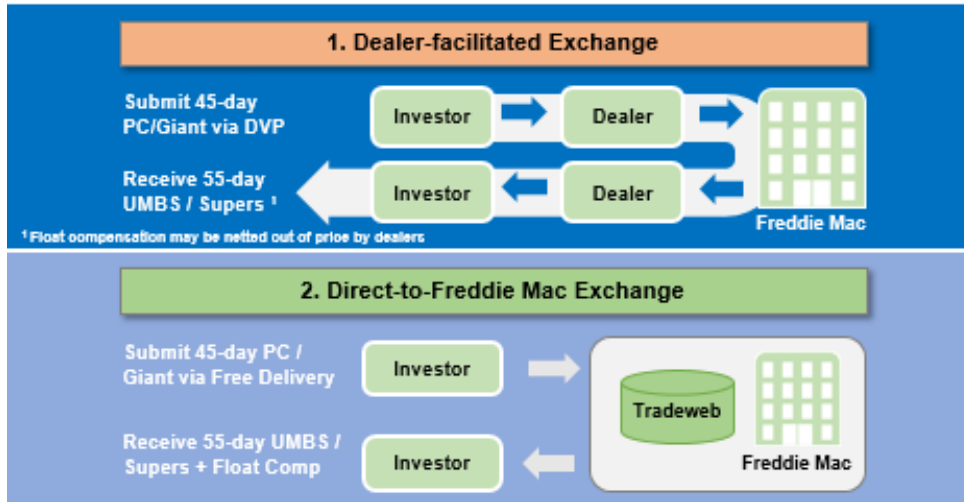
- To use the direct-to-Freddie Mac path, complete the onboarding process with Tradeweb and set Freddie Mac up as a counterparty in all necessary systems. Please refer to the [Tradeweb Exchange Setup Guide](#) for information and send an email to [UMBS@Tradeweb.com](mailto:UMBS@Tradeweb.com) to initiate the process.
- Communicate with critical vendors to ensure that necessary testing has been completed and correct versions of systems have been implemented.
- Consult with tax and accounting advisors to determine tax and accounting treatment for exchanges.
- Ensure that Gold PC holdings are not on repo / loan when planning to exchange – the exact CUSIPs and par amounts from the exchange reservation must be delivered on settlement day, with no substitutions. If unable to deliver the specific collateral, the exchange transaction will be cancelled and must be rebooked for settlement at least two business days from the current business day, pending available capacity.
- **Dealer and custodian bank perspective**
  - Design and build processes to handle exchange transactions. This includes indicating and/or recognizing tags or codes that denote an exchange transaction (e.g. SWIFT messaging tags, SSI mnemonics, and/or other tags), and any other coding and configuration changes.
  - Review TRACE reporting impacts and determine process for suppression. Dealers may also need to develop a process for suppressing trade confirmation, or enabling agent disclosure.
- **Exchange path comparison**
  - The below chart is an overview comparison of the two paths available for exchange. The following sections detail the transaction booking and settlement processes for the dealer-facilitated and direct-to-Freddie Mac exchange paths. The Dealer Appendix provides detailed screenshots of the exchange transaction in Dealer Direct for the dealer-facilitated path.



## Freddie Mac will provide two paths for exchange of Gold PCs into new UMBS<sup>SM</sup>



- Holders of Freddie Mac 45-day PCs/Giants will have the option to exchange those securities for 55-day UMBS/Supers<sup>SM</sup> (or FRE 55-day MBS/Giant MBS for non-TBA)
- Daily disclosures will inform the market of exchange activity
- The Exchange Offer is expected to open in May 2019, and remain open for the foreseeable future



Category	1. Dealer-facilitated	2. Direct-to-Freddie
Counterparty	An approved Dealer	Freddie Mac
Delivery method	Most Dealers will settle Delivery vs. Payment (DVP) between Investor and Dealer Dealer delivers free to Freddie Mac (similar to today's Giant model)	Investor settles Free of Payment (FOP) with Freddie Mac as the counterparty Custodians directly interface with Freddie Mac as the issuer
Float compensation	May be netted from price by Dealers	Separate cash wire, following security wire
Front-end booking	Exchange via approved Dealers; Dealers interface with Freddie Mac on capacity calendar, float compensation	Exchange via Tradeweb – may connect via Order Management System; investors agree to exchange terms through Tradeweb interface
TRACE reportable	No	No
Transparency of holdings to Dealers	High	None
Cost	No cost from FRE (Vendor fees may apply)	No fee
Execution level	Whole or partial CUSIPs, at sub-account level	Whole or partial CUSIPs, at sub-account level
Capacity	50K total transactions / day for both paths, settlement calendar has availability for current and following month	50K total transactions / day for both paths, settlement calendar has availability for current month
Trade / Settle	Minimum T+1 (all settlement activity same day)	Minimum T+1 (all settlement activity same day)
Accounting treatment	Minor modification per SEC guidance	Minor modification per SEC guidance
Tax treatment	Security exchange – non-taxable Float Compensation – consult your tax advisor	Security exchange – non-taxable Float Compensation – consult your tax advisor

### Exchange checklist for holders of 45-day Gold PCs:

- Develop your exchange strategy – e.g., whether you will exchange, exchange timing, bundling and sequencing of exchanges, accounting and tax impacts, etc.
- Determine which exchange option works best for you – considering account composition, sub-account structure and complexity, flexibility of OMS, manual vs. straight through processing, etc.
- If you choose the Dealer-facilitated path, reach out to your Dealer(s) to work out the details
- If you choose the Direct-to-Freddie path, questions for Tradeweb can be directed to [umbs@tradeweb.com](mailto:umbs@tradeweb.com)
- Regardless of path, reach out to your Custodian(s) and OMS provider to discuss how the process will work
- Assess impact of new codes and data elements - SWIFT message code or dedicated standard settlement instruction (SSI) to denote Gold PC exchange – specifics TBD in the next few months
- Understand transaction data flow through your internal systems (e.g., trading, accounting, etc.)

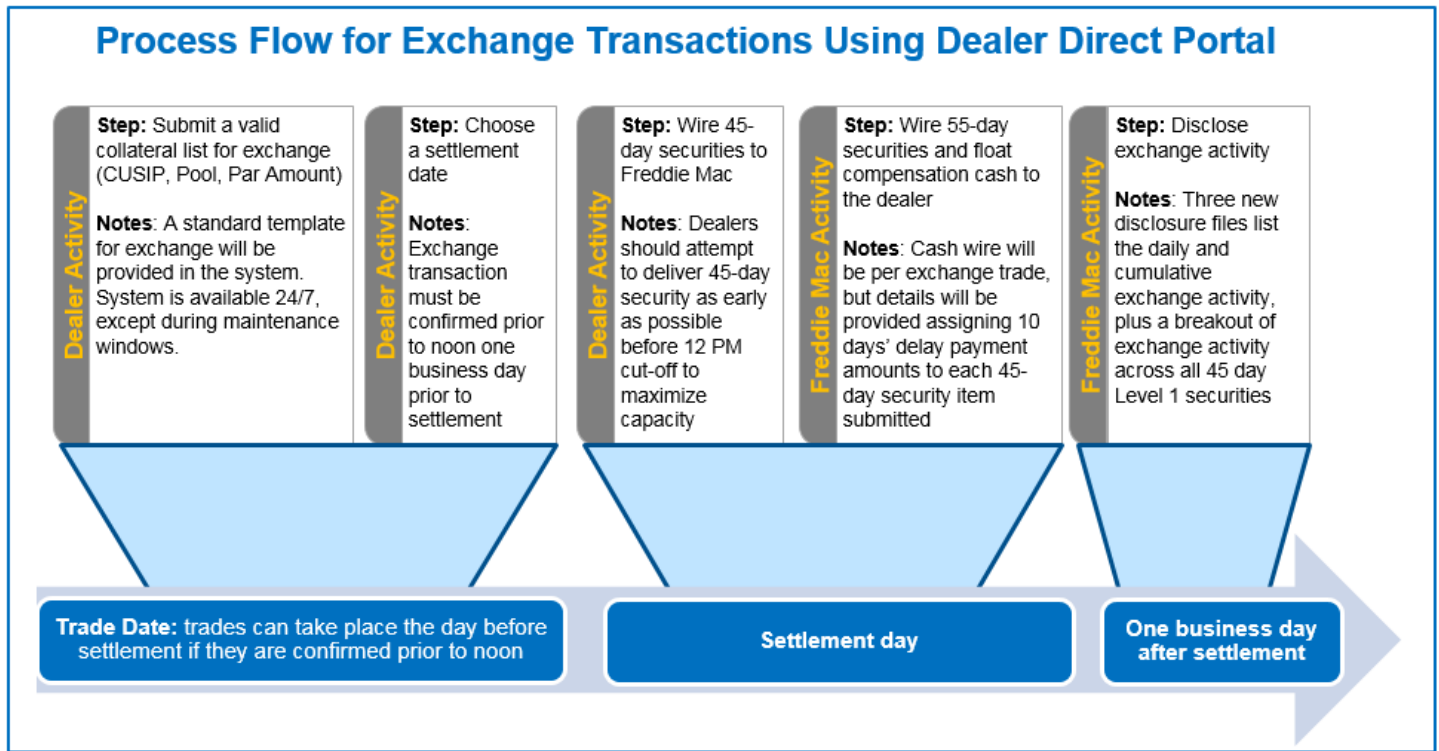
Please submit feedback or questions to: [single\\_security@freddiemac.com](mailto:single_security@freddiemac.com)



