The Single Security Initiative

1. What is the Single Security Initiative?

The Single Security Initiative is a joint initiative of Fannie Mae and Freddie Mac (the Enterprises), under the direction of the Federal Housing Finance Agency (FHFA), the Enterprises' regulator and conservator, to develop a common mortgage-backed security (MBS) that will be issued by the Enterprises to finance fixed-rate mortgage loans backed by one- to four-unit single-family properties. The *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* [PDF] (*2014 Conservatorship Strategic Plan*) includes the goal of developing a common MBS. This goal is part of broader efforts to build a Common Securitization Platform (CSP), and it supports FHFA's statutory obligation to ensure that the Enterprises' operations and activities foster liquidity in the nation's housing finance markets. Achievement of the goal will also reduce or eliminate Freddie Mac's current program of subsidizing the cost of securitizing single-family mortgage loans to make up for the trading disparity with Fannie Mae's securities, the cost of which is being borne by taxpayers.

2. What are first-level and second-level securities?

First-level securities (Uniform Mortgage-Backed Securities, or UMBS™) are single-class securities backed by mortgage loans purchased by either Freddie Mac or Fannie Mae. There is no commingling of collateral in UMBS. Similar to today's Fannie Mae Megas and Freddie Mac Giants, second-level securities (Supers) are single-class securities collateralized by other single-class securities. Supers securities will allow for the commingling of Freddie Mac and Fannie Mae UMBS as well as other Supers.

3. Is it expected that legacy Fannie Mae MBS and legacy Freddie Mac participation certificates (PCs) will be fungible with the UMBS?

The features and characteristics of the UMBS will be based generally on Fannie Mae MBS characteristics and, as such, Fannie Mae MBS will be fungible with the new security. In essence, Fannie Mae MBS will "become" the new security and Freddie Mac will make changes to its security structure to more closely match Fannie Mae's security, resulting in a common UMBS.

Freddie Mac will offer investors the option to exchange legacy Freddie Mac PCs for comparable UMBS backed by the same mortgage loans.

4. Who would be the guarantor of the new securities?

As with current Enterprise securities, for the new securities issued after the implementation of the Single Security Initiative, the guarantor will be the issuing Enterprise.

5. Could the guarantor be different between a first-level UMBS and a second-level Supers?

The guarantor could be the same, or it could be different. For each, the guarantor is always the issuing Enterprise. Fannie Mae and Freddie Mac will each issue their own UMBS. At the second level – Supers – collateral may be mixed Fannie Mae and Freddie Mac UMBS and/or Supers, or a single issuer's securities. In either case, the Supers security could be issued by either Fannie Mae or Freddie Mac, regardless of whether their own collateral is contained in the security. See the example on page 1 of Appendix B of the Update on the Structure of the Single Security for information related to counterparty risk.

6. Can a Fannie Mae first-level security and a Freddie Mac first-level UMBS be commingled into the same Fannie Mae or Freddie Mac second-level security?

Yes.

7. When is commingling allowed? Does it affect the status of the guarantor?

Commingling is allowed in second-level but not in first-level securities. In either context, the guarantor is the issuing Enterprise. For example, an investor who owns a first-level security issued by one Enterprise will be able to re-securitize it through the second Enterprise by paying any applicable fee. The timely payment of principal and interest on the resulting second-level security will be guaranteed by the second Enterprise, and that guarantee will be supported by the first Enterprise's guarantee to the trust of the second-level security of timely payment of principal and interest on the first-level security.

8. **Will market participants need to update their documents and websites to reflect the new security names (UMBS and Supers)?**

Yes, the Enterprises expect that investors, dealers, vendors, and others will need to update contracts, marketing materials, investment documents, systems, and procedures to reflect the new names of TBA-eligible mortgage-backed securities. The Enterprises are already using the names – UMBS and Supers—in their outreach to raise awareness of needed name changes. The goal is to provide the market as much preparation time as possible in advance of the Single Security Initiative implementation date of June 3, 2019.

9. **What will FHFA and the Enterprises do to ensure their securities stay aligned in performance once the Single Security Initiative is implemented? UPDATED**

FHFA has established the Single Security Governance Committee (SSGC) composed of senior FHFA executives to assess new or revised Enterprise programs, policies, and practices for their effect on the cash flows of MBS eligible for financing through the TBA market. FHFA will also perform ongoing monitoring of loan acquisitions, security issuances, and prepayments and ensure that the Enterprises continue to provide information on a timely basis to facilitate these ongoing assessments.

