

Third Quarter 2011  
Vol. 6, No. 3

Fannie Mae remains committed to its Megas program and meeting the needs of its investors.

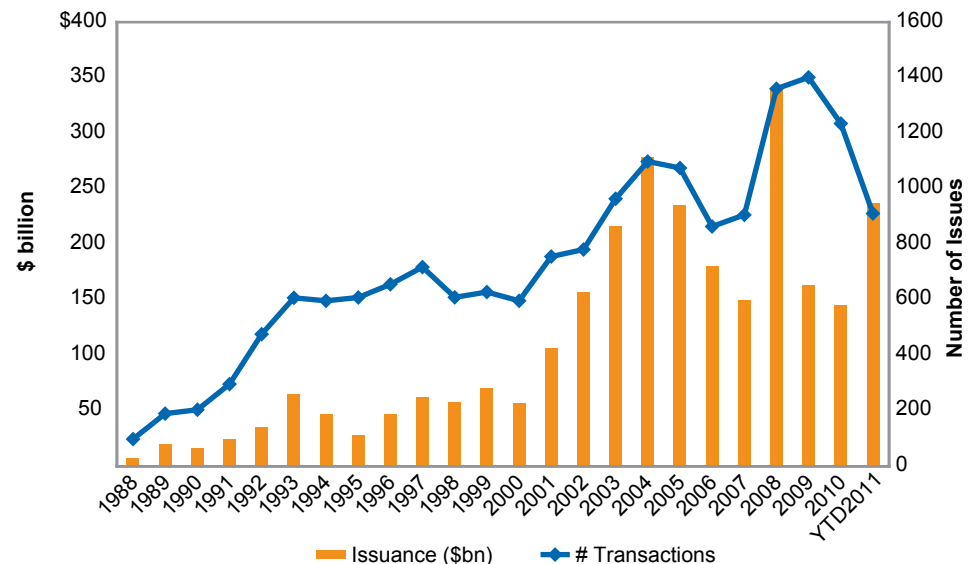
## Fannie Mae Megas® Program: Over Two Decades and Going Strong

Fannie Mae Megas (Megas) are pass-through securities in which the underlying collateral consists of groups of existing Fannie Mae MBS or other Fannie Mae Megas. Fannie Mae Megas enable investors to accumulate pieces of similar, existing mortgage-backed securities (MBS) to form a larger security with its own unique security identifier. 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. For single-family Megas, the underlying securities may include a combination of single-family MBS and/or previously-issued single-family Megas, or single-family REMIC securities. Multifamily Megas may include multifamily MBS and/or previously-issued multifamily Megas. The cash flows from the underlying Fannie Mae MBS provide the identical cash flows for the resulting Mega pool. This edition of *MBSenger* reviews the Fannie Mae Megas program, including REMIC-backed Megas, and provides potential reasons that MBS investors may find Megas useful.

### Mega Issuance

In April 1988, Fannie Mae issued its first Fannie Mae Mega pool transaction. Since the inaugural Mega transaction, Fannie Mae has issued over 17,000 Megas for a total unpaid principal balance (UPB) of approximately \$2.7 trillion through July 31, 2011, which includes single-family, multifamily, and Mega-backed Megas. **Figure 1** details the number of Mega transactions and the volume of Megas issued from April 1988 through July 2011.

Figure 1. Fannie Mae Mega Issuance from April 1988 through July 2011



Through the first seven months of 2011, Fannie Mae Mega issuance is on pace to have near-record high volumes for the year.

## Mega Collateral

Fixed-rate and adjustable-rate (ARM) single-family Megas are composed of single-family mortgage pools. Single-family, fixed-rate Mega transactions are created by aggregating pools of Fannie Mae MBS or previously-issued Megas that 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; while 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.

Fannie Mae multifamily Megas<sup>4</sup> require that underlying pools of Fannie Mae MBS or previously-issued multifamily Megas must have the same prefix and 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.

In **Figure 2**, we provide a breakdown of underlying collateral for Fannie Mae Megas from January 2009 through July 2011.