Fannie Mae<sup>SM</sup>



## ❖ Dealer-facilitated path



### ▪ Transaction booking

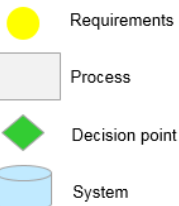
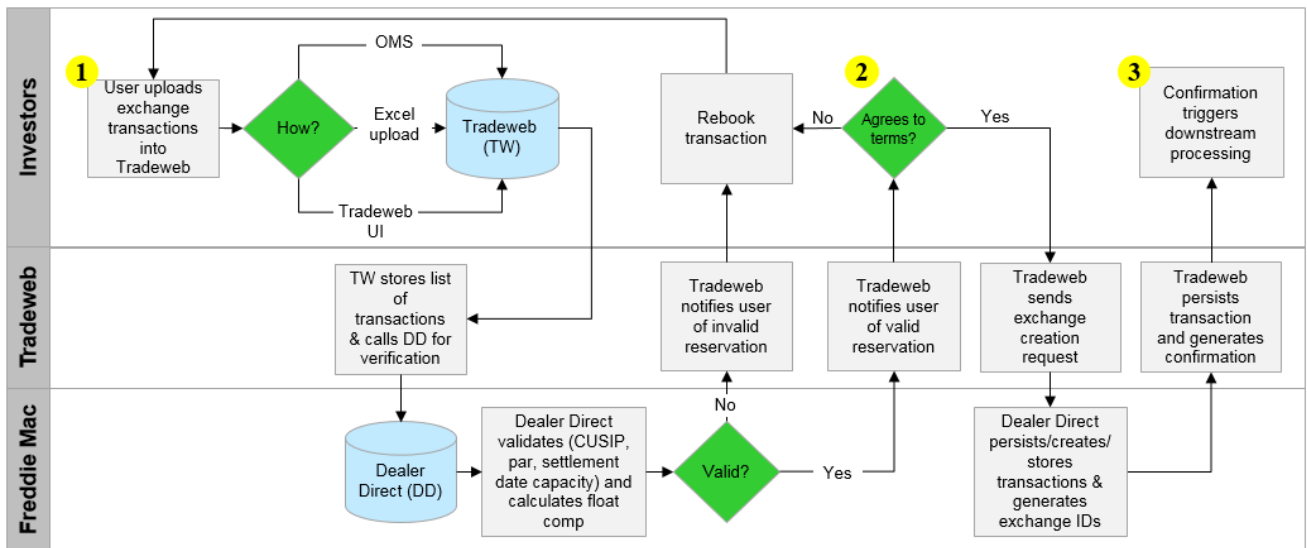
- Freddie Mac-approved dealers will execute exchange transactions on behalf of investors using Freddie Mac's Dealer Direct® web portal. These dealers are currently using the Dealer Direct platform and process to create Freddie Mac Giant PCs and to submit REMIC transactions.
- The dealer will upload a file listing the Pool Number and CUSIP along with the amount of original par to be exchanged.
- The dealer will then select the desired settlement date. Exchanges will settle T+2 during the first 3-6 months of the exchange offer. Exchanges will eventually settle T+1 once the transition period is completed.
- Next, the dealer will review the terms and float compensation associated with the transaction and accept.
- Dealer Direct will send an exchange confirmation email back to the dealer once the exchange transaction has been booked.
- The investor and dealer should book the buy and sell transactions in their systems as needed once the exchange confirmation is received.
- Both the investor's custodian and the dealer's custodian should be given the expect and deliver instructions for securities and cash from their clients. These instructions should come through normal communication paths typically used to instruct custodians regarding a trade (e.g., SWIFT messages, etc.).
- The investor, dealer and/or custodian bank(s) should perform any required pre-settlement accounting and tax reporting.
- A dealer may create a new 55-day Supers with exchanged mirror securities as soon as the exchange transaction is completed.



## Settlement

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

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



- 1 Initial requirements:**
- CUSIP
  - Par
  - Pre-allocated sub accounts if applicable
  - Settlement date
  - Freddie Mac as the counterparty
  - Free of payment (FOP)

- 2** If CUSIPs are valid and the settlement date is available, the Portfolio Manager or Trader will be required to accept the terms of the exchange transaction (including float compensation). They will be allowed to cancel the transaction during a pre-determined window of time prior to settlement.

- 3** Investor firm will need to ensure that confirmation will properly trigger downstream processing (i.e., notify custodian, accounting, tax). If additional messaging types other than FIX or XML are required, investor will need to confirm with Tradeweb.

## Transaction booking

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

settle T+2 during the first 3-6 months of the exchange offer. Exchanges will eventually settle T+1 once the transition period is completed.

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

### ▪ Settlement

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

## 7.4 Exchange Capacity

- As of April 2019, there are approximately 73,000 exchange-eligible CUSIPs. However, the actual pattern exchange transactions will take is unknown.
  - Exchange is optional. Therefore, some CUSIPs or pieces of a CUSIP may never be exchanged.
  - Freddie Mac does not know how many different pieces of each CUSIP will be submitted in separate exchange transactions – e.g., many different investors may hold pieces of a CUSIP, money managers may choose to consolidate CUSIPs for exchange, or maintain separate transactions for each sub-account.
  - It is generally up to the investor / dealer to determine how to structure the exchange transactions – e.g., pieces of a CUSIP can be consolidated, or submitted separately.
- Freddie Mac forecasts the maximum available capacity on a given day will be a combined 50,000 exchanges across both the dealer-facilitated and direct-to-Freddie Mac exchange paths. Some additional capacity may be made available if necessary.
  - Capacity will begin at 10,000 exchanges per day during the first 3-6 months of the exchange offer.
  - For purposes of exchange capacity, an “exchange” is a submitted security wire.
  - Par amounts greater than \$50 Million will occupy more than one unit of capacity per Fedwire limits.

### ❖ Exchange transactions in the dealer-facilitated path

- In the dealer-facilitated path, multiple individual CUSIPs (or pieces of CUSIPs) can be submitted for exchange in a single transaction (see screenshot below).
  - Although each CUSIP or piece of a CUSIP exchanged will require a unit(s) of capacity, the cash wire will be paid (from Freddie Mac to the dealer) at the aggregate transaction level.