FHFA is seeking general alignment on the observed prepayments associated with Enterprise UMBS at the cohort level. FHFA will monitor the respective prepayment rates of both Enterprises and has established tolerance thresholds for prepayment divergence between the Enterprises. Generally, FHFA will investigate differences between Fannie Mae and Freddie Mac prepayment speeds when cohort speeds diverge by more than 2 CPR. When differences exceed 3 CPR, FHFA will require that the cause of the divergence be reported to the SSGC.

The Enterprises remain separate entities with separately issued and guaranteed securities. Each Enterprise will continue to create its own trust agreements and disclosure documents, and must perform its own functions as issuer, master servicer, guarantor, and trustee in an independent manner. FHFA does not believe that complete alignment of the Enterprises, programs, policies or practices is necessary or appropriate.

The Common Securitization Platform (CSP)

Overview

1. **What is the CSP and how does it relate to the Single Security Initiative?**

CSP is a technology and operational platform that will perform many of the core back office functions for the UMBS and Supers, as well as most of the Enterprises' current securitization functions (bond issuance, settlement, disclosure, bond administration and tax reporting) for single-family mortgages, on behalf of both Enterprises.

The CSP is necessary for the implementation of the Single Security Initiative. It enables the Enterprises to implement one aligned new standard security in one common system rather than each Enterprise building to that standard in its own legacy systems. The CSP also makes administering commingled securities much more efficient because all the data from both Enterprises is on one platform.

2. **Why have a CSP?**

Neither Enterprise's current systems can execute commingled re-securitizations, which are critical to the success of the Single Security Initiative. Under FHFA's direction, the CSP was undertaken as a joint initiative by the

Enterprises to develop one common, flexible technological and operational platform to support the back office activities related to single-family securitization. These activities involve storing, processing, and transmitting large volumes of data, so that investing in a single platform and carrying out the accompanying operational capabilities to support these functions will benefit both companies, and ultimately, taxpayers.

3. What is Common Securitization Solutions, LLC?

Common Securitization Solutions, LLC (also known as CSS) is a joint venture of Fannie Mae and Freddie Mac. CSS is charged with building and operating the new common securitization platform.

4. Can the Single Security Initiative be implemented without the CSP?

No. The CSP is necessary for the implementation of the Single Security Initiative. Today, neither Fannie Mae's nor Freddie Mac's infrastructure can support the commingling of the other Enterprise's securities. Commingling is a critical aspect for the fungibility of the UMBS and Supers securities.

Release 1

5. What was Release 1 about?

With the CSP's Release 1, which was implemented in late November 2016, Freddie Mac is now using the platform to perform issuance, settlement, and bond administration activities for certain of its single-class securities. A key purpose of Release 1 was to test the core infrastructure and operations of the CSP to minimize any possible market disruption prior to both Enterprises using the platform for issuance of the UMBS and Supers. Successful Release 1 implementation was a critical milestone. The transition of billions of dollars of securities' unpaid principal balance (UPB) to the platform – with no disruption of operations – has demonstrated that the platform is performing as expected and that those involved can have confidence as the Enterprises and CSS continue to move forward with development and testing for Release 2. Release 2 will bring Fannie Mae's single-family fixed-rate and ARM securities to the platform, which will enable the Enterprises to begin issuing the new securities.

6. Has Freddie Mac's transition to the Common Securitization Platform affected Seller/Servicers' method of delivery?

No. As was planned, Freddie Mac's transition to the platform has had no effect on Seller/Servicers, investors, dealers, vendors, nor the market as a whole.

Market Transition

1. When will the Single Security Initiative be implemented? UPDATED

Per the FHFA Updates Progress on the Single Security Initiative and Common Securitization Program, the Single Security Initiative will be implemented on June 3, 2019 when both Freddie Mac and Fannie Mae are on the Common Securitization Platform. At that time:

- The Enterprises will have the ability to issue the new UMBS and Supers, including commingled re-securitizations, through the platform; and
- CSP will be acting as Fannie Mae's and Freddie Mac's agent for the issuance, bond administration, and disclosures for all newly issued UMBS and Supers.