**Figure 2. Underlying Collateral Type for Fannie Mae Megas from January 2009 through July 2011**

Pool Prefix <sup>I</sup> or Product Type	2009		2010		YTD July 2011	
	Number of Issues	Volume (\$ bn)	Number of Issues	Volume (\$ bn)	Number of Issues	Volume (\$ bn)
CL: 30-year, fixed-rate	548	108.77	419	81.24	366	191.74
CI: 15-year, fixed-rate	307	33.17	241	23.52	167	25.83
CT: 20-year, fixed-rate	45	1.53	27	1.03	11	0.48
Single-Family ARMs	370	11.82	433	18.49	268	9.84
Multifamily	20	1.72	22	1.45	44	3.85
REMIC-backed Megas	31	1.88	27	17.01	17	2.01
Single-Family Fixed Interest Only	34	2.44	23	0.75	5	0.21
Government (e.g., GL)	1	0.03	2	0.01	4	0.05
Other <sup>II</sup>	45	2.13	41	1.75	29	3.17
<b>Total<sup>III</sup></b>	<b>1,401</b>	<b>\$163.47</b>	<b>1,235</b>	<b>\$145.25</b>	<b>911</b>	<b>\$237.19</b>

<sup>I</sup> Prefix Glossary: [http://www.fanniemae.com/mbs/pdf/pool\\_prefix\\_glossary.pdf](http://www.fanniemae.com/mbs/pdf/pool_prefix_glossary.pdf)

<sup>II</sup> Other: Includes Megas not captured in any other reported category such as 10-year, 40-year, jumbo- conforming, relocation mortgages, mortgages with prepayment premiums, etc.

<sup>III</sup> Numbers may not foot due to rounding.

<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> In January 2011, Fannie Mae introduced the Fannie Mae Guaranteed Multifamily Structures program, or Fannie Mae GeMS™. This program expands Fannie Mae's multifamily MBS execution to include DUS Megas, DUS REMICs, and syndicated Megas.

To review complete pooling requirements, please review the following Web pages on the Fannie Mae website:

1. Single-Family Megs: [www.fanniemae.com](http://www.fanniemae.com) -> Funding the Market -> Mortgage-Backed Securities -> Basics of Fannie Mae MBS -> Basics of Fannie Mae Megs -> Pooling Requirements.<sup>5</sup> The pooling requirements Web page provides information on MBS-backed Megs, Mega-Backed Megs, and REMIC-backed Megs.
2. Multifamily Megs: [www.fanniemae.com](http://www.fanniemae.com) -> Funding the Market -> Mortgage-Backed Securities -> Basics of Multifamily MBS -> Mega -> Pooling Requirements.<sup>6</sup> The pooling requirements Web page provides information on Multifamily MBS-Backed Megs and Multifamily Mega-backed Megs.

### Mega Creation, Purchase and Identification

Fannie Mae creates Megs 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 over \$5 billion 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. Next day settlement and same day settlement are also available for single-family fixed-rate Megs (certain guidelines apply<sup>7</sup>). 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 who have approved counterparty relationships with Fannie Mae 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.

Fannie Mae Megs are identified by the series of pool numbers shown in **Figure 3**.

**Figure 3. Fannie Mae-assigned Mega Pool Numbers**

070000-070999	313000-313999	725000-725999	AD0000-AD0999
190000-190999	323000-323999	735000-735999	AE0000-AE0999
124000-124999	535000-535999	745000-745999	AL0000-AL0999
303000-303999	545000-545999	888000-890999	FN0000-FN9999
310000-310999	555000-555999	995000-995999	

Fannie Mae assesses fees associated with creating Mega pools. To obtain information about Fannie Mae Mega transaction fees, please contact the Fannie Mae Structured Transactions Group at 202.752.7875.

