

Fannie Mae Introduces New Benchmark REMICs™ Program

Fannie Mae continuously strives to meet the needs of its current and potential mortgage-backed securities investors. Recently, Fannie Mae has received feedback from the fixed-income investment community that it would like to see Fannie Mae issue a subset of its REMIC securities in large issue sizes with enhanced price transparency and liquidity features. In response to this market feedback, Fannie Mae announces the issuance of Benchmark REMICs™. Benchmark REMICs will have four defining characteristics designed to facilitate improved liquidity and price transparency for specific REMIC classes issued through this process. These characteristics include:

- >> **Syndicated dealer distribution** for maximum breadth of distribution as well as to encourage active secondary market support in a number of time zones.
- >> Inclusion in each Benchmark REMIC transaction of a large issue size **Guaranteed Maturity Class (GMC)** with a stated maturity.
- >> **Minimum new issue size of \$1 billion for each GMC** to promote liquidity in these securities.
- >> Enhanced price transparency features represented by **live price quotes on TradeWeb** for the GMCs of each Benchmark REMIC transaction.

Benchmark REMICs are collateralized generally by fixed-rate, first lien, single-family mortgage Fannie Mae MBS pools. While each Benchmark REMIC transaction will include at least one GMC having a minimum new issue size of \$1 billion, Benchmark REMIC transactions will also include classes in addition to the GMC which will not incorporate the same features as the GMC. Each class of Benchmark REMICs will be easily identifiable by the mnemonic FNBR <MTGE> on Bloomberg to distin-

guish them from standard Fannie Mae REMICs. Investors should refer to the applicable offering documents for a description of each Benchmark REMIC.

Syndicated Dealer Distribution

The GMCs of Benchmark REMICs will be brought to market through a traditional dealer syndicate underwriting process to facilitate breadth of distribution to a wide variety of investors and a fully transparent new issue pricing process. Fannie Mae has selected a designated Benchmark REMIC dealer group whose member firms are listed in Figure 1. The company has carefully selected these dealers based on their expertise in the REMIC market as well as their profile in the agency mortgage-backed securities market at large. Each dealer underwriting syndicate will consist of two or three lead managers chosen from our Benchmark REMIC dealer group as well as a number of co-managers.

Fannie Mae will engage in ongoing discussions with members of its Benchmark REMIC dealer group to gauge market demand for Benchmark REMICs. We will work with the members of our Benchmark REMIC dealer syndicate to structure Benchmark REMICs that will most fully satisfy investor needs at the time of pricing, including transaction size, term of GMC, and preferred underlying MBS collateral.

Note: A REMIC is a multiple-class mortgage cash flow security, backed by residential mortgage loans, which generally have been pooled together in MBS trusts. REMIC securities restructure interest and principal payments into separately traded securities. By redirecting the cash flows from the underlying standard MBS, the issuer can create a security having several classes, also called tranches, which may carry different coupon rates, average lives, prepayment sensitivities, and final maturities. The REMIC was first introduced in 1987 as a result of the Tax Reform Act of 1986.

Each new issue of Benchmark REMICs will be announced via press release. The structure, the maturity of the GMC, and characteristics of the underlying MBS used to collateralize each Benchmark REMIC will be disclosed at announcement to facilitate investor analysis of the security. For two to three days following the initial announcement, price discovery will occur, followed by official pricing. Fannie Mae will express pricing for the GMC of each Benchmark REMIC transaction as a spread, interpolated to the average life Treasury yield, for the particular coupon, average life and the prevailing Bloomberg dealer median prepayment forecast for the underlying collateral at the time of pricing. All pricing details will be made publicly available immediately after pricing via press release. We expect that this pricing process will provide for increased transparency at the time of new issue.

Guaranteed Maturity Class (GMC)

The GMC of each Benchmark REMIC transaction will have a stated final maturity that will be less than that of the underlying MBS collateral. Maturities for GMCs of Benchmark REMIC transactions can differ for various transactions but are generally expected to be between seven and fifteen years with the specific maturity determined by investor demand and communicated at announcement. On the specified maturity date, holders of the GMC will receive the entire outstanding unpaid principal balance, plus accrued interest, of the security. GMCs generally are eligible for re-REMICs.