- In addition to offering flexibility in the structuring of transactions, this method also enables flexibility in exchange settlement.
  - Each exchange line item (i.e., a single CUSIP or portion thereof) within the transaction settles separately.
  - Therefore, if the 45-day collateral for one exchange (line item) fails to deliver, the rest of the exchanges (i.e., the other CUSIPs) within the transaction can still settle.
  - In the dealer-facilitated path only, any exchange that fails will automatically be rebooked in Dealer Direct on the next available settlement date with a new Exchange / Transaction ID and with available capacity not less than two business days later. Failed transactions cannot be auto-rebooked for the next business day.
  - If a transaction fails, the original transaction should be canceled in your systems and rebooked with the new settlement date and Exchange / Transaction ID.

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

Filter By Status: Confirmed

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

Confirmation Number: 01718-17      Last Action: Collateral Overwritten      Settlement Date: 08/31/2017  
 Cutoff Time for Providing Collateral: 10:25 AM      Last Modified By: JPMorganChase ExchangeTrade      Last Action Date/Time: 08/30/2017 11:14 AM  
 Remaining Capacity for This Settlement Date: 150      Price Grid in Effect: v608      Total Float Compensation (\$): 119.84

45 Day Securities to Deliver				55 Day Securities to Be Received		Pricing Information								
Exchange ID	Pool Number	CUSIP	Par Amount (\$)	Pool Number	CUSIP	Factor	Base (Ticks)	Loan Bal (Ticks)	FICO (Ticks)	LTV (Ticks)	WALA (Ticks)	Total (Ticks)	Float Comp (\$)	Comments
10362	A54958	3129KQK5	1,000,000.00	Z0011	31327TAM9	0.07777787	2.25	0.50	0.00	0.50	0.50	3.75	91.15	
10363	C38725	31294PVS2	500,000.00	Z0083	31327TCV7	0.01175422	2.25	0.50	0.00	0.50	0.50	3.75	6.89	
10364	C38728	31294PVS5	700,000.00	Z0084	31327TCW5	0.00561408	2.25	0.50	0.00	0.50	0.50	3.75	4.61	
10365	C49099	3129LJDC5	700,000.00	Z0086	31327TCY1	0.01152164	2.25	0.00	0.00	0.50	0.50	3.25	8.19	

Each line item is a separate "Exchange"

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

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





### 7.5 10-Days' Delay Compensation Payment

- Freddie Mac expects to offer a schedule of payment rates, with at least one payment rate for every term/coupon combination.
  - Payment rates will be expressed in ticks (1 tick = 1/32 of 1%) where the payment rate multiplied by the UPB of the exchanged securities will give the dollar value of the 10-days' delay compensation.
  - Freddie Mac expects to update the schedule of float compensation payment rates on a regular basis.
- Freddie Mac has begun to publish indicative pricing grids to help investors prepare for the exchange. The indicative pricing grids are posted on the [Freddie Mac Float Compensation Tools website](#).
- Freddie Mac also publishes a [float compensation calculator](#) for the current price grid, which can be used by investors to determine the actual float compensation to be paid on their eligible 45-day securities, based on the most recent pricing grid.
- The float compensation values provided by the calculator provide a representation of the float compensation owed based on the current version of the payment grid.. However, the exact value of the float compensation payable to an investor in any specific exchange transaction will be communicated to the investor as part of the applicable exchange confirmation.
- Investors who enter their CUSIPs into the float compensation calculator can download a file through the tool that they can share with their dealers. The file will be formatted in the proper submission layout for Dealer Direct.
- Pricing grids are published through the Freddie Mac website, Dealer Direct, and potentially other sources. The pricing grids are available in three formats: XML, CSV, and PDF.

### 7.6 Accounting, Tax, and Regulatory Considerations

#### ❖ Accounting and tax treatment

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

#### ❖ Regulatory guidance

- From an accounting treatment perspective, the Enterprises have received guidance from the SEC that it does not object to treatment of an exchange as a minor modification of the existing security. By concluding that the exchange is a minor modification, holders of the security can carry over the basis of their 45-day securities and would recognize the cash payment received as compensation for the 10-day delay in payment cycle as a basis adjustment on the 55-day Freddie Mac security they received. The Enterprises posted the [confirmation letter and companion document](#) on their websites.
- The IRS has published its [Revenue Ruling 2018-24](#) regarding certain tax treatment of the Gold PC exchange offer that Freddie Mac plans to make as part of the Single Security Initiative. According to the ruling, the exchange of 45-day Gold PC securities for 55-day Freddie Mac mortgage-backed securities will not be taxable. The IRS did not rule on the taxability of the associated float compensation payment, and is not expected to provide additional guidance on this topic.
- Freddie Mac announced its planned treatment of float compensation payments in September 2018. Freddie Mac will treat the float compensation payment as a tax-free adjustment to the security basis. As such, for those investors that execute their exchange through the direct-to-Freddie Mac path, Freddie Mac does not intend to report the payment as taxable income to the investor. However, Freddie Mac is not dictating to investors how



they must treat the payment. Some investors may conclude after consulting with their tax advisors that the float compensation taxable income when received.

- FINRA has stated that a member's facilitation of an exchange of a 45-day Freddie Mac PC or Giant PC for a 55-day UMBS, both the leg with Freddie Mac and the leg with the customer, are not reportable under Rule 6730 as long as the prices of the PC and UMBS utilized to effect the exchange only reflect and pass through the float compensation provided by Freddie Mac. For more information, refer to the [FINRA TRADE FAQ](#) page, specifically question 3.4.29.
- Investors must rely on their own tax and accounting advisors to determine the best course of action.

### 7.7 Exchange Disclosures

- Mirror securities will appear on the current Daily New Issue File on the business day after they are issued. Freddie Mac is also producing several new disclosures to keep the market informed on progress of the exchanges. The disclosures are listed below and can be accessed on [Exchange Data Files website](#).

Title	Timing	Content
<b>Daily New Issue File</b>	<b>On date of mirror issuance</b>	Newly issued mirrors are included in the Daily New Issue File and are disclosed like a single pool Giant. The pool number for mirror securities begins with the letter 'Z' to distinguish them from other regular new issue securities.
<b>Cumulative 45-Day to 55-Day Exchange Activity</b>	Published daily beginning August 10, 2018, <b>date of first mirror issuance</b>	Provides information on each Mirror Security as it is issued. This report provides the mapping of the 45-day PC or Giant PC to the corresponding 55-day Mirror Security. This is a daily file. For more detail on understanding this report, access the <a href="#">File Description</a> .
<b>Daily 45-Day to 55-Day Exchange Activity</b>	Published daily beginning March 25, 2019, <b>on settlement of first exchange transaction</b>	This file provides information on the exchange transactions settled on the preceding business day, including the original par amount exchanged, pool numbers and CUSIPs of the 45-day and 55-day securities. This is a daily file. For more detail on understanding this report, access the <a href="#">File Description</a> .
<b>Aggregate Level 1 Collateral Exchange Activity</b>	Published daily beginning March 25, 2019, <b>on settlement of first exchange transaction</b>	This file contains one row for every Freddie Mac fixed-rate 45-day payment delay Level 1 PC, even if the PC is not eligible to be exchanged. This file shows the issuance UPB, the issuance UPB that has been exchanged and is still available for exchange at Level 1, the issuance UPB that has been resecuritized, and the issuance UPB that has been resecuritized and exchanged, for all outstanding fixed-rate Gold PCs. This report is designed to help the market with prepayment analysis and is published on a daily basis. For more detail on understanding this report, access the <a href="#">File Description</a> .



