

MEMO# 28329

August 20, 2014

FHFA Seeks Input on Proposed "Single Security" Structure for Fannie Mae and Freddie Mac MBS

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TO: SECURITIES OPERATIONS ADVISORY GROUP RE: FHFA SEEKS INPUT ON PROPOSED "SINGLE SECURITY" STRUCTURE FOR FANNIE MAE AND FREDDIE MAC MBS

On August 12, the Federal Housing Finance Agency ("FHFA") issued a Request for Input on its proposed structure for a "single security" that would be issued and guaranteed by Fannie Mae or Freddie Mac (the "Single Security"). [1] The intent is improve overall secondary market liquidity in Fannie Mae and Freddie Mac mortgage-backed securities ("MBS"). FHFA seeks to ensure fungibility of legacy Fannie Mae and Freddie Mac MBS with the Single Security [2] for purposes of fulfilling contracts in the to-be-announced ("TBA") market. [3] We link to and summarize the Request for Input below.

The deadline for submitting comments is October 13. If you have any concerns with FHFA's proposal, or otherwise think that ICI should submit a comment letter, please contact me at matt.thornton@ici.org or (202) 371-5406 by no later than September 2.

The Single Security is part of FHFA's larger plan to build a Common Securitization Platform for use by Fannie Mae and Freddie Mac (the "Enterprises"). Described as part of a "multi-year effort" with no concrete timeline, the Single Security would include many of the pooling features of the current Fannie Mae MBS and most of the disclosure framework of the current Freddie Mac Participation Certificate ("PC"). The Single Security would be issued and guaranteed by either Fannie Mae or Freddie Mac, with 100% of the underlying mortgage loans being those of the issuing Enterprise (i.e., there would be no commingling of Enterprise loans for first-level securitizations). The Enterprises' existing purchase and guarantee frameworks would not be changing, nor would their servicing and selling guides. A Single Security could also be re-securitized together with other Single Securities issued by either or both Enterprises and the Enterprises' existing legacy securities. To promote the aforementioned fungibility, legacy Freddie Mac PC investors could exchange those securities for comparable Single Securities backed by the same mortgage loans (fungibility would be less of a concern for Fannie Mae MBS, because of the proposed similarities of the securities).

FHFA is seeking feedback on all aspects of the proposed Single Security structure, and specifically asks the following questions:

1. What key factors regarding TBA eligibility status should be considered in the design of and transition to a Single Security?
2. What issues should be considered in seeking to ensure broad market liquidity for the legacy securities?
3. As discussed above, this is a multi-year initiative with many stakeholders. What operational, system, policy (e.g., investment guideline), or other effects on the industry should be considered?
4. What can be done to ensure a smooth implementation of a Single Security with minimal risk of market disruption?

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endnotes

[1] Available at www.fhfa.gov/PolicyProgramsResearch/Policy/Documents/RFI-Single-Security-FINAL-8-11-2014.pdf.

[2] FHFA notes that Freddie Mac securities have historically traded less favorably than Fannie Mae securities.

[3] The TBA market is a forward market for agency MBS. In a TBA trade, the buyer and seller agree to the issuer (e.g., Fannie Mae or Freddie Mac), maturity, coupon, price, par amount, and settlement date at the trade date, but the exact MBS to be delivered by the seller are announced just prior to settlement.