Providing Liquidity to the Market — Fannie Mae’s Single-Family Whole Loan Conduit (a.k.a., The Cash Commitment Window)

Fannie Mae’s Single-Family Whole Loan Conduit (also known as the Cash Commitment Window) is designed to provide liquidity to the mortgage market while offering investors diversified pools of mortgages to meet their investment needs. Fannie Mae purchases loans from a large, diverse group of lenders and then securitizes them as Fannie Mae Mortgage-Backed Securities (MBS), which may be sold to the market. These pools are backed by Fannie Mae’s guaranty of full and timely payment of both principal and interest. In 2015, through the whole loan conduit, nearly 1,200 lenders delivered loans to Fannie Mae in exchange for cash.

The whole loan conduit allows Fannie Mae to provide market liquidity through short-term use of the balance sheet while not interfering with the mandated reduction of the retained mortgage investment portfolio.¹

By offering competitive pricing and flexibility in committing, Fannie Mae has made execution favorable to these lenders. The whole loan conduit also offers lenders the unique opportunity to retain servicing rights for the loans they deliver.

Whole loan conduit issuance has become a larger percentage of Fannie Mae MBS issuance over recent years, particularly following the credit crisis. During this period, lenders sought liquidity and several large aggregators scaled back, or exited altogether, their correspondent business.

In this edition of Fannie Mae’s MBSenger, we:

- discuss lenders use of the conduit,
- describe Fannie Mae practices in managing the conduit and monitoring performance,
- explain how to identify pools created out of the conduit,
- review investor benefits and considerations, and,
- provide additional resources and reference documents.

¹ In August 2012, the third amendment to the Senior Preferred Stock Purchase Agreement with Treasury required that Fannie Mae reduce its retained portfolio to 85% of the maximum allowable amount that we were permitted to own as of December 31st of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion in 2018. As of December 31, 2015, our retained mortgage portfolio was approximately $345 billion.
**Lender Benefits**

Fannie Mae addresses the scalability and capacity needs of small and mid-size lenders by offering them flexible arrangements on whole loan execution elements in an operationally efficient manner.

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<thead>
<tr>
<th><strong>LENDER BENEFITS</strong></th>
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<tbody>
<tr>
<td><strong>Committing</strong></td>
<td>Fannie Mae’s whole loan conduit provides a web-based interface with customizable commitment periods, pricing independent of volume, and the ability to manage funding and pricing by choosing settlements on a daily basis. Lenders have the option to commit on a mandatory or best efforts basis. Lenders can also take advantage of loan balance grids, which offer market-based payups for 85k, 110k, 125k, 150k, and 175k loan balance paper for 30-year and 15-year terms. Lenders are able to commit in a fully automated fashion, and payups are adjusted as the market changes.</td>
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<td><strong>Immediate Funding</strong></td>
<td>Lenders are funded the day after a good delivery.</td>
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<td><strong>Flex Range Commitments</strong></td>
<td>Mandatory commitments allow for a 50 basis point delivery range, offering the lender greater flexibility in the event of changes to the rate on originally committed loans.</td>
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<td><strong>Extensions &amp; Pair-offs</strong></td>
<td>Lenders have the ability to extend a whole loan commitment, which offers an alternative to utilizing the dollar roll market and the ability to pair-off at spreads reflective of the liquid TBA MBS market.</td>
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<td><strong>Remittance</strong></td>
<td>The whole loan conduit allows for both Scheduled/Scheduled and Actual/Actual remittance options.</td>
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<td><strong>Pricing</strong></td>
<td>Whole loan pricing is based on MBS pricing and is updated throughout the day, offering a competitive execution option. The pricing is constructed on a whole loan pass-through basis (gross note rate minus servicing), eliminating the need to buyup or buydown the note rate and thus eliminating excess servicing.</td>
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<td><strong>Delivery Tolerance</strong></td>
<td>The whole loan conduit offers a delivery tolerance of 2.5% or $10,000, whichever is greater, providing assistance to lenders when accounting for the unexpected volatility in their deliveries.</td>
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The whole loan conduit serves a diverse lender base across the nation. Small and mid-sized lenders consistently account for over 90% of participation and over 50% of dollar issuances.
Delivery Requirements

The whole loan conduit is designed to provide liquidity for small and mid-size lenders. These lenders are subject to the same counterparty requirements that Fannie Mae establishes for all Single-Family mortgage sellers/servicers who wish to do business with Fannie Mae. Approval or rejection of a lender’s application is at Fannie Mae’s sole discretion. At a minimum, to be considered for approval to sell and service residential first mortgages, a lender must:

• have as its principal business purpose the origination, selling, and/or servicing of residential mortgages;
• have demonstrated the ability to originate, sell, and/or service the types of mortgages for which approval is being requested;
• have adequate facilities and staff experienced in originating, selling, and/or servicing the types of mortgages for which approval is being requested;
• be duly organized, validly existing, properly licensed (in good standing), or otherwise authorized to conduct its business in each of the jurisdictions in which it originates, sells, and services residential mortgages; and,
• have a net worth of at least $2.5 million, plus a dollar amount that represents 0.25% of the unpaid principal balance of any Fannie Mae portfolio it is servicing.

The requirements for becoming a Fannie Mae approved seller/servicer are further detailed in Fannie Mae’s Single-Family Selling Guide. Whether a loan is delivered to Fannie Mae as a whole loan or exchanged in a Fannie Mae guaranteed lender swap transaction, it must be eligible for delivery to Fannie Mae per the Single-Family Selling Guide.

All approved seller/servicers in good standing are eligible to sell loans through the conduit. But before a lender is eligible to execute through a lender swap transaction, the lender must obtain an MBS pool purchase contract. Fannie Mae considers a number of factors prior to issuing an MBS pool purchase contract to a lender.
(see the Fannie Mae Selling Guide, section C3-2-05). These factors, include, but are not limited to, the following:

• the expertise of the lender’s management in securitization;
• whether the lender’s operational processes support MBS delivery and servicing requirements;
• the lender’s ability to manage and maintain a delivery process that ensures the delivery of accurate data to Fannie Mae; and,
• the lender’s performance against outstanding Fannie Mae obligations.

**Managing the Whole Loan Conduit**

Management of the conduit includes:

• pricing the various whole loan products that are listed on Fannie Mae’s whole loan committing platform;
• hedging the loan position when a commitment to sell a loan is made by a lender;
• managing the inventory, including applying Fannie Mae’s rules that dictate what loans are eligible for MBS;
• performing best execution analysis to determine the optimal securitization of the loans; and,
• trading MBS into the secondary market.

Fannie Mae responds to reverse inquiries to create pools that meet specific investor needs. Additionally, we conduct large CUSIP auctions marketed to a wide distribution of investors.

**Monitoring Pool Performance**

Fannie Mae closely monitors the performance of loans delivered to Fannie Mae on a lender-by-lender basis, whether through the whole loan or MBS swap programs. The company compares lender performance not only independently but also in comparison to lenders with similar delivery profiles. Additionally, the company specifically monitors the prepayments of pools created from the whole loan conduit and compares the performance to pools of similar characteristics that are created through Fannie Mae’s lender swap program or other swap or aggregator programs. In instances where the performance shows faster than cohort speeds, Fannie Mae strives to better understand the nature and rationale for the faster speeds. Fannie Mae may also share best practices for reducing speeds, including working with lenders on their internal policies.

Fannie Mae reminds lenders about specific sections from the Fannie Mae Selling Guide that outline company principles regarding speeds including A2-1-03 (indemnification of losses), B2-1.2-05 (prohibited refinances), C1-1-01 (premium pricing recapture), and C3-3-02 (buyup payment recapture). Fannie Mae, in its sole discretion, may limit or discontinue a lender’s activity through the whole loan conduit and/or the MBS swap program should it be deemed appropriate to do so.

**Identifying MBS Created from the Whole Loan Conduit**

MBS created through Fannie Mae’s whole loan conduit do not have a distinct pool prefix. MBS created through the conduit since June 2013 have pool numbers that begin with “AS,” while pools created before June 2013 generally have pool numbers that begin with the letters “AB.”

Market participants may analyze pools created through the whole loan conduit in a variety of ways. The following Figures assist market participants in analyzing the MBS pools created through the whole loan conduit. Fannie Mae’s PoolTalk® application provides pool level information for a particular pool.
Figure 1 – Fannie Mae’s PoolTalk® Application Displays Monthly Pool Level Disclosures

In March 2012, Fannie Mae began to publish at-issuance loan-level disclosure for Single-Family Fixed-Rate MBS at the time those MBS were issued. This at-issuance loan-level disclosure, available for Single-Family Fixed-Rate MBS issued on or after January 1, 2012, provides more detailed data on the loans underlying Fannie Mae’s MBS. Third-party tools such as Bloomberg allow market participants to drill down into a pool and review loan-level disclosure at the time the MBS pool was issued. Among other things, an investor can see the individual servicers responsible for servicing each loan in the pool at the time of issuance by drilling down into the “# Loans” on the Security Description page in Bloomberg (see Figure 2), selecting the “Show Add’l Info” box at the top, and using the scroll bar at the bottom of the page to move left and right (see Figure 3).
Figure 2 – The Security Description Page in Bloomberg

Figure 3 – The Loan-level Data Page in Bloomberg
Investor Benefits

The whole loan conduit is able to create a wide range of pool sizes (including multi-billion dollar pools) with various loan characteristics to meet investor needs. Additionally, the conduit is able to securitize, trade, and settle any business day of the month. In 2015, the total issuance amount of securities created by the whole loan conduit was approximately $187 billion, which formed 2,280 pools. These pools included a variety of collateral, including loan terms and loan balance. The conduit sells a significant portion of this collateral on ‘stip’ reflecting the trust placed by the market in the product.

Note: Charts represent annual average as of December 31, 2015.
Investor Considerations

Investors considering purchasing MBS should refer to the prospectus documents found in the Mortgage-Backed Securities section of www.fanniemae.com. Certain risks are involved with investing in MBS and can impact the returns of the security.

- Prepayment risk, i.e., the risk someone will pay their mortgage off faster than the full term of the loan, can impact the yield of the security.
- Interest rate fluctuations can impact the price of the security and the return on the security.
- Volatility in currency exchange rates can impact the return on the security as principal and interest payments are made in U.S. dollars.
- Fannie Mae repurchase practices could result in the removal of a loan from a pool, which would result in a prepayment of principal and impact the yield on the security.

Investor and Lender Inquiries

If an investor has questions related to an MBS, whether it be related to data, prepayment speeds, or any other reason, they are encouraged to contact Fannie Mae’s Fixed-Income Securities Marketing Help Line at 1-800-232.6643, Option 2 or by email. The analysts will work with the investor to research the issue and discuss appropriate actions.

For lenders interested in the Fannie Mae Whole Loan Conduit program, please contact the Capital Markets Sales Desk at 1-800-752-0257.

Additional Resources

- To learn more about Fannie Mae’s whole loan web-based committing options for lenders, please refer to PE Whole Loan.
- To learn more about Mortgage-Backed Securities please review Fannie Mae’s Basics of Single-Family MBS document.
- For data on MBS pools, including at-issuance loan level data, please access Fannie Mae’s PoolTalk application.
- For information on the underlying loans in a given pool prefix, please access Fannie Mae’s Pool Prefix Glossary.