<p><b>Outstanding Supply Report</b></p>	<p>Published monthly beginning April 4, <b>on factor release following first exchange transaction</b></p>	<p>This report shows the current UPB, by term and coupon, for Level 1, TBA-eligible Freddie Mac-issued securities. This report includes: unexchanged exchange-eligible Gold PCs, exchanged Freddie Mac-issued UMBS, and UMBS newly issued by Freddie Mac on or after June 3rd, 2019. Cohorts with current UPB less than \$50,000,000 are not listed on this report. The Outstanding Supply Report will be published monthly after factors are released. For more detail on understanding this report, access the <a href="#">File Description</a>.</p>
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## ❖ Actions market participants should consider

- Determine exchange strategy if holding any eligible Freddie Mac Gold or Giant PCs. Potential considerations include: the timing of exchange, possible consolidation into Giant PCs prior to exchange, accounting and tax strategy, choose an exchange path, whether Gold PCs are out on repo, etc.
- Determine which exchange path to pursue and discuss with chosen dealer(s) or Tradeweb (complete setup), and with custodians. Investors may contact Tradeweb directly with questions at [umbs@tradeweb.com](mailto:umbs@tradeweb.com).
- Adjust and test systems, queries, reports, exchange disclosure processes, and other practices as necessary.
- Determine how to book exchange transactions in systems, i.e.:
  - Confirm the exchange treatment with accounting and tax advisors.
  - Determine how to book exchange transactions in trading / portfolio management / other operational systems (e.g., can existing transaction codes be used or will a new one be needed?).
  - Determine how data will flow into accounting systems to affect the desired accounting and tax treatments.
  - Determine how to book the 10 days' delay compensation payments (e.g., how will data be associated with transactions? Will data need to be allocated to different investors or accounts?).
- Ensure that systems and processes are prepared to correctly label the transactions as exchanges, consume exchange booking confirmation data, and instruct custodians appropriately to facilitate exchange transaction processing.
- Establish how to consume exchange pricing information for the 10 days' delay compensation – e.g., are internal system updates needed to load pricing grids automatically?
- Understand the new exchange disclosure elements and how tradable supply will be calculated. As exchanges occur, the portion of the 45-day security that has been exchanged will be removed from tradable supply and the corresponding portion of the 55-day security will be added.

## ❖ Decisions needed

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



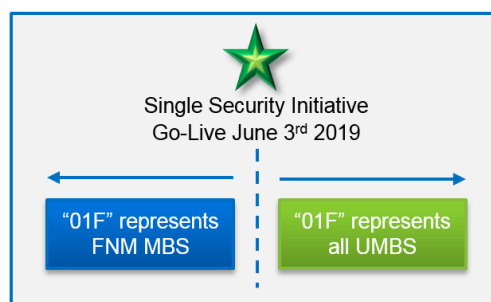
## 8 Trading

### 8.1 TBA CUSIP

#### ❖ Key changes

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

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



#### ▪ CUSIP Global Services

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

#### ▪ FICC

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

#### ❖ Actions market participants should consider

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

### 8.2 Electronic Pool Notification (EPN)

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

#### ❖ Actions market participants should consider

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





## 8.3 TBA Trading Screens

### ❖ Key changes

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

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

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

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

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

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

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





## 8.4 Bloomberg

### ❖ Key changes

- Bloomberg has details regarding the UMBS and Single Security available at USEC<GO> and a document with information at DOCS UMBS <GO>.
- All UMBS (regardless of issuer) will be grouped under “FN” for Bloomberg generics (FNCL/CT/CI/CN).
- Note: Freddie Mac CMOs will continue to use the “FHR” ticker and Fannie Mae CMOs will continue to use the “FNR” ticker; no changes to these values are expected.
- Freddie Mac Legacy PCs will continue to reflect the existing Bloomberg generics.

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

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

- Starting May 3, 2019 Bloomberg will group all Freddie Mac 55-day securities under the “FR” ticker. However, if a user searching for Freddie Mac UMBS types in “FN” plus a Freddie Mac pool number, Bloomberg will return the correct Freddie Mac 55-day pool. *Please note - To provide sufficient time for clients who receive Bloomberg pool tickers from feeds or the API, these fields will continue to return the “FN” prefix for TBA eligible Freddie Mac 55-day delay pools until July 29, 2019.*
  - Fields: TICKER, NAME, SHORT\_NAME, SECURITY\_DES, SECURITY\_NAME, ID\_BB\_SEC\_NUM\_DES
  - Example: {FR ZM8888<Mtge>FLDS DS002<Go>}
- Bloomberg “Generic” support will reflect a UMBS view, including Freddie Mac new issue 55-day UMBS or MBS, Freddie Mac legacy PCs exchanged, and Fannie Mae 55-day new issue UMBS or existing MBS.
- Bloomberg will support a pool look-up for a UMBS pool using either “FR” or “FN” for Freddie Mac and Fannie Mae respectively.
  - Users will need to continue to specify “FG” or “FH” for Freddie Mac 45-day and/or 75-day pools, similar to current practice.



# Single Security Initiative

- Users will need to specify “FR” or “FN” for non-TBA 55-day pools.
- The screen below shows a sample of a 55-day mirror security displayed on Bloomberg, grouped under the “FN” ticker, but also specifically identifiable as a Freddie Mac security, with the “FR” 55-day ticker:

FR ZM8888	Not Priced	--/--	Yield	--/--	Coupon	4.000%	--
As of --	Freddie Mac Gold Pool		Prepay	258PSA			
FR ZM8888 Mtg	Export				Page 1/3	Security Description	
FNCL 4 N	4.799(353)6	CUSIP 3131Y32V7	Pool Level		Buy	Sell	
1) Summary 2) Exchanges 3) Comments							
Pool	FR ZM8888		16) Seasoning	FNCL 4 N	As Of		04/2019
Type	(CL) UMBS Conventional Conv 30 years Level pay		17) Vintage	FNCL 4 2018	Issue Date		10/01/2018
Traits	30/360		19) UMBS	FG Q59253	Maturity Date		10/01/2048
11) Seller	SCR - Mirror Quicken ...		Issuer	FHLMC			
12) Pool Information							
Coupon	4.000	WAC	4.799	Orig WAC	4.795	Factor	0.96723095
		WARM	353	Orig WAM	359	Orig Amt	31,327,084
		WALA	6			Curr Amt	30,300,525
13) Collateral Information							
WAOLTV	75	AOLS	138,683	Orig TPO	6.35	Prepay	CPR PSA
WAOLTV-HPI*	75	WAOLS	139,151	Curr TPO	6.51	1 Month	15.0 1249
WAOLTV	75	MAXLS	150,000			3 Month	8.7 867
WAOCS	738	WAOLT	359			6 Month	5.0 715
						1 Year	
						Life	5.0 715
14) # Loans	221	Delay	54	( 24 )		18) States	%UPB
						Michigan	11.8
						Florida	9.8
						Georgia	7.6
TRACE Eligible							
15) Paydown Information *Value calculated by Bloomberg							
Prepay History	Apr19	Mar	Feb	Jan	Dec	Nov	Oct18
1 Month CPR	15.0	5.2	5.5	3.2	0.3	0.1	
3 Month CPR	8.7	4.6	3.0	1.2			
6 Month CPR	5.0						
12 Month CPR							
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2377 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2019 Bloomberg Finance L.P. SM 514242 EDT GMT-4:00 H020-64-3 09-Apr-2019 10:11:57							

- Please note the following characteristics of the mirror security in the Bloomberg screenshot above:
  - “FR” ticker and CL prefix to denote that the mirror security is a UMBS. If the user mistakenly enters “FN ZM8888” Bloomberg will redirect them to this screen.
  - In place of the seller name, Bloomberg lists the seller name as SCR – Mirror.
  - Issue Date for the mirror security is 08/01/2018, however the vintage is FNCL 4 2010 reflecting the underlying collateral.
  - Payment Delay is 54.
  - Prepay History reflects the speeds of the underlying 45-day Gold PC pool.