The exact structure of the GMC will be made public at announcement. The structure of the GMC will not necessarily be the same in each transaction. However, it is anticipated that the GMC will most often resemble either a sequential pay class or a Planned Amortization Class (PAC) of traditional REMIC transactions with the added structural feature of the stated final maturity.

A traditional sequential pay REMIC structure is one in which scheduled interest and principal, as well as any unscheduled prepayments, are paid to a single class until its unpaid principal balance is completely paid down. Simultaneously, interest is paid on principal amounts of successive sequential tranches. The principal payments then flow to each successive tranche until each is retired and all prin-

icipal has been repaid. In a traditional sequential, the last cash flow can extend to an uncertain date if prepayments are slower than originally anticipated. But notably, the date of the final cash flow from a GMC of a Benchmark REMIC cannot extend beyond the stated maturity date. Investors who find the cash flow variability of sequential difficult to manage or have other investment criteria that require a fixed final maturity might be attracted to the GMCs of Benchmark REMICs.

PAC structures target a certain average life by attempting to keep the average life stable over a range of prepayment rates. If principal payments exceed the predetermined schedule, the PAC structure transfers most prepayment risk to other bonds in the REMIC transaction known as companion or support classes. However, even with well-structured PACs, investors can experience deteriorating bands due to sustained prepayments at elevated levels, which expose them to more prepayment risk than originally anticipated. For example, if actual prepayment experience is outside of the upper band for a sustained period of time or if there is persistent volatility outside of the upper band, all of the companion classes will be paid off. As the companion classes are paid down, the PAC bands deteriorate and this tranche then behaves like a sequential class. Given that the Benchmark REMIC GMC has a fixed stated maturity, extension risk due to deteriorated PAC bands will be mitigated.

Other classes in Benchmark REMIC transactions will not typically include the liquidity, price transparency and structural features of the GMC.

Issue Size of GMCs

In order to enhance the liquidity of Benchmark REMICs, the GMC of each Benchmark REMIC transaction will be at least \$1 billion in size. The actual size of each Benchmark REMIC issue and its corresponding GMC class will be determined by investor interest, as well as the availability of underlying MBS collateral for these transactions. Once Benchmark REMIC transactions are priced, they cannot be upsized or reopened.

Benchmark REMICs have the potential to appeal to many types of investors. The securities may serve as a useful introduction for domestic and international investors who are new to the structured mortgage market and want to become better acquainted with the unique performance and payment features of these types of mortgage securities.

Price Transparency in the Secondary Market

The GMCs of Benchmark REMICs will be eligible for electronic trading via TradeWeb. Lead managers, co-managers and other dealers who will be making a market for these securities will post live bid and ask spreads on TradeWeb during New York market hours. For each GMC, TradeWeb will also provide the CUSIP, coupon, description of underlying MBS collateral, maturity date, factor, the prevailing Bloomberg dealer median prepayment forecast for the underlying collateral and the weighted average life. The bid and ask spreads will be expressed as yield spreads over the interpolated Treasury yield curve.

Potential Investor Activity in Benchmark REMICs

The GMCs of Benchmark REMICs may appeal to many types of investors. The securities may serve as a useful introduction for domestic and international investors who are new to the structured mortgage market and want to become better acquainted with the unique performance and payment features of these types of mortgage securities. The simplified structure and disclosure of collateral before pricing should help money managers perform prepayment analyses on these securities. Traditional mortgage investors seeking to reduce extension risk in a rising interest rate environment may find the fixed final maturity of GMCs attractive.

Benchmark REMICs carry Fannie Mae's guaranty of timely payment of principal and interest as is the case with other mortgage securities issued by Fannie Mae. The value of the guaranty is important to investors because it reduces credit risk and increases the marketability of the securities. It does not, however, eliminate interest rate or market risk.

Fannie Mae's obligations are solely Fannie Mae's and are not backed by the full faith and credit of the United States government.