2. How much time will the market have to implement the changes necessary to accept the UMBS and Supers?

FHFA, the Enterprises, and CSS continue to actively seek input from market participants regarding external readiness timelines as well as the information participants need to implement changes related to the Single

Security Initiative and CSP. Based on the June 3, 2019 planned implementation of the Single Security Initiative, market participants are strongly encouraged to complete their preparations by the end of 2018 in preparation for forward trades that could begin in Q1 2019.

3. Will Freddie Mac stop issuing Golds before the implementation of the Single Security Initiative? If so, when? Or will Golds be issued up to the implementation date of the Initiative?

Freddie Mac will continue issuing Golds up to the business day before the Single Security Initiative implementation date. As the launch date approaches, Seller/Servicers will be able to enter advance contracts for delivery of UMBS or Supers. After implementation, Freddie Mac will still permit creation of 45-day Gold Giant PCs containing legacy 45-day securities, as well as REMICs backed by 45-day Gold Giants and PCs.

4. What disclosure changes should the market expect between now and the implementation of the Single Security Initiative? UPDATED

Freddie Mac will have implemented two key changes prior to the implementation of the Single Security Initiative. The first applied the aligned disclosure format to its legacy securities beginning with the daily disclosure files as of August 28, 2017. The second will be to issue mirror securities – beginning in August 2018 – for all 45-day PCs that are eligible for exchange. Transitioning to the aligned disclosure fields enables Freddie Mac to have a consistent approach to disclosure across its outstanding legacy securities, new UMBS/Supers, and exchanged UMBS/Supers.

Industry-Specific Topics

Seller/Servicer

1. As a seller of loans via the Cash Window or as a swap for MBS, how will the introduction of the Common Securitization Platform and Single Security Initiative affect how I sell and deliver loans?

Loan sales will continue to be conducted directly with the Enterprises. Sellers will not have any interaction with the CSP, and the Single Security Initiative will not affect how loans are sold and delivered to the Enterprises.

2. As a servicer of loans for the Enterprises, how will the introduction of the Single Security Initiative and CSP affect how I report servicing data and remit cash payments?

All servicer interaction will continue to occur directly with the Enterprises. Servicers will not have any interaction with the CSP. As noted in the Single Security Update of May 2015, a few additional changes to the Enterprises' loan removal policies will allow for better alignment in preparation for the implementation of the Single Security Initiative.

3. Will there be changes in Fannie Mae's Desktop Underwriter® (DU®) or Freddie Mac's Loan Advisor Suite® eligibility requirements with the implementation of the Single Security Initiative?

The implementation of the Single Security Initiative will not cause changes to DU and Loan Advisor Suite eligibility requirements.

4. Will lenders still have the option to pool loans themselves?

Yes, lenders will continue to have the option of issuing single-issuer or contributing to the Fannie Mae Majors or Freddie Mac MultiLender pools.

5. Does the CSP follow Mortgage Industry Standards Maintenance Organization (MISMO) data standards?

Yes, the CSP follows MISMO standards.

6. **Will the Common Securitization Platform or the Single Security Initiative require changes to, or net new data elements within the Uniform Loan Delivery Dataset (ULDD) or some other deliverable to the Enterprises?**

   No. The new securities will include a few new securities disclosure elements, but these do not affect the ULDD or require additional data to be delivered by Seller/Servicers. Freddie Mac will update contracts to cover the 55-day payment cycle and will offer a UMBS backed by 10-year mortgages to match Fannie Mae.

7. **Will the Common Securitization Platform or the Single Security Initiative affect the post-delivery retrieval of data from the Enterprises?**

   No. Seller/Servicers will continue to work with the Enterprises' front-end systems to retrieve data, just as they do today. There may be some small enumeration changes for data exports. Also, Freddie Mac will add Prefix to some of the exports in addition to the Pool Number.

8. **Will the Common Securitization Platform or the Single Security Initiative affect the Loan Quality Advisor (LQA)® or Early Check processing?**

   No.

9. **Will the Common Securitization Platform or the Single Security Initiative affect the web-based delivery systems?**

   Freddie Mac will make some minor changes to its Loan Selling Advisor screens to include the new disclosure, new 55-day products, changes to pooling requirements, and a 10-year mortgage product to match Fannie Mae's TBA offerings. Sellers will receive advance notice of these changes so they have sufficient time to update their systems and export file formats as needed.