## ❖ Actions market participants should consider

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



Fannie Mae™



## 8.5 Dollar Rolls and Repurchase Agreements (Repos)

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

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





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

- During the transition period, we anticipate that investors will have several options to close out or roll their open positions depending on the trade type.



- The following table outlines the current assumptions about how TBA trading in FNCL and FGLMC products will be affected by the go-live of the Single Security initiative. In the following trading scenarios, Single Security implementation takes place in June 2019.

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

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

## ❖ Actions market participants should consider

- Parties using Master Securities Forward Transaction Agreements (MSFTAs) may want to consider whether to update Annex I to provide that UMBS and other new 55-day securities may be delivered as “Eligible Forward Collateral.”



## 8.6 Mortgage Indices

### ❖ Key changes

- The goal of the Single Security Initiative is for indices to transition gradually, as two separate TBA markets combine.
  - No investor should be immediately over- or under-weight in their holdings relative to the indices simply due to go-live of the Single Security Initiative.
  - Over time, we believe Freddie Mac Gold and Giant PC tradable supply will diminish until it drops out of cohorts entirely.
- The major index providers have all published their planned approaches. Investors should contact their providers if they have questions.

## 8.7 Investment Limits and Concentration Risks

### ❖ Key changes

- The IRS published Revenue Procedure 2018-54, which provides guidance for taxpayers that engage in Fannie Mae or Freddie Mac TBA trades for segregated asset accounts on which variable annuity, endowment or life insurance contracts are based. The guidance allows taxpayers to elect to treat the mortgage-backed securities received from the TBA trades as having deemed issuers for purposes of the diversification requirements of section 817(h) of the Internal Revenue Code (the “Code”). FHFA will annually publish the deemed issuance ratio based on actual business volume of the Enterprises.

### ❖ Actions market participants should consider

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



## 9 Legal and Compliance

### ❖ Key changes

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





Freddie Mac and Fannie Mae

# Single Security Initiative Market Adoption Playbook

## Dealer Appendix

Exchange Process of Freddie Mac PCs



Fannie Mae™

Freddie Mac

### Dealer Appendix

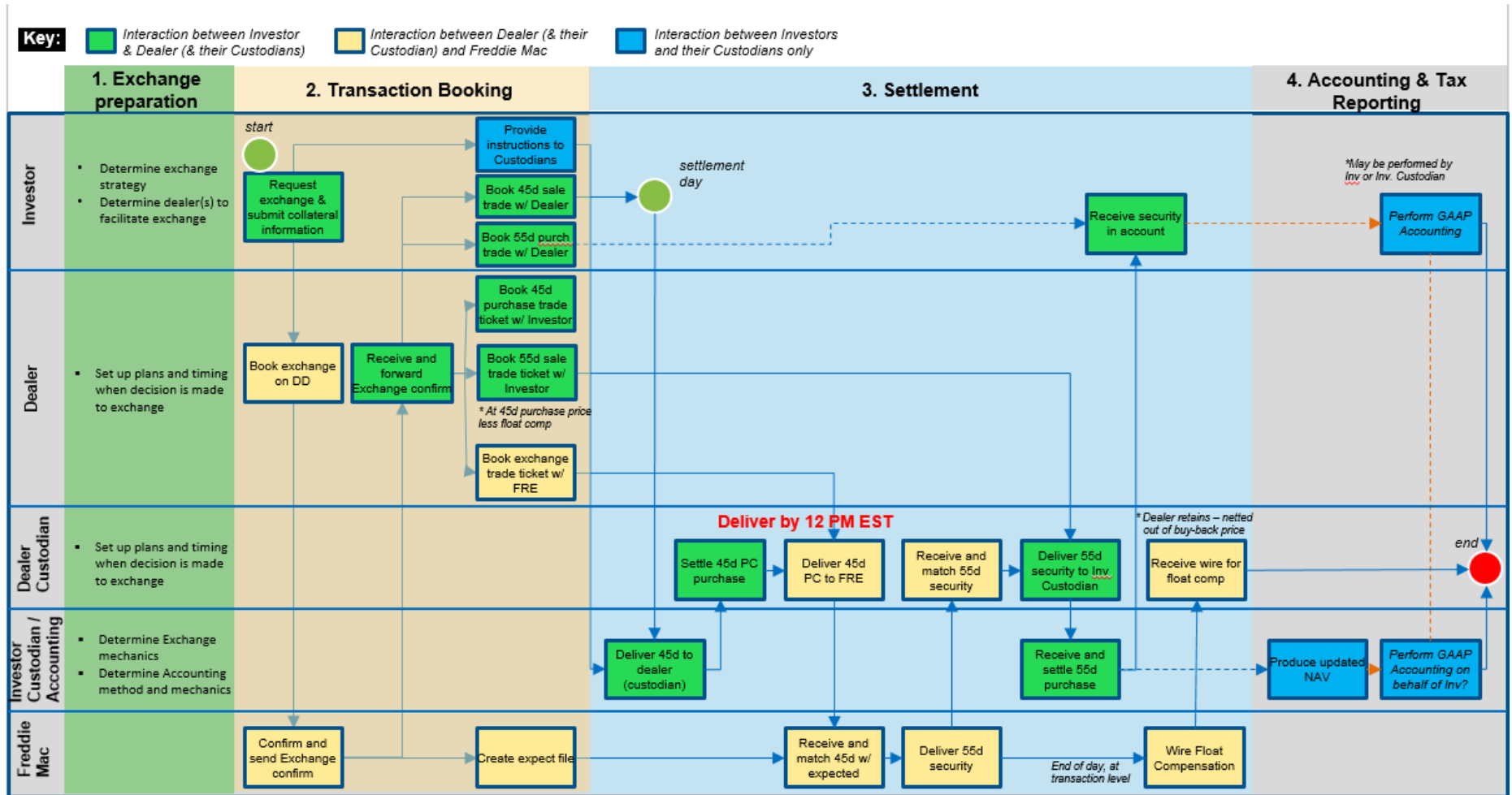
This section provides details around the exchange process of legacy 45-day PC and Giant PC securities to 55-day securities (UMBS and Supers for TBA-eligible securities; Freddie Mac MBS and Giant MBS for non-TBA-eligible securities). Dealers will access Freddie Mac Dealer Direct® to initiate, modify,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

#### ❖ Transaction Overview

Dealers will initiate an exchange of their proprietary holdings or on behalf of an investor. An exchange transaction can be booked up until noon the day prior to settlement (T+2 for the transition period). Dealers/investors also can select current month or next month for settlement. The diagram on the next page displays the process flow of an exchange from initiation to settlement.



# Single Security Initiative



## ❖ Exchange Transaction Booking

### How to enter an exchange transaction

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

FreddieMac.com

Freddie Mac Login Management

Access Manager for e-Business Login

Username:  
  
[Forgot your username?](#)

Password:  
  
[Forgot your password?](#)

Login

Questions? Call 1-800-FREDDIE

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

FreddieMac

Dealer Direct<sup>SM</sup> (SIT2)

Transactions Pricing Reports Settlement Calendar Support

New Transaction

Action: I want to create...  
An Exchange

My Transactions

Filter By Status: Confirmed

Dealer Code	Submitter	Transaction ID	Transaction Type	Status	Trade Date	Settlement Date	Total Original Par (\$)	Number of Collateral	Actions
BAR	barclay exchange	01165	Exchange	Confirmed	06-13-2018	06-21-2018	21,000	21	I want to

Total of 1 records.

