

Single Security and CSP Industry Advisory Group

July 13, 2015 – Meeting Summary

Following the welcome and introductions, the purpose of the IAG – providing information and collecting industry input on the Single Security and Common Securitization Platform (“CSP”) programs – was reiterated.

There was a review of FHFA’s 2015 Scorecard for the Enterprises and Common Securitization Solutions (“CSS”). The Single Security and Common Securitization Platform fall under the “Build” component of the Scorecard, which is weighted at 30%. Meeting the annual Scorecard goals has been an important driver of activities and milestones for these two programs.

The group turned to a discussion of the Single Security. The goal is one TBA market, uniting the liquidity of Fannie Mae TBA securities with Freddie Mac TBA securities. The Single Security will have the features of Fannie Mae MBS and the disclosure elements of Freddie Mac Gold PCs. Investors will be able to exchange their legacy Freddie Mac 45-day TBA Gold PCs for a new Freddie Mac 55-day TBA-eligible Single Security. Although there will still be two Enterprise underwriting engines, and two sets of seller/servicer guides, we have heard the industry’s concerns around alignment and consistency for the new Single Security. This continues to be an area of focus for FHFA and the Enterprises.

The operational and technology impacts of the Single Security were discussed – particularly the amount of lead time the market will need to make changes, and what a transition to the new security might entail. Most participants agreed a quick, fluid transition would be best – with conversion to the new security done as quickly as possible. Most thought the transition could be accomplished in 90 – 120 days. Systems changes could take longer, so reaching stakeholders that will be impacted by the Single Security is critical – these include a number of investment operations vendors, such as index providers, netting and clearing firms, analytics firms, electronic systems vendors and pooling and allocation service providers. Investment guidelines for investors may also be impacted.

IAG members mentioned other factors that need to be taken into consideration in planning the launch of the Single Security. There are regulatory changes and mandates that lenders and others need to address. Many companies also have end-of-year blackout periods for system changes. There was also a preference expressed for avoiding launching at the end of a calendar quarter.

The tax and accounting implications of the new Single Security were briefly mentioned. The Enterprises have consulted with their outside auditors and others and do not believe that exchanges of legacy Freddie Mac PCs for new Freddie Mac-issued Single Securities will be a taxable event. However, all market participants were advised to consult with their own accounting and tax firms prior to making any exchange and may not rely upon the Enterprises or their auditors for tax advice.

Returning to the subject of alignment, it was acknowledged that there will be a balancing act – between Enterprise lender customers who want differentiation and competition between the Enterprises, and investors and dealers who want securities prepayments and characteristics within a predictable range.

FHFA, as the Enterprises' conservator, will be able to catch possible misalignment as they review the Enterprises' initiatives and policies and the Enterprises will need to carefully consider the impacts of initiatives and program changes on prepayment speeds and other performance metrics. At the same time, FHFA also will want to continue to support two competitive entities with their own customers and strategies.

After a break, an overview of the CSP was provided. There was a brief review of the current organization and governance structure at CSS, and then the rest of the time segment was spent discussing the CSP's development approach and status.

The immediate focus for the CSP is making the Single Security work for Fannie Mae and Freddie Mac. Although the CSP originated as a Fannie Mae system replatform project, over the past few years it has become a true tri-party project, designed to take advantage of the economies and efficiencies of one securities operations platform. CSS has to be customer-driven and well-controlled to support the Enterprises' needs. Eventually, 28 million loans will be on the platform – both the new Single Security and much of the Enterprises' legacy securities. The CSP will support (as agent to the issuing Enterprise) bond issuance and administration and initial and ongoing securities disclosures. Dealers and investors will continue to interact with the Enterprises for new securities deals and for ongoing customer support. The IAG members suggested that the Enterprises and FHFA make sure that the scope and functions of the CSP are well understood by other government agencies and decision-makers.

The CSP is being built using the Agile development methodology. While the focus is on the needs for the Enterprises right now, the flexibility of this development method and the functions being built into the platform mean the CSP could potentially be used by others going forward. The complex nature of the project requires a great deal of coordination. CSS releases an updated version of the CSP on a quarterly basis, incorporating internal and external testing with the Enterprises. CSS is also building out their infrastructure, transferring the platform to an outside cloud-based provider. As CSP is developed further, the Enterprises, CSS and FHFA are assessing whether to have one Enterprise use the platform with their legacy securities first. This would allow the CSP "plumbing" to be tested before the launch of the Single Security. Beginning with Day 1 of the Single Security, the platform will facilitate new issuance, commingling and resecuritization.

While the CSP is being developed and tested, the Enterprises are also busy with their own development and integration efforts. They need to be able to move parts of their securities operations to the platform, while ensuring that the upstream and downstream connections to their origination, servicing and finance systems still work.

Following a brief summary of the discussion and a request for feedback from the IAG participants, the meeting was adjourned.