Due to the structured nature of Benchmark REMICs, they will not be included in the major fixed income indices.

Settlement and Operational Issues for Investment in Benchmark REMICs

Principal and interest payments are remitted monthly to security holders. Interest payments are made according to the coupon of the security. Principal payments will be a function of scheduled principal payments as well as prepayments on the mortgages underlying the MBS collateral. The underlying mortgages are subject to prepayment at any time without penalty. Mortgage prepayment rates can fluctuate continuously and, in some market and interest rate environments, substantially. Generally, interest is paid on a 30/360 basis. Fannie Mae will pay 30 days interest on each payment date to the holders of Benchmark REMIC classes, and in the final distribution, Fannie Mae will pay interest on the GMC up to the final distribution date. Payments on the certificates are made on the 25th day of each calendar month, or on the next business day if the 25th day is not a business day. Principal and interest will be paid to the holder of record as of the close of business on the last day of the preceding month. Investors should refer to the prospectus supplement for a specific Benchmark REMIC issuance for information regarding the payment details for the related certificates.

Fannie Mae will publish the class factors for Benchmark REMICs on or shortly after the 11th day of each month, as it does with most REMIC transactions. The class factors are numbers that, when multiplied by the initial principal balance of a certificate, can be used to calculate the current principal balance of that certificate (after taking into account the principal payments for the same month.) This information is available on Fannie Mae PoolTalk which can be accessed via www.fanniemae.com. For further information about pool factors and other information on specific securities, investors can contact our MBS Help Line at 1-800-BEST-MBS (1-800-237-8627), our overseas direct line at 1-202-752-8510 or email us at fixedincome_marketing@fanniemae.com. Investors should refer to the prospectus supplement for a specific Benchmark REMIC issuance for information regarding the class factors for the related certificates.

As is the case with other Fannie Mae REMICs, Fannie Mae will issue the GMCs of Benchmark REMICs as book-entry certificates through the U.S. Federal Reserve Banks.

Minimum denominations for investment in GMCs of Benchmark REMICs will be \$1,000. Prospectus supplements for Benchmark REMICs will be available on our Web site three to five business days prior to settlement, which follows the same procedure as with other Fannie Mae REMICs. The prospectus supplement contains a description of the classes, details about the distribution of principal and interest, prepayment sensitivities and other important information about the transaction.

Conclusion

Fannie Mae endeavors to deliver mortgage products to the marketplace in response to investor needs. Benchmark REMICs with large issue size GMCs represent another example of this effort. Fannie Mae believes that the features incorporated in the Benchmark REMICs program, including primary distribution through a dealer underwriting syndicate, minimum new issue size of \$1 billion for GMCs and eligibility for market making on TradeWeb, will result in enhanced price transparency and

liquidity in both the primary and secondary markets for the GMCs. Additionally, the structural enhancement of the guaranteed final maturity on the GMCs could potentially attract interest from a diverse group of domestic and international mortgage investors. While Benchmark REMICs represent the most recent development in Fannie Mae’s issuance of REMICs, the company also remains active and committed to issuing REMICs in response to investor demand for specific cash flows as Fannie Mae has been doing since 1987.

MBSenger is published by Fannie Mae’s Fixed-Income Securities Marketing Department.

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FIGURE 1

Benchmark REMIC Dealer Group	
The following are members of Fannie Mae’s Benchmark REMIC dealer group:	
Amherst Securities Group, L.P.	Greenwich Capital Markets, Inc.
Banc of America Securities LLC	HSBC Securities (USA) Inc.
Barclays Capital Inc.	J.P. Morgan Securities Inc.
Bear, Stearns & Co. Inc.	Lehman Brothers Inc.
Citigroup Global Markets Inc.	Merrill Lynch, Pierce, Fenner & Smith Inc.
Countrywide Securities Corporation	Morgan Keegan & Co., Inc.
Credit Suisse Securities (USA) LLC	Morgan Stanley & Co. Incorporated
Deutsche Bank Securities Inc.	Nomura Securities International, Inc.
First Tennessee Bank National Association	UBS Securities LLC
Goldman, Sachs & Co.	