Display 20 records per page





# Single Security Initiative

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

```
Exchange_10rows.csv - Notepad
File Edit Format View Help
P00001,31283NAA0,5000,comment
P50074,31288LCK5,5000,comment
P51343,3128C6P45,5000,comment
P58019,3128CD4C5,5000,comment
A54950,3128KHQB5,5000,
A54958,3128KHQK5,5000,
D81282,3128FQM74,30000,
C38725,31294FVS2,30000,
C38728,31294FVW5,30000,
C49099,31298JDC5,30000,
```

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

Rows	Pool Number	CUSIP	Par Amount (\$)	Comment	Errors
1	B71407	312989R40	1,000		
2	J20827	31306X4L4	1,000		
3	B71408	312989R57	1,000		
4	G31003	31324KR9	1,000		
5	V60045	3132KEBN4	1,000		
6	J21160	31306YJD4	1,000		
7	G30819	31324DZ9	1,000		
8	G60534	31335ASX7	1,000		
9	G60533	31335ASW9	1,000		
10	G60530	31335AST6	1,000		
11	G30703	31324AD1	1,000		
12	G31046	31324L49	1,000		
13	G60571	31335AT40	1,000		
14	G60572	31335AT57	1,000		
15	A90316	31293K51	1,000		
16	G11737	31283K4W5	1,000		
17	C10246	31292UH66	1,000		
18	C11511	31292VVC4	1,000		
19	C80221	31335HG64	1,000		
20	B71409	312989R65	1,000		

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



# Single Security Initiative

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

Transactions Pricing Reports Settlement Calendar Support

Remaining Time: 1 : 4 : 49

< Exchange

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

Click to select an exchange file to upload

Enter the number of Securities you wish to Exchange:  Check Availability

June 2018							July 2018						
Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa
					1	2	1	2 Availability: 0	3 Availability: 0	4	5 Availability: 0	6 Availability: 5006	7
3	4	5	6	7	8	9	8	9 Availability: 0	10 Availability: 5003	11 Availability: 5000	12 Availability: 5000	13 Availability: 5000	14
10	11	12	13	14 Availability: 49990	15 Availability: 50000	16	15	16 Availability: 5000	17 Availability: 5000	18 Availability: 5000	19 Availability: 5000	20 Availability: 5000	21
17	18 Availability: 49996	19 Availability: 49994	20 Availability: 49959	21 Availability: 49979	22 Availability: 49994	23	22	23 Availability: 4964	24 Availability: 4961	25 Availability: 5000	26 Availability: 5000	27 Availability: 5000	28
24	25 Availability: 49994	26 Availability: 49994	27 Availability: 49994	28 Availability: 49994	29 Availability: 49994	30	29	30 Availability: 49994	31 Availability: 49994				

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

Exchange

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

Remaining Time: 1 : 4 : 18

Trade Date/Time: June 13th 2018, 10:03 AM Price Grid in Effect: v269 Dealer: Barclays Capital  
 Cutoff Time for Providing Collateral: 03:30 PM Total Fair Value (\$): 13.08 Settlement Date: June 21st 2018  
 Number of Collateral: 21 Total Incentive (\$): 0 Factor Date: 05/01/2018  
 Submitter: barclay exchange Total Float Compensation (\$): 13.08  
 Current User: barclay exchange

45 Day Securities to Deliver				55 Day Securities to Be Received				Pricing Information in Ticks										
Pool #	CUSIP	Original Par (\$)	Pool #	CUSIP	Term (Yrs)	Coupon	Factor	Base	Loan Bal	FICO	LTV	WALA	Total Fair Value (Ticks)	Fair value (\$)	Incentive (Ticks)	Incentive (\$)	Total Float Comp (\$)	Comments
B71407	312989R40	1,000	Z10849	31327T5K9	30	2.000	0.48821785	2.625	1.250	0.000	0.000	0.000	3.875	0.59	0.000	0.00	0.59	
J20827	31306X4L4	1,000	Z12760	31327WB66	10	2.000	0.23852295	1.287	0.000	-0.587	0.000	0.000	0.700	0.05	0.000	0.00	0.05	
B71408	312989R57	1,000	Z10850	31327T5L7	30	2.340	0.25124344	2.625	0.000	0.000	0.000	2.547	5.172	0.41	0.000	0.00	0.41	
G31003	3132J4KR9	1,000	ZS1279	31328VM57	20	2.500	0.92115404	2.500	2.500	0.000	0.000	0.000	5.000	1.44	0.000	0.00	1.44	
V60045	3132KEBNA	1,000	ZA0263	31326SJH4	15	2.500	0.50054662	2.500	0.000	0.000	0.000	0.000	2.500	0.39	0.000	0.00	0.39	
J21160	31306YJ04	1,000	Z12771	31327WCH1	10	2.500	0.23551952	2.578	0.000	0.000	0.000	-0.125	2.453	0.18	0.000	0.00	0.18	
G30819	3132J4DZ9	1,000	ZS1133	31328VHK0	20	3.000	0.74513147	2.500	2.500	0.000	0.000	0.000	5.000	1.16	0.000	0.00	1.16	
G60534	31335ASX7	1,000	ZS1665	31328VZ79	30	3.000	0.76613243	2.625	2.500	0.000	0.000	0.000	5.125	1.23	0.000	0.00	1.23	
G60533	31335ASW9	1,000	ZS1664	31328VZ61	30	3.000	0.76940252	2.625	2.500	0.000	0.000	0.000	5.125	1.23	0.000	0.00	1.23	
G60530	31335AST6	1,000	ZS1661	31328VZ38	30	3.000	0.76201487	2.625	2.500	0.000	0.000	0.000	5.125	1.22	0.000	0.00	1.22	
G30703	3132J4AD1	1,000	ZS0644	31328VBN0	20	3.500	0.57769400	2.250	-0.125	0.000	0.000	0.000	2.625	0.47	0.000	0.00	0.47	



Fannie Mae™



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

Wed 6/13/2018 10:15 AM  
 dealer\_direct@freddiemac.com  
**Freddie Mac confirmation 01166-01 : Exchange Transaction CONFIRMED**

o Prabish, Priya  
 c Basak, Kumarjit; Prabish, Priya

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

ExchangedCollateral\_0...  
 6 KB

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

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

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

[Click here to return to the Transactions tab of Freddie Mac Dealer Direct<sup>SM</sup>.](#)

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

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

Transactions Pricing Reports Settlement Calendar Support

New Transaction  
 Action: I want to create...

My Transactions  
 Filter By Status: Confirmed

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

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

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

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

45 Day Securities to Deliver						55 Day Securities to Be Received						Pricing Information in Ticks							
Exch. ID	Pool #	CUSIP	Original Par (\$)	Pool #	CUSIP	Term (Yrs)	Coupon	Factor	Base	Loan Bal	FICO	LTV	WALA	Total Fair Value (Ticks)	Fair value (\$)	Incentive (Ticks)	Incentive (\$)	Total Float Comp (\$)	Comments
1562648	B71407	312989R40	1,000	ZI0849	3132775K9	30	2.000	0.48821785	2.625	1.250	0.000	0.000	0.000	3.875	0.59	0.000	0.00	0.59	
1562649	J20827	31306X4L4	1,000	ZI2760	31327WB66	10	2.000	0.23852295	1.287	0.000	-0.587	0.000	0.000	0.700	0.05	0.000	0.00	0.05	
1562650	B71408	312989D57	1,000	ZI0850	313277E1.7	30	2.240	0.26122244	2.635	0.000	0.000	0.000	2.547	5.173	0.44	0.000	0.00	0.44	



# Single Security Initiative

Confirmation Number: 01167-01  
 Cutoff Time for Providing Collateral: 03:30 PM  
 Last Action: Transaction Confirmed  
 Last Modified By: barclay exchange

Price Grid in Effect: v269  
 Total Fair Value (\$): 8.89  
 Total Incentive (\$): 0

Last Action Date/Time: 06/13/2018 11:23 AM  
 Factor Date: 05/01/2018

Total Float Compensation (\$): ▲ 8.89  
 The float compensation shown is based on the latest available factors. Once new factors are available, the compensation amount will be updated and a notice will be sent via email.