10. **Will there be any changes to the Buy Up/Buy Down or Guarantee Fee (GFee)?**

    Both Enterprises follow guidance from FHFA on fees. The Enterprises do not expect changes to fees as a result of the CSP or Single Security Initiative implementation.

11. **Will there be any unique regulatory reporting required by the Single Security Initiative?**

    No.

12. **Will use of the CSP change the pooling cycle? Will there be effects on hedging?**

    The UMBS and Supers will follow the pooling terms of Fannie Mae's current MBS. The bond administration functions to be performed by the CSP will not change the pooling cycle. Because of the expected fungibility of the UMBS and Supers regardless of issuer, investors should be able to deliver UMBS and Supers issued by either Fannie Mae or Freddie Mac to satisfy their hedge positions.

13. **How will Freddie Mac phase out Market Adjusted Pricing (MAP)?**

    Freddie Mac currently uses MAP to compensate Seller/Servicers in situations where it needs to make up for price disparities between Freddie Mac PCs and Fannie Mae MBS. One potential result of the Single Security Initiative could be that MAP is no longer necessary.

14. **Are changes expected for the Fannie Mae and Freddie Mac Seller/Servicer Guides?**

    Freddie Mac will make minor changes to its Seller/Servicer Guide as a result of aligning with the features of Fannie Mae MBS. These revisions will require a number of updates, including: the investor payment cycle (55-day delay);

prefixes; pooling parameters; pool numbers; and the timing of delinquency disclosures. Fannie Mae will not make any changes to its Seller/Servicer Guide in response to the Single Security Initiative.

15. Will the implementation of the CSP or of the Single Security Initiative change the pool submission process or extend the pooling cycle timeline?

There will be no changes to the pool submission process as the result of the CSP or Single Security Initiative. The lender must allow sufficient processing time between the time it submits its loan delivery data and the document submission package and the time it wants the securities to be issued in book-entry form.

Investors

16. When will investors receive payment for the UMBS and Supers, and who will remit payment?

Investors will receive their payment on the 25th day of the month or, if the 25th day is not a business day, on the next business day. As with current practice, payment will be remitted by the issuing Enterprise through its paying agent, the Federal Reserve Bank of New York.

17. Will Fannie Mae and Freddie Mac have unique TBA CUSIPs for Fixed Income Clearing Corporation (FICC) matching, netting, allocation, and settlement processes?

Both Fannie Mae and Freddie Mac will use the current Agency and Product code for Fannie Mae ("01F") to represent good delivery for either Fannie Mae- or Freddie Mac-backed 55-day TBA-eligible securities. Market participants can allocate into 01F any of the following securities: existing TBA-eligible Fannie Mae MBS, exchanged Freddie Mac UMBS and Supers, or UMBS and Supers issued by either Enterprise and created after the Single Security Initiative implementation date.

18. What will happen with existing trades in Golds that someone wants to roll into next month during the month of the Single Security Initiative implementation date?

Firms could pair off and put on new trades or swap into the new security following an exchange. Firms should discuss any potential accounting implications related to swaps and rolls with their internal / external accountants and legal counsel. Freddie Mac will update Seller/Servicer contracts for UMBS deliveries well in advance of the launch date so originators can plan for the execution path they want. Some forward trading of the UMBS is expected prior to the implementation date, which will coincide with the new issuance of, and the first eligible settlement date for, UMBS.

19. Will the re-securitization process change? UPDATED

No change in the re-securitization process is expected. However, the Enterprises may commingle collateral in a re-securitization. For example:

Supers can be backed by any combination of the following:

- UMBS or other Supers
- Existing TBA-eligible MBS or Megas issued by Fannie Mae
- Freddie Mac-issued TBA-eligible PCs and/or Giants that have been exchanged

REMICS can be backed by any combination of the following:

- New or exchanged UMBS or Supers (issuances of one Enterprise or a commingling of issuances of both Enterprises) or other REMIC class or classes
- Existing / legacy securities issued by one Enterprise

The Enterprises will publish more details about collateral eligibility in their future offering circulars for UMBS and Supers.

20. **Will I be able to put 45-day collateral into a 55-day REMIC group?**

    Yes, you will be able to combine 45-day collateral in a 55-day REMIC group. However, all security payments will be made on a 55-day payment schedule.