### REMIC-Backed Mega Creation, Purchase and Identification<sup>8</sup>

Fannie Mae has the flexibility to create Megs from certain REMIC bonds as well. Certain REMIC classes, including fixed and floater/inverse classes and last cash flows 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. 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. Furthermore, if the underlying collateral is TBA eligible, then the resulting REMIC-backed Mega is also 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

<sup>5</sup> Basics of Single-Family Fannie Mae MBS – Pooling Requirements: <http://www.fanniemae.com/mbs/mbsbasics/mega/pooling.jhtml>

<sup>6</sup> Basics of Multifamily Mega – Pooling Requirements: <http://www.fanniemae.com/mbs/mbsmultifamily/pooling.jhtml>

<sup>7</sup> Please contact Fannie Mae's Structured Transaction group at 202.752.7875 for applicable guidelines.

<sup>8</sup> For additional REMIC Backed Mega information, please refer to *MBSenger, June 2010, Vol. 5, No. 2 Fannie Mae REMIC-backed Megs and Addendum: Improved SMBS Absorption Report*: [http://fanniemae.com/mbs/pdf/mbsenger\\_0610.pdf](http://fanniemae.com/mbs/pdf/mbsenger_0610.pdf)

REMIC-backed Mega are formed, the newly-structured securities traditionally settle at the end of the month. However, there is flexibility 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. **Figure 4** depicts the issuance of REMIC-backed Megas by prefix from January 2009 through July 2011.

**Figure 4. REMIC-backed Mega Issuance by Prefix from January 2009 through July 2011**

Prefix	Prefix Description	Total Issuance Amount (\$ million)	Percent of Total
ZI	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.	1,457.4	7.0%
ZK	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: <ul style="list-style-type: none"> <li>• 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,</li> <li>• 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,</li> <li>• 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,</li> <li>• 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,</li> <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> </ul> 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.	51.4	0.2%
ZL	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.	19,084.5	91.3%
ZP	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.	18.5	0.1%
ZZ	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.	282.6	1.4%
<b>Grand Total</b>		<b>\$20,894.4</b>	

## REMIC-Backed Mega Issuance

Over the past three years, Fannie Mae has issued approximately \$21.0 billion in REMIC-backed Megas, including \$1.9 billion in 2009; \$17.0 billion in 2010; and, \$2.0 billion for the first seven months of 2011.

## Disclosures

Fannie Mae provides disclosure and related documents for all Megas issued, including REMIC-backed Megas. Twice during each business day, at approximately 12:30 p.m. and 3:30 p.m., Fannie Mae posts two Mega-related disclosures.

1. Preliminary security-level information about proposed issuances of Megas that have been priced in that month through the date and time of posting but have not yet settled; and,
2. Certain collateral information for issuances of Megas 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 containing certain information about the underlying securities. The final data statement presents pool-level aggregate data on all of the underlying collateral held in the related trust such as highest and lowest weighted average coupon, and weighted average remaining term. The final data statement is posted on the Fannie Mae website site on or about the settlement date of the Mega.

Generally, on or about 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 (for example, loan ages and remaining term) for the mortgage loans backing each fixed-rate Mega issuance.

Also, typically on or about the ninth business day of each month, Fannie Mae will provide additional information for its Megas. For all Megas, Fannie Mae will publish geographical statistics. For single-family Megas, 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 Megas 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 Megas.

## Investor Benefits and Conclusion

MBS investors may prefer Fannie Mae Megas for their operational efficiency, potential enhanced liquidity, and greater chance for geographic diversity. Rather than maintaining numerous individual CUSIPs, investors have the ability to consolidate smaller or seasoned pools into one, single Mega, which provides operational efficiencies as investors can manage and value one single security compared with many securities. Additionally, Megas result in larger-sized securities which may provide enhanced liquidity as 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 eventually 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.

Throughout the life of the program, the Fannie Mae Megas program has continued to evolve by including additional MBS products in the suite of eligible collateral. Fannie Mae remains committed to its Megas program and meeting the needs of its investors.

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# MBSenger®

MBSenger is published by Fannie Mae's Fixed-Income Securities Marketing Group.

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