45 Day Securities to Deliver			55 Day Securities to Be Received			Pricing Information in Ticks													
Exch. ID	Pool #	CUSIP	Original Par (\$)	Pool #	CUSIP	Term (Yrs)	Coupon	Factor	Base	Loan Bal	FICO	LTV	WALA	Total Fair Value (Ticks)	Fair value (\$)	Incentive (Ticks)	Incentive (\$)	Total Float Comp (\$)	Comments
1562690	B71407	312989R40	1,000	Z10849	3132775K9	30	2.000	0.48821785	2.625	1.250	0.000	0.000	0.000	3.875	0.59	0.000	0.00	▲ 3.50	
1562691	J20827	31306X4L4	1,000	Z12760	31327WB66	10	2.000	0.23852295	1.287	0.000	-0.587	0.000	0.000	0.700	0.05	0.000	0.00	▲ 0.05	
1562692	B71408	312989R57	1,000	Z10850	3132775L7	30	2.340	0.25124344	2.625	0.000	0.000	0.000	2.547	5.172	0.41	0.000	0.00	▲ 0.41	
1562693	G31003	3132J4KR9	1,000	ZS1279	31328VM57	20	2.500	0.92115404	2.500	2.500	0.000	0.000	0.000	5.000	1.44	0.000	0.00	▲ 0.44	
1562694	G30819	3132J4DZ9	1,000	ZS1133	31328VHK0	20	3.000	0.74513147	2.500	2.500	0.000	0.000	0.000	5.000	1.16	0.000	0.00	▲ 0.16	
1562695	G60534	31335ASX7	1,000	ZS1665	31328VZ79	30	3.000	0.76613243	2.625	2.500	0.000	0.000	0.000	5.125	1.23	0.000	0.00	▲ 0.23	
1562696	G30703	3132J4AD1	1,000	ZS0944	31328VB00	20	3.500	0.57769400	2.750	-0.125	0.000	0.000	0.000	2.625	0.47	0.000	0.00	▲ 0.47	
1562697	G31046	3132J4L49	1,000	ZS1320	31328VPE5	20	4.000	0.96575875	2.625	0.000	0.000	2.500	0.000	5.125	1.55	0.000	0.00	▲ 0.55	
1562698	G60571	31335AT40	1,000	ZS1693	31328V3B5	30	4.000	0.61759141	2.750	2.500	0.000	0.000	0.000	5.250	1.01	0.000	0.00	▲ 0.01	

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

FW: Freddie Mac confirmation 11909-01 : Exchange Transaction CONFIRMED

ExchangedCollateral\_11909.csv  
3 KB

**From:** DealerDirect@freddiemac.com <DealerDirect@freddiemac.com>  
**Sent:** Monday, April 22, 2019 4:17 PM  
**To:**  
**Cc:**  
**Subject:** Freddie Mac confirmation 11909-01 : Exchange Transaction CONFIRMED

Trade Date/Time: April 22<sup>nd</sup>, 2019 at 16:16 PM  
 Submitter:  
 Last Modified By:  
 45-day security delivery requested by: 12:00 PM

Last Action: Transaction Confirmed  
 Status: Confirmed  
 Settlement Date: April 29<sup>th</sup>, 2019

## Exchange Details

Number of Exchange Collateral: 7  
 Total Float Compensation (\$): \$141,226.69

Price Grid in Effect: v192

For Exchange support, email [Exchange\\_Ops@Freddiemac.com](mailto:Exchange_Ops@Freddiemac.com).



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Total Original PAR (\$)	85,567,112								
Number of Collateral	5								
Total Float Fair Value (\$)	1,791.46								
Total Incentive (\$)	0								
Total Float Compensation (\$)	1,791.46								

Transaction ID	Exchange ID	Transaction Version	Last Action	Submitter	Trade Date	Settlement date	Pricing Grid version Id	Transaction Status	45-Day Pool Number
2769	17465	1	Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	G11908
2769	17466	1	Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	G30178
2769	17467	1	Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	A20085
2769	17468	1	Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	A30136
2769	17469	1	Transaction Confirmed	ctg exchange1	8/24/2018	08/31/2018	v24	Confirmed	B70242

45-Day CUSIP	55-Day Pool	55-Day CUSIP	Original Par (\$)	Term (Yrs)	Coupon	Factor Date	Factor	Base(Ticks)	Loan Bal(Ticks)
3128M1AH2	ZS0335	31328ULR2	44,735,788	15	5.5	8/1/2018	0.03192027	2.625	0
3128CUFT8	ZS0619	31328UVM2	24,000,000	20	7.5	8/1/2018	0.00096679	2.75	0
31296WCW5	ZI0015	31327TAR8	1,319,843	30	10.5	8/1/2018	0.06702039	3.125	0
31297KEH1	ZI0027	31327TA56	2,757,479	30	5	8/1/2018	0.17355728	3.125	0
312988HT8	ZI0821	31327T4F1	12,754,002	30	9	8/1/2018	0.00372487	3.125	0

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



ExchangedCollateral\_02769.csv

## ❖ Exchange Transaction Settlement

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



## ❖ Exchange Key Daily Events

### Settlement Day - 1

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

### Settlement Day

Eastern Standard Time	Key Events
<b>8:00 AM</b>	Freddie Mac's Operations support hours start
<b>8:30 AM</b>	<ul style="list-style-type: none"> <li>• Fed Security delivery window opens</li> <li>• Delivery of the 45-day security for exchange by dealer begins</li> </ul>
<b>12:00 PM</b>	Good Delivery Guideline cutoff for delivery of 45-day security to be exchanged
<b>1:00 PM</b>	Hard Cutoff for security settlement. Securities will be DK'd after 1:00 pm
<b>1:00 PM – 1:15 PM</b>	Dealer Direct will send email notification for failed exchanges
<b>3:30 PM -4:30 PM</b>	<ul style="list-style-type: none"> <li>• Dealer Direct updates transaction status to "Settled," any individual exchange that failed settlement is auto-rebooked for next available settlement day, no less than two business days later.</li> <li>• Transaction gets updated to "Failed" in Dealer Direct only if all exchange IDs within the transaction fail.</li> <li>• After transaction status updates, Dealer Direct immediately sends 10 days' delay compensation to Wire Room to disburse (wires are sent out as soon as received).</li> <li>• Freddie Mac will issue a trust receipt if they are unable to complete an exchange <b>and</b> unable to DK the 45-day back to you and therefore have to hold the 45-day overnight*.</li> </ul>
<b>5:30 PM</b>	Freddie Mac's Operations support hours end

\* With respect to any Eligible Security delivered by a dealer to Freddie Mac's account with the Federal Reserve Bank of New York (FHLMC WASH/2BD7, ABA# 021033205, or any other account designated by Freddie Mac) in connection with the settlement of an Exchange Transaction, Freddie Mac shall hold any such Eligible Security in trust and as custodian for the exclusive benefit of the dealer in accordance with Section 1367(b)(19)(B) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, and the terms and conditions of the Dealer Exchange Agreement and the Exchange Offer Circular until such time as such Eligible Security is (i) exchanged for the corresponding Mirror Certificate and applicable Float Compensation or (ii) returned to the dealer, in each case in accordance with the Dealer Exchange Agreement.