21. **Will Freddie Mac still issue new 45-day REMICs and Giants?**

    Yes. Freddie Mac will continue to allow 45-day PC and REMIC collateral to be contributed to 45-day REMIC groups. Freddie Mac will also continue to form and issue new 45-day Giants backed by 45-day PC collateral.

22. **Has there been a decision on the fee for commingling? Will current re-securitization fees change?**

    There is not expected to be an extra charge for commingled re-securitizations over and above regular re-securitization fees. Regular re-securitization fees are expected to be priced in a manner that is consistent with pricing today.

23. **Will the timing of the Mega/Giant creation process change prior to the implementation of the Single Security Initiative?**

    The Enterprises do not expect any changes to the timing or process for creating Megas or Giants prior to the implementation of the Single Security Initiative. Post-implementation, Freddie Mac will still allow for the creation of 45-day Giants using legacy 45-day PCs.

24. **Once the Single Security Initiative is implemented, can accounts continue to put 45-day PCs into Giants?**

    After the Single Security Initiative launches, Freddie Mac will continue to offer 45-day Giants backed by legacy 45-day collateral. Investors who are unable to do exchanges or who need to administer their portfolios more precisely may still require 45-day Giants. The Enterprises expect most of the market interest will be in the new UMBS and Supers.

25. **How is the Single Security effort aligning the timing of the implementation of the Single Security Initiative in 2019 with respect to other mandatory regulatory and system changes? Such efforts can require many financial institutions to make changes to key applications with significant development efforts and testing resources.**

    FHFA and the Enterprises are in active talks with key market counterparties to understand their development and testing projects and the interplay with the Single Security Initiative. FHFA and the Enterprises want to hear from dealers, investors, vendors, customers, and regulators to make sure all the consequences of the Single Security Initiative have been captured and planned for**.**

26. **Will there be an additional delay in the time to receive back a security?**

    No, the processing times are expected to remain the same as they are today.

27. **Should market participants expect changes to SIFMA agreements, e.g., Master Securities Forward Transaction Agreement (MSFTA) and the Master Repurchase Agreement (MRA)?**

    While no changes are currently expected to be needed to the MSFTA, there may need to be updates to the MRA to accommodate repurchase agreements that straddle or are entered into after the implementation date of the Single Security Initiative to ensure eligibility for the relevant collateral. Market participants should check with their regulators and compliance departments to make sure they have made all appropriate updates in anticipation of the Single Security Initiative launch.

Disclosures

1. Will the market know if a security is issued by Fannie Mae or Freddie Mac?

Yes, the issuer will be disclosed. For TBA transactions, the issuer will generally be available 48 hours ahead of taking delivery of the security, also known as "48-hour day."

2. Do the new disclosures apply to both first-level UMBS and second-level Supers? UPDATED

Yes, in general the new disclosures apply to the first-level (L1) and second-level (L2) securities. In November 2016, the Enterprises released: (1) disclosure specifications for first-level and second-level securities, (2) disclosure specifications for third-level securities, and (3) sample files for first, second, and third level securities, as well as for exchanges. The technical documents can be viewed here. Freddie Mac implemented the aligned disclosures on August 20, 2017 for their L1 and L2 securities on their outstanding pools. Freddie Mac will adopt the multiclass file formats when all securities are issued and administered by CSP on June 3, 2019.

3. What disclosures will be provided at-issuance vs. monthly?

The file format for at-issuance and on-going disclosures will be identical, with the data reflecting the appropriate reporting period. The data that is currently slated to be disclosed can be viewed in the joint Single Security Single-Class Disclosure Specifications as published in the revised November 2016 version. Within this document, attributes that are only applicable for at-issuance versus on-going are clearly indicated.

4. When will the disclosures be made available?

Both Enterprises will publish at-issuance files three times each business day for first-level and second-level securities.

Both Enterprises will publish monthly files on the fourth business day at 4:30 P.M. for all securities.

5. Where will the disclosures be made available?

Market participants will continue to access disclosures via the Enterprises' websites as well as the websites of third-party data vendors.

6. Will the Enterprises continue to offer security look up features to provide disclosure on their websites?

The Enterprises anticipate that they will continue to provide all securities disclosures on their websites, including uniform disclosures for UMBS and Supers.

7. Why did the Enterprises decide to place disclosures on separate locations on each of their websites, rather than creating one unified disclosure platform?

For the Single Security Initiative, the disclosures will be generated from a single database at CSS to populate the two Enterprise sites which will ensure synchronization of the file layouts. An investor has recourse only to the Enterprise that issued the UMBS and Supers the investor owns, and should refer to the website of the issuer for the relevant documents and data.

8. What will the file formats look like? UPDATED

The disclosures will be made available in a flat file format. Industry stakeholders felt strongly that flat files are much easier to implement and therefore would encourage faster development and adoption of the new disclosures. Test files can be found here: [insert link].

9. Will the new disclosure format be used prior to the go-live date of the Single Security Initiative?

Freddie Mac implemented the new disclosure format for its current securities beginning with the daily disclosure files on August 28, 2017, prior to the Single Security Initiative implementation date, to facilitate the exchange process. Disclosure vendors who have not done so can use test files Freddie Mac published in March 2017 to make the necessary updates to their systems.

Fannie Mae will use the new disclosure format as of the June 3, 2019, the Single Security Initiative implementation date.

10. Do Fannie Mae and Freddie Mac plan to update their previously-issued securities with the new UMBS/Supers disclosure elements?

Fannie Mae will not provide the new disclosure elements on Fannie Mae previously-issued securities. For newly-issued UMBS and Supers, Fannie Mae will provide the respective UMBS/Supers disclosure elements.

Freddie Mac began providing updated monthly disclosures for all Freddie Mac securities outstanding (i.e., not paid-off) as of August 28, 2017. Historical data that was not previously collected from Seller/Servicers may not be available for previously-issued securities.

11. Why are some of the disclosure fields that are currently populated being removed from the UMBS/Supers specification?

In determining the approach to disclosure, the goal was to balance investor needs against borrower privacy concerns. Therefore, certain loan-level attributes are being masked or removed and the Enterprises are aligning available disclosure elements.

12. Have you determined the final features of UMBS and Supers? Is this the final version of the disclosure specification?

Yes. Appendix A [PDF] of the May 2015 Single Security Update [PDF] published by FHFA included the final features of the security. There will be no changes or additions to that feature set.

Regarding the disclosure specification, the version published in November 2016 is the most up-to-date set of disclosure elements and their definitions. It is possible there may be minor updates to this specification prior to the 2019 launch of the Single Security Initiative.

Fannie Mae will implement the new aligned disclosure format in 2019 when the Single Security Initiative is implemented, while Freddie Mac implemented it for outstanding Freddie Mac securities in 2017.

13. What is the disclosure file release schedule?

Please refer to the Enterprises' relevant joint technical specifications for detailed tables containing the disclosure release schedules.

14. When will Tradeweb and Bloomberg begin to show the symbol for UMBS and Supers? Will disclosures be in a different location on Tradeweb and Bloomberg than they are now?

FHFA and the Enterprises are in active talks with Bloomberg and Tradeweb to discuss how the UMBS and Supers will be identified in their systems and how new screens might look. Freddie Mac will be adopting the labeling conventions of the current Fannie Mae MBS and will use those conventions for the UMBS. However, there will continue to be a supply of legacy Freddie Mac Gold PCs for a time as the market transitions to the new security. Therefore, the Enterprises will work with Bloomberg and Tradeweb to determine how this part of the market will be displayed compared to the UMBS TBA market.

15. Who needs to implement the new disclosure format?

Data vendors, dealers, investors, and securities market participants will want to understand the disclosure file format for UMBS and Supers. For some, this may mean making changes to their systems, software, or processes to support the market transition to the new securities. Freddie Mac's implementation of the file format for its legacy securities beginning August 28, 2017, should help market participants understand and make the changes to their systems prior to the Single Security Initiative implementation, reducing transition risk.

Legacy PC Exchange

1. If investors exchange Freddie Mac securities, will the new payment be delayed from 45 days to 55 days? If so, how will investors be compensated for lengthening the time delay by 10 days?

In order to promote fungibility of the securities, investors will receive a new UMBS with a 55-day payment delay in exchange for their legacy PC; they will also receive the approximate fair value compensation for the 10 days' delay of the bond's payment. Each new UMBS will be backed by the same underlying collateral as the previous 45-day PC, and have the same characteristics as the corresponding PC such as unpaid principal balance, pool factor, and weighted average coupon.

2. Will there be a fee charged to exchange Gold PCs?

No, Freddie Mac will not charge a fee for exchanges. With the Single Security Initiative, the Enterprises want to build as much liquidity as possible in the new market. Therefore, there will be no fee – and Freddie Mac will compensate investors for the difference of the 10 days of delay between the legacy Gold PCs and the new 55-day UMBS when there is an exchange of one for the other.

3. How will Freddie Mac determine the compensation for the value of the 10 days of payment delay? UPDATED

Freddie Mac plans to offer investors compensation payments based on a schedule of rates that would be informed by fair value methodologies, with one or more rates offered for each product type (15-year PCs, 30 year PCs, etc.). There will be a minimum of one rate of compensation offered for every term/coupon combination (30-year 3% coupon securities, 15-year 2.5% securities, etc.). Freddie Mac may also offer adjustments to the rate of compensation for pools that have specified characteristics that lead to a substantial change in the value to the float compensation.

To establish the approximate fair market value for the payment for the 10 days of delay, Freddie Mac intends to leverage the payment delay compensation values produced by OAS models that are commonly used by market participants.

Freddie Mac will publish a compensation schedule on its website, within Dealer Direct SM, and through information services such as Bloomberg. For more details on Freddie Mac's exchange process and payments for the 10 days of delay, refer to Freddie Mac's Single Security Program Exchange and Payment Delay Compensation Proposal [PDF].

4. How will a request for an exchange be initiated? What will investors get for their legacy PC?

In 2016, Freddie Mac introduced Dealer Direct SM, a portal for conducting Giant transactions and some REMIC functions with Freddie Mac's dealer group. The same portal will be used by that dealer group to conduct exchange transactions on behalf of customers. Investors who want to exchange PCs will need to contact a member of this group to initiate a transaction. The details, when finalized, will be available on FreddieMac.com.

Exchange requests will be submitted through the Dealer Direct SM portal. In preparation for exchange requests, prior to the Single Security launch Freddie Mac will create mirror 55-day UMBS and non-TBA 55-day securities for all exchange-eligible 45-day PCs. These mirror securities will be backed by the same loans as the original PC. In exchange for their legacy 45-day PC, investors will receive the new 55-day UMBS and compensation for the payment delay. The funds wire for the compensation will be processed before the funds wire window closes the same day.

5. Will investors be able to do an exchange directly with Freddie Mac?

Freddie Mac decided to leverage existing dealer relationships to conduct the exchange, rather than allowing investors to conduct exchanges directly in order to streamline the process and eliminate the need to establish individual counterparty relationships with thousands of individual investors and their sub-accounts. Freddie Mac has already conducted substantial due diligence regarding these dealers, including the establishment of custodial bank arrangements and counterparty agreements, and the additional effort required to perform due diligence with all investors who want to conduct an exchange transaction could result in delays in the exchange process.

6. Will all Freddie Mac PCs have a mirror? Will these mirrored securities be available on Bloomberg even if there has not been an exchange? UPDATED

All fixed-rate first-level Freddie Mac PCs that are not 100% committed to a re-securitization will have a mirror. Freddie Mac will hold all mirror securities until an exchange for a given security is executed so mirror creation will have no effect on tradable supply. Freddie Mac is working with the market data providers on the display of the mirror securities, the relationship between 45-day and 55-day securities, and the exchange volume.

When mirror securities are issued, Freddie Mac will begin providing the following daily report:

- Daily New Issue File: will show mirror securities on the day they are created

As exchanges begin, Freddie Mac will make the following reports available to enable participants understand the tradeable supply and facilitate prepayment calculations:

- Daily Exchange Activity Report: all exchanges completed on the previous day
- Cumulative Exchange Activity Report (daily): exchange activity to-date
- Aggregate Level 1 Collateral Exchange Activity Report (daily): collateral level information for all exchanges to-date including how much of each Level 1 PC is outstanding as 45- and 55-day securities
- Exchange Tie Out Table (monthly): available supply of 45- and 55-day securities at a cohort level

Freddie Mac's Single Security Program Exchange and Payment Delay Compensation Proposal [PDF] has more details and examples of these