Fannie Mae REMIC-Backed Megas® and Addendum: Improved SMBS Absorption Report

On January 7, 2009, SIFMA made revisions to its Good Delivery Guidelines, allowing certain outstanding Fannie Mae REMIC classes, which have been recombined to represent the original, underlying 30-year and 15-year, fixed-rate collateral cash flows, to be eligible for TBA delivery. In response to those revisions, Fannie Mae has become active in re-securitizing certain REMIC classes into REMIC-backed Megas. Fannie Mae’s REMIC-backed Megas allow investors to unlock liquidity in certain seasoned REMIC classes, or groups of REMIC classes, by creating a TBA-deliverable Mega security based on the underlying cash flows. This edition of MBSenger discusses various aspects of Fannie Mae’s issuance of these “Z-prefix” REMIC-backed Megas. We review the basics of Fannie Mae Megas; discuss the investor benefits of these transactions; highlight the guiding considerations in executing these transactions; outline the disclosures available for a recently issued REMIC-backed Mega; and provide current Fannie Mae REMIC-backed Mega issuance data.

As an addendum to this MBSenger, we also highlight the benefits of Fannie Mae’s improved SMBS Absorption Report, which is available on our Web site.

Basics of Fannie Mae Megas

Fannie Mae Megas (Megas) are MBS pools in which the underlying collateral is comprised of groups of existing Fannie Mae MBS or other Fannie Mae Megas with similar features. The cash flows from the underlying, previously issued Fannie Mae MBS provide the cash flows for the Mega pool. The securities that back a Mega pool may be fixed-rate or adjustable-rate single-family MBS or multifamily MBS or other Fannie Mae Mega pools. Exhibit 1 (on page 2) illustrates how principal and interest flow from underlying securities to a Mega pool and then to the investor.

Investor Benefits of Megas

General Investor Benefits of Megas

By consolidating smaller pools into a larger Mega pool, Megas afford investors the operational efficiency gained by administering and tracking valuation information on a single security, rather than administering and tracking many securities. Receiving a single monthly principal and interest payment from a Mega pool can simplify back-office operations. Often, it is more efficient to buy or sell a larger-sized pool in the marketplace than...
complete the same transaction with many smaller-sized pools; thus, Megas can result in enhanced liquidity as well. Additionally, it may be beneficial for investors to create pools with certain specified characteristics as well.

**Investor Benefits of REMIC-backed Megas**

TBA-eligible mortgage-backed securities typically benefit from enhanced liquidity and pricing in the marketplace compared to non-TBA eligible securities. Investors who hold certain seasoned REMIC classes, which are not eligible for TBA delivery, may find it attractive to unlock the liquidity of the underlying collateral by resecuritizing the outstanding REMIC class into a REMIC-backed Mega. After this process, an investor would hold a new TBA-eligible Mega, which would likely provide the investor with better liquidity and pricing in the marketplace than the seasoned REMIC class.

Certain REMIC classes, including fixed and floater/inverse pass-through classes and back-end sequential classes can be used as collateral for a REMIC-backed Mega. In many cases, the cash flows available to the holder of such seasoned securities are identical to the cash flows from the underlying collateral. However, these securities are often not afforded superior liquidity in the marketplace. In these instances, an investor can work with a dealer to create a REMIC-backed Mega using such a REMIC class as collateral. The investor would then hold a TBA-eligible security, the REMIC-backed Mega, thus potentially enhancing the marketability and pricing of the investor’s seasoned asset.

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2 Contact Fannie Mae’s Structured Transactions Group for more information about current REMIC dealers: 202-752-7875.
Fannie Mae’s Structured Transactions Group by telephone at 202.752.7875 or email at structured_transactions@fanniemae.com. Information about pooling requirements, delivery and settlement procedures, wiring instructions and other useful Mega information can be found on the ‘Basics of Fannie Mae Megas’ page on www.fanniemae.com at:


**Fannie Mae ‘Z’ Prefixes**

Fannie Mae REMIC-backed Mega securities are issued with a prefix that begins with ‘Z.’ *Exhibit 3* displays the REMIC-backed Mega prefixes issued by Fannie Mae over the past two years. The full list of all Fannie Mae pool prefixes, including other possible ‘Z’ prefixes, is available on our Web site.

*Exhibit 3: Recently Issued REMIC-Backed Mega Prefixes*

<table>
<thead>
<tr>
<th>Fannie Mae Prefix</th>
<th>Prefix Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZI</td>
<td>Mega security collateralized by REMIC certificates which are directly or indirectly backed by Conventional Intermediate-Term, Level-Payment Mortgages; Single-Family; maturing or due in 15 years or less.</td>
</tr>
<tr>
<td>ZL</td>
<td>Mega security collateralized by REMIC certificates which are directly or indirectly backed by Conventional Long-Term, Level-Payment Mortgages; Single-Family; maturing or due in 30 years or less.</td>
</tr>
<tr>
<td>ZP</td>
<td>Mega security collateralized by REMIC certificates which are directly or indirectly backed by Conventional Long-Term, Level-Payment Mortgages; Single-Family; commencing with Interest-Only period greater than or equal to seven years and less than or equal to 10 years; fully amortizing level payments for the remaining term; maturing or due in 30 years or less.</td>
</tr>
<tr>
<td>ZZ</td>
<td>Mega security collateralized by REMIC certificates which are directly or indirectly backed by Conventional Extra Long-Term, Level-Payment Mortgages; Single-Family; maturing or due in 40 years or less.</td>
</tr>
</tbody>
</table>

**Designated Pool Numbers**

REMIC-backed Megas can also be identified by their pool numbers. The pool numbers 310000 to 310999 are reserved for these securities.

**Specific Characteristics for REMIC-backed Megas**

For a REMIC-backed Mega to qualify for good delivery into a TBA security, the following criteria must be met:

- Cash flows on the REMIC-backed Mega must be identical to the cash flows from the original pools (or on a pro-rata share thereof if less than a full REMIC group is recombined);

- All collateral underlying the original REMIC classes that are recombined must have been eligible for TBA delivery when the collateral was originated;

- The new REMIC-backed Mega must be issued without original issue discount (OID);

- Characteristics of the new REMIC-backed Mega must be consistent with other TBA eligibility guidelines such as the limited ten percent inclusions of non-standard and high-balance loans; and,

- Any clean-up calls on underlying collateral must be waived or otherwise eliminated by Fannie Mae.

In addition to the Good Delivery Guidelines prescribed by SIFMA, Fannie Mae has established a number of operational and other procedural parameters that govern the process of resecuritizing outstanding REMIC classes into a Mega that represents the original pass-through collateral cash flows. These governing parameters include the following:

- The underlying REMIC securities will be resecuritized into a new REMIC trust, which may include additional collateral groups;

- For each underlying REMIC bond or group of bonds, the new REMIC trust will issue either:
  - A single REMIC pass-through bond with a pass-through rate equal to that of the underlying MBS pools, or
  - A REMIC pass-through bond with an associated Interest-Only (IO) or Principal-Only (PO) Class.
    - In this instance, only the pass-through security will be delivered into a new Mega. The new Mega will have a pass-through rate equal to the pass-through rate of the underlying MBS pool.

- Only one REMIC pass-through bond will correspond to each new Mega;

- The new REMIC pass-through bond will be delivered into a Mega with a ‘Z’ prefix; and,

- The new REMIC Class and related ‘Z’ Mega must be issued on the same day.

**Analytical Considerations**

An example of a last cash flow sequential class that could potentially be used as collateral for a REMIC-backed Mega that would be TBA eligible is the XA class of Fannie Mae REMIC 2004-33 (CUSIP 31393YJT3). This class has a PAC designation where

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all related PACs and supports have paid off, which results in pass-through cash flows. When analyzing the pricing pickup potential of closing this transaction, an investor or dealer would consider the difference in settlement dates between the REMIC-backed Mega and a different TBA security, prepayment assumptions, characteristics of the underlying mortgage loans, fees and other considerations.

Characteristics and Disclosures Available for REMIC-Backed Megas

Once the new REMIC and corresponding REMIC-backed Mega are created, Fannie Mae provides disclosures for both securities. Exhibit 4 provides a snapshot of the various disclosure documents for CU-SIP 31374CLP9 (Pool Number 310034), which was used in Exhibit 2.

Exhibit 4: RBM Disclosure Documents

I. Snapshot of the Mega Prospectus\(^4\): Each Mega Prospectus contains general information about Megas issued during its effective period. The Mega Base Prospectus is delivered or published prior to settlement.

II. Snapshot of the Mega Prospectus Supplement via eProSupp\(^5\): The Mega Prospectus Supplement contains information about a specific issuance of Mega securities. The Mega Prospectus Supplement is delivered or published prior to settlement.

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III. Snapshot of the Final Data Statement\(^6\): Final Data Statements provide the relevant information for specific collateral that backs a specific Mega. The Mega Final Data Statement is published on the settlement date.

IV. PoolTalk\(^7\) Screen – Snapshot of Security Information

V. PoolTalk Screen – Snapshot of Current Information

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**REMIC-backed Mega Issuance Volume**
From January 2009 through May 2010, Fannie Mae has issued approximately $3.5 billion in REMIC-backed Mega securities. **Exhibit 5** depicts the prefix breakdown of the REMIC-backed Megas issued.

**Exhibit 5: REMIC-backed Mega Issuance from January 2009 through May 2010**

As shown in **Exhibit 5**, the prefixes of ‘ZI’ and ‘ZL’ account for 91 percent of REMIC-backed Mega issued. This large proportion of REMIC-backed Megas may incorporate TBA eligibility status. Investors may prefer to unlock the liquidity available in their outstanding REMIC class with a marketable MBS.

**Summary**
This edition of *MBSenger* describes how investors can resecuritize Fannie Mae seasoned non-TBA deliverable REMIC classes into TBA-deliverable REMIC-backed Megas, and thereby potentially unlock the liquidity of this seasoned collateral. For these beneficial transactions, we discuss specific investor benefits; outline the process for creating REMIC-backed Megas; and identify disclosures available for these securities.
Addendum: New Fannie Mae SMBS Absorption Report

On May 10, 2010, Fannie Mae began posting a new version of the Fannie Mae SMBS Absorption Report on its Web site. The new report describes the current configuration and balances of the Trust SMBS classes. On the report, the SMBS trusts are listed numerically with corresponding data attributes following the column headings within each text file, as such:

- Trust number (TRUST #);
- Class (CLASS);
- Class coupon (COUPON);
- Original face SMBS issue amount (ISSUANCE AMOUNT);
- Original face amount of SMBS certificates that have been recombined into either a Mega certificate or other SMBS certificates within the same trust (RECOMBINED AMOUNT);
- The related trust numbers of the SMBS, REMIC or other standard trusts that are backed by the SMBS certificates, and the original face amount backing those trusts (DEAL SERIES and DEAL AMOUNT); and,
- SMBS certificate balance (AVAILABLE BALANCE).

Exhibit 1: Snapshot of the Fannie Mae SMBS Absorption Report

<table>
<thead>
<tr>
<th>TRUST #</th>
<th>CLASS</th>
<th>COUPON</th>
<th>ISSUANCE AMOUNT</th>
<th>RECOMBINED AMOUNT</th>
<th>DEAL SERIES</th>
<th>DEAL AMOUNT</th>
<th>AVAILABLE BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>001</td>
<td>E02</td>
<td>9%</td>
<td>750,229</td>
<td>285,205</td>
<td>96-007</td>
<td>212,095</td>
<td>113,941</td>
</tr>
<tr>
<td>001</td>
<td>F0L</td>
<td>9%</td>
<td>750,229</td>
<td>285,205</td>
<td>89-018</td>
<td>62,000</td>
<td>2,780</td>
</tr>
<tr>
<td>002</td>
<td>E02</td>
<td>10%</td>
<td>750,215</td>
<td>116,076</td>
<td>93-126</td>
<td>137,914</td>
<td>194,186</td>
</tr>
<tr>
<td>003</td>
<td>E02</td>
<td>9%</td>
<td>906,237</td>
<td>247,935</td>
<td>89-009</td>
<td>4,802</td>
<td>119,497</td>
</tr>
<tr>
<td>003</td>
<td>F0L</td>
<td>9%</td>
<td>906,237</td>
<td>247,935</td>
<td>98-039</td>
<td>5,640</td>
<td>119,249</td>
</tr>
</tbody>
</table>

The new report incorporates improvements and updates from the retired version. Some of the improvements include the following:

- The new report will be updated daily, rather than monthly;
- Paid-Off Deals will no longer be shown on the report;
- Reconfigured Classes with available balances are included on the report; and,
- Coupons will now be included on the report.

Recombinations are types of exchanges that may be permitted for SMBS certificates. SMBS certificates may be recombined into corresponding Mega certificates or other SMBS certificates from the same trust. For additional information, please refer to the SMBS Prospectus and the Prospectus Supplements/Preliminary Data Statements under the heading "Exchange of Certificates."

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5 http://www.fanniemae.com/mbs/data/smbs/absorptionreport.jhtml