### Settlement Day + 1

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



### ❖ **Modifying an exchange transaction**

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

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

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





Freddie Mac and Fannie Mae

# Single Security Initiative Market Adoption Playbook

## Seller / Servicer Appendix



Fannie Mae™

FreddieMac



### **Seller / Servicer Appendix**

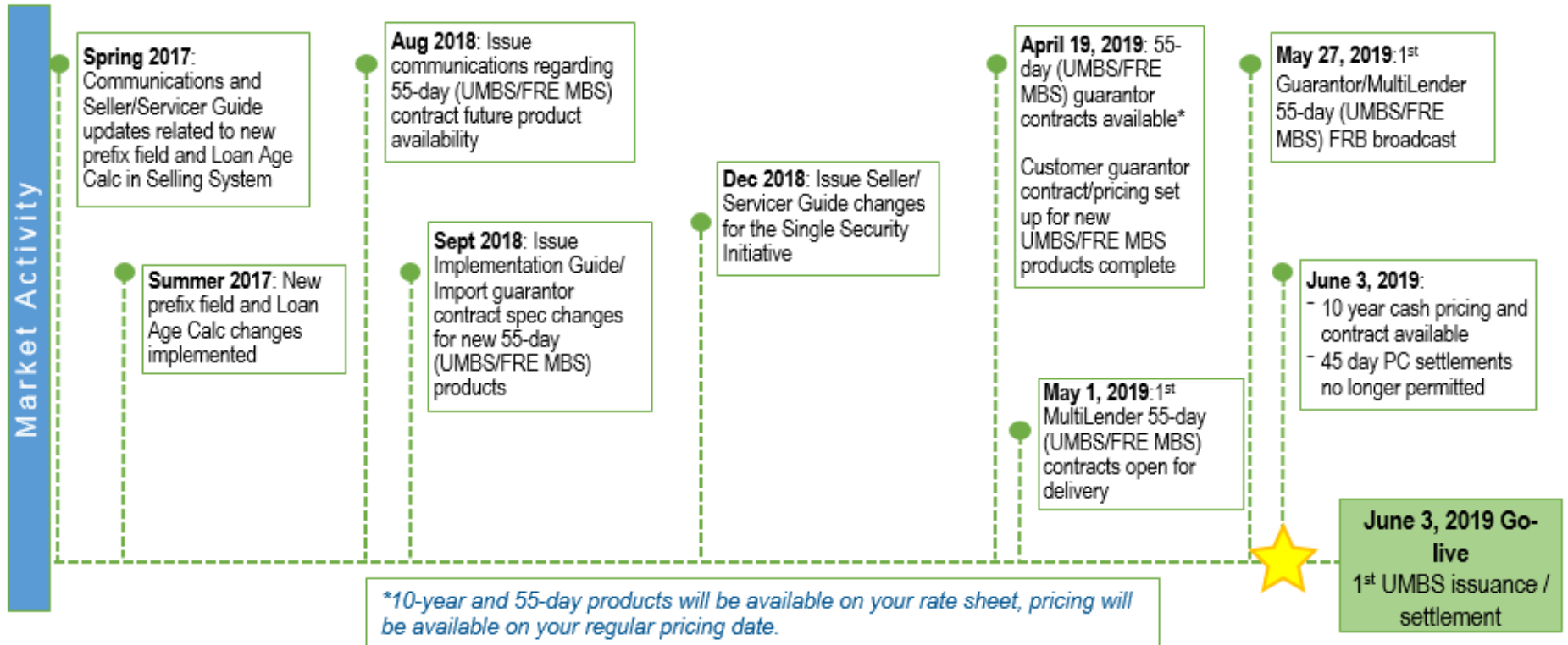
This appendix provides additional detail regarding the impact of the Single Security Initiative implementation to Seller / Servicers. One of the Initiative's goals is to minimize effects on the business practices of Seller / Servicers. Nevertheless, the Initiative includes certain changes to TBA-eligible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

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



## Timeline

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



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

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

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

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

When the Single Security Initiative is implemented on June 3, 2019, Freddie Mac will stop issuing 45-day Gold PCs and begin issuing new 55-day UMBS and MBS Freddie Mac will also introduce a 55-day, 10-year TBA-eligible security product. The following sections describe the overall changes, followed by specific changes to the Guarantor/MultiLender execution path and the cash execution path. ARM products will not change as a result of the Single Security Initiative.

#### ❖ Key changes – overall

##### Effective Now

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

##### Effective Before or At Implementation

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



- Freddie Mac will work with affected Sellers ahead of the UMBS implementation to complete any required Pricing Identifier Terms updates. We expect that most updates will be related to the addition of the 10-year mortgage product and naming convention changes.

### ❖ Key changes – Guarantor/MultiLender products

#### Product Changes

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

#### Pricing and Contracting Changes

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

### ❖ Key changes – cash contract products

#### Product Changes

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

#### Pricing and Contracting Changes

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



- Only Sellers with Pricing Identifier Terms that allow them to deliver 15-year loans for specified cash products will need to have these Pricing Identifier Terms amended to include the new 10-year cash contract products. If a Seller's current contracting only refers to eligible products in the Freddie Mac *Single Family Seller/Service Guide* (Guide), then an update of the Pricing Identifier Terms is not required.

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

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

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

### ❖ Actions market participants should consider

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

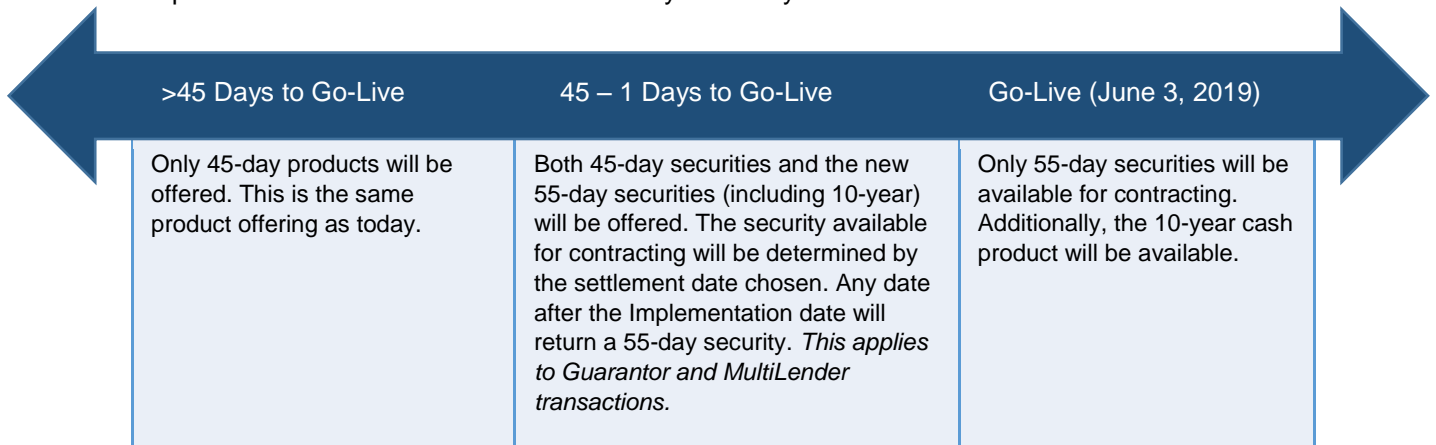


- Determine testing timeline for updates required to affected systems.

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

### ❖ Key changes

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



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



# Single Security Initiative

Request Price

Request Price

Pricing Identifier: \*

Select			
M10000001	Settlement Date from 07/01/2018 to 05/31/2019	PT From 07/01/2018 to 05/31/2019	Rem: \$XX,XXX,XXX.XX
M10000001	Settlement Date from 06/01/2019 to 06/30/2019	PT From 06/01/2019 to 06/30/2019	Rem: \$XX,XXX,XXX.XX

NEXT

NOTICE: Loan Selling Advisor only maintains loan and loan purchase data back to January 1, 2010. Older data is stored elsewhere under our record retention policy.

- Upon Go-live of the Single Security Initiative, 10-year cash products will become available and Freddie Mac will modify the maturity terms permitted for the 15-year cash contracts.



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