



## Fannie Mae Mega® Program: An Ongoing Commitment to a Better Marketplace

Since the Fannie Mae Megas program inception in 1988, we have implemented numerous enhancements to provide an optimal product and marketplace for investors. This edition of the *MBSenger* reviews recent enhancements – most notably our New Issue Mega Statistics (NIMS) – which reflect our principals of transparency and meeting investor needs. We also showcase the growth of the Mega program and review program details and products available. Finally, we reiterate the investor benefits Megs provide.

### Innovation, Transparency, and Commitment to Service

Since the implementation of the Mega program, market and investor needs have changed. In response to these changes and market feedback, we have created the New Issue Mega Statistics (NIMS) file, as well as several new products including the JU Mega and Multi-dealer Odd-lot Mega. Additionally, we continue to provide the next-day/same-day settlement services to our customers, which are also highlighted below.

#### New Issue Mega Statistics (NIMS)

We recently released a new daily at-issuance disclosure for Single-Family Megs called the New Issue Mega Statistics file. This file provides complete and timely at-issuance data for newly issued Megs in one file, making it the first of its kind for our Mega program.

Currently, at-issuance disclosures for Megs are limited, and full disclosure is provided on a two-month delay for fixed-rate Megs and a one-month delay for adjustable-rate Megs. With the development of NIMS, disclosures will be available the morning after a Mega pool is issued.

NIMS will not only provide timely disclosures on fixed-rate and adjustable-rate Single-Family Megs, but will also expand the attributes that will be disclosed at issuance and consolidate it into one file. This file will include Mega security-level statistics as well as various collateral stratifications and a list of backing collateral. The expanded attributes disclosed increases transparency on each pool issued.

Some of the expanded attributes at issuance are described below:

- Weighted Average Loan stratification – Additional weighted average attributes on the loans underlying the pools collateralizing the Mega (i.e., loan age, loan size, loan term)
- Expanded loan attributes – NIMS will provide details on elements such as occupancy types, property type, and geographic distribution

In support of this new file, we have provided the following documents, which are also available on the [NIMS webpage](#):

- [FAQs](#)
- [File Layout](#)
- [Glossary](#)

The NIMS file will be an *additional* report for Megs. The introduction of this report will not result in the discontinuance of any of the current reports. Some information will be available in multiple reports; however, NIMS is only a single-family Mega disclosure. It is important to continue consuming all current disclosure for information on multifamily Megs.

#### JU Mega

In 2015, we introduced the JU Mega. JU is a Mega prefix that allows for the creation of weighted-average fixed-rate Megs backed by single-family, level-payment mortgages. Unlike other fixed-rate Single-Family Megs, the interest rates, maturity dates and prefixes on the underlying collateral may vary. This product was created in response to market interest in having the ability to co-mingle prefixes and coupons in a Mega.



Only prefixes supporting single-family, fixed-rate pools are eligible to collateralize JU Megs. This excludes the following collateral types:

- Multifamily
- ARMs
- Interest-Only (IO) (unless all pools are IO)
- REMIC-Backed Megs
- Ginnie Mae

Since the JU Mega is a relatively new product, we will continue to seek opportunities to develop it. A collateral list must be submitted prior to receiving pricing and current settlement is T+3 (trade date plus three days). As of June 2016, we issued 13 JU Megs for a total unpaid principal balance (UPB) of over \$314 million.

### Multi-dealer Odd-lot Mega

We began offering Multi-dealer Odd-lot Megs in 2015 in response to market interest to aggregate odd-lot pieces in a Mega for enhanced liquidity and efficiency. The pool must meet current pooling requirements, and each pool delivered into the Mega must have a current face amount of \$500,000 or less.

Fannie Mae will reach out to our Mega counterparties from time to time to determine interest for an Odd-lot Mega and which prefix and coupon are in greatest demand for that particular Mega. We also encourage dealers to proactively engage us if there is an interest in creating a particular odd-lot Mega. As of June 2016, we issued 7 Odd-lot Megs for a total UPB of over \$82 million.

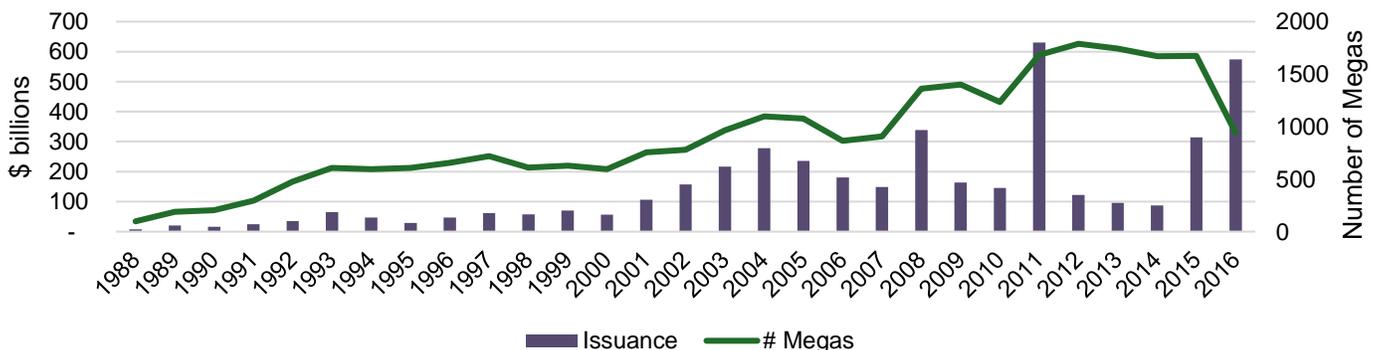
### Next-Day/Same-Day Mega Settlements

We want to remind the investing community that we provide the flexibility of next-day and same-day settlement for Megs. Currently, we provide next-day settlement for fixed-rate and adjustable-rate Single-Family Megs and same-day settlement for an additional fee. Because this service is subject to availability, please contact the Fannie Mae Structured Transactions Group at (202) 752-7875. Our Structured Transactions team can also provide additional information about transaction fees.

## Growth of the Mega Program

Fannie Mae has always been committed to growing and developing the Megs program. Since program inception in April 1988, Fannie Mae has issued over 26,000 Megs for a total unpaid principal balance of approximately \$4 trillion through June 2016. Fannie Mae continually innovates in response to market needs, enabling robust growth in the program.

Fannie Mae Mega Issuance from April 1988 through June 2016





**NOTE:** Volumes depicted in 2011, 2015, and 2016 represent \$473 billion, \$230 billion, and \$528 billion, respectively, of Megas created for the Federal Reserve Bank

## Basics of the Megas Program

The following section describes the basics of the Mega program. It provides an overview of Mega issuance collateral and descriptions of some of our staple product offerings.

### Issuance and Collateral

Megas are single-class pass-through securities in which the underlying collateral may consist of groups of existing Fannie Mae MBS, Megas, or REMICS.

Single-Family Megas are composed of single-family mortgage pools. Fixed-rate Single-Family Mega transactions are created by aggregating pools of Fannie Mae MBS or previously issued Megas that generally have the same pool prefix<sup>1</sup> and coupon, while single-family adjustable-rate Mega transactions have the same subtype<sup>2</sup> when aggregated. Some ARM prefixes may be commingled in a Mega transaction; however, certain ARM MBS must have the same pool prefix<sup>3</sup> in addition to the same subtype to be aggregated into an ARM Mega. Single-Family Megas maintain the same prefix of the underlying MBS.

Multifamily Megas require that underlying pools of Fannie Mae multifamily MBS or previously issued multifamily Megas have the same prefix; underlying pools may have the same fixed-rate coupon or a limited range of coupons. The coupons typically will be restricted to an inclusive 100-basis-point range from the highest to the lowest coupon among the respective pools. Unlike single-family Megas, multifamily Megas are assigned new prefixes when created and do not maintain the original prefix of the underlying MBS.

To review complete pooling requirements, please review the following document on the Fannie Mae website: [Basics of Structured Transactions](#)

### Mega Creation, Purchase, and Identification

Fannie Mae creates Megas from MBS pools delivered via an approved dealer, an approved counterparty (including investors), or from the Fannie Mae mortgage portfolio. Fannie Mae Mega pool sizes vary from less than \$1 million to billions in total unpaid principal balance.

Standard settlement of a Mega is two days after pricing, but can be longer depending on the dealers' or investors' needs. As mentioned earlier, next-day settlement and same-day settlement are also available for single-family fixed-rate Megas; however, certain guidelines apply and are subject to availability. On the settlement date, the pools to be used as collateral are delivered to Fannie Mae in the morning with Fannie Mae delivering the resulting Mega pool later that same day.

Generally, investors correspond with a dealer with respect to the characteristics of a Mega pool that they would like to create. Investors may also request to become a Mega counterparty and create a Mega pool by interacting directly with Fannie Mae's Structured Transactions group. These counterparties directly deliver the associated pools backing the Mega to Fannie Mae and receive a Mega pool in return.

### REMIC-Backed Mega Creation, Purchase, and Identification<sup>4</sup>

Fannie Mae has the flexibility to create Megas from certain REMIC bonds as well. Certain REMIC classes, including fixed and floater/inverse classes and last cash flow sequential classes may 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

<sup>1</sup> Fannie Mae Pool Prefix Glossary: <http://www.fanniemae.com/mbs/tools/prefixglossary.jhtml>

<sup>2</sup> Fannie Mae ARM MBS Subtypes: <http://www.fanniemae.com/mbs/data/mbs/armsubtypes.jhtml>

<sup>3</sup> The pool prefixes that must be the same for ARM MBS to be used in an ARM Mega transaction are: PA, GA, LA, AM, MB, S1, S2, and WZ.

<sup>4</sup> For additional REMIC Backed Mega information, please refer to *MBSenger, June 2010, Vol. 5, No. 2 Fannie Mae REMIC-backed Megas and Addendum: Improved SMBS Absorption Report*: [http://fanniemae.com/mbs/pdf/mbsenger\\_0610.pdf](http://fanniemae.com/mbs/pdf/mbsenger_0610.pdf)



underlying collateral. An investor who holds an eligible REMIC class (or classes) from which they would like to create a REMIC-backed Mega should contact a Fannie Mae REMIC dealer. The dealer then works with the Fannie Mae Structured Transactions group to re-securitize the outstanding REMIC class into a newly-issued REMIC with a corresponding newly-issued REMIC-backed Mega. The REMIC-backed Mega will have cash flows that match those of the underlying collateral of the re-securitized REMIC class. In certain instances, REMIC-backed Megas may be considered TBA eligible per SIFMA Good Delivery Guidelines.

An interest-only (IO) or principal-only (PO) class may be created during the resecuritization process in order to maintain the identical cash flows of the initial underlying collateral for the newly-created REMIC-backed Mega. This stripped piece does not become a part of the Mega. Once the new REMIC and corresponding REMIC-backed Mega are formed, the newly structured securities traditionally settle at the end of the month. However, flexibility exists to customize the settlement date, dependent upon the availability of Fannie Mae's Structured Transactions group. REMIC-backed Megas may be identified by their pool numbers. The pool number series of 310000 to 310999 are reserved for these securities. Additionally, Fannie Mae REMIC-backed Mega securities are issued with a prefix that begins with the letter 'Z' and corresponds with the underlying collateral.

Over the past seven years, Fannie Mae has issued approximately \$33.0 billion in REMIC-backed Megas.

Prefix	Prefix Description	Total Issuance Amount (\$ millions)	Percent of Total
<b>ZB</b>	Adjustable-Rate Mega security collateralized by REMIC certificates which are directly or indirectly backed by Conventional Adjustable-Rate Mortgages; Single-Family; London Interbank Offered Rate (LIBOR); lifetime caps are pool-specific.	88.2	0.27%
<b>ZC</b>	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. The pool is comprised entirely of mortgages with loan-to-value ratios greater than 105 percent and less than or equal to 125 percent.	117.5	0.35%
<b>ZI</b>	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.	4,587.8	13.86%
<b>ZK</b>	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. 1. Pools backing underlying REMIC certificates contain jumbo-conforming loans with an origination date beginning March 1, 2008 through September 30, 2008; or, 2. More than 10% of each underlying pool's issue balance is comprised of any combination of: • loans originated on or after October 1, 2008 with an original principal balance up to the loan limit established by the Housing and Economic Recovery Act of 2008; or, • loans originated on or after October 1, 2008 with an original principal balance up to the loan limit established by the Economic Stimulus Act of 2008; or, • loans originated during 2009 with an original principal balance up to the loan limit established by the American Recovery and Reinvestment Act of 2009; or, • loans originated during 2010 with an original principal balance up to the loan limit established by Public Law (or P. L.) No. 111-88; or,	557.8	1.68%



	<ul style="list-style-type: none"> <li>loans originated during 2011 with an original principal balance up to the loan limit established by Public Law (or P.L.) No. 111-242; or,</li> <li>3. Pools backing underlying REMIC certificates contain loans originated before October 1, 2008 with an original principal balance up to the loan limit established by the Housing and Economic Recovery Act of 2008.</li> </ul>		
<b>ZL</b>	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.	27,261.3	82.34%
<b>ZP</b>	Mega security collateralized by REMIC certificates which are directly or indirectly backed by Conventional Long-Term; 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.	18.5	0.06%
<b>ZT</b>	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 20 years or less.	194.7	0.59%
<b>ZZ</b>	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 forty (40) years or less.	282.6	0.85%

## Review of Existing Disclosures

NIMS is a new at-issuance file that provides extensive attributes on Single-Family Megs. The introduction of this new file will not result in the discontinuance of current disclosures. Fannie Mae will continue to provide existing disclosures and related documents for all Megs issued, including Multifamily Megs, as well as ongoing pool level data on all Megs. The Data Collections section of the [Mega Webpage](#) houses these existing disclosure for Megs. Below we highlight a few of the files.

Twice during each business day, at approximately 12:30 p.m. and 3:30 p.m., Fannie Mae posts two Mega-related disclosures on the webpage:

1. [Recently Priced Mega Transactions](#): Preliminary security-level information about proposed issuances of Megs that have been priced in that month through the date and time of posting but have not yet settled
2. [Mega Latest Postings](#): Certain collateral information for issuances of Megs that have settled during the current month through the date and time of posting

Once the trust for a particular Mega issuance has been formed, Fannie Mae prepares a [final data statement](#). The final data statement presents pool-level aggregate data on all of the underlying collateral held in the related trust. The final data statement is posted on the Fannie Mae website site on or about the settlement date of the Mega. In addition to the final data statement, Fannie Mae publishes the [final data statement supplement](#), which provides additional information for Fannie Mae's Multifamily Megs.

On [PoolTalk](#), we provided additional disclosure for Megs. Daily, the NIPS file provides at-issuance pool-level data for Megs. Generally, on the fourth business day of each month, Fannie Mae will publish the current monthly factor for each Mega issue. If the investor multiplies the monthly factor by the original unpaid principal balance of the Mega, the current principal balance of the Mega is calculated. Also on this day, Fannie Mae will publish the fixed-rate quartiles for certain data elements (i.e., loan ages and remaining term) for the mortgage loans backing each fixed-rate Mega issuance.

Also, typically on the ninth business day of each month, Fannie Mae will provide additional information for its Megs on [PoolTalk](#). For all Megs, Fannie Mae will publish geographical statistics. For Single-Family Megs, a supplemental file containing aggregated pool-level information for the related mortgage loans including, but not limited to, loan purpose, loan-to-value ratios, and occupancy type is published. For Megs backed by ARM loans, Fannie Mae will publish the ARM statistics file and the adjustable-rate quartiles file that details rate, adjustment, and cap information as well as certain other data elements for the ARM loans backing the Megs.



## Investor Benefits

Potential benefits of consolidating smaller MBS pools and exchanging them with Fannie Mae into a Mega include: improving the liquidity of small or seasoned pools, reducing administrative expenses, and enhancing geographical diversity or other characteristics. Rather than maintaining numerous individual CUSIPs, investors have the ability to consolidate smaller or seasoned pools into a single Mega, which provides operational efficiencies as investors can manage and value one security compared with many securities.

Additionally, Megas result in larger-sized securities that may provide enhanced liquidity – it can be more efficient to buy or sell a larger-sized pool in the marketplace when compared to many smaller-sized pools. Also, when existing pools are combined into a Mega, greater geographic diversity from among the underlying collateral can be achieved.

Furthermore, since seasoned REMIC classes may not afford superior liquidity in the marketplace, an investor can work with a Fannie Mae REMIC dealer to create a REMIC-backed Mega using the REMIC class as collateral. Once a REMIC-backed Mega is created, the investor may hold a TBA-eligible security, depending upon the underlying collateral. If the REMIC-backed Mega is TBA-eligible, then liquidity and pricing of the once-seasoned REMIC class is enhanced.

## Summary

This edition of the *MBSenger* highlights how the Mega program has developed over time. The Mega program is a staple of our structured transaction business and we are always working to improve that business. The innovations and enhancements that we have implemented allow us to provide more transparency and to better serve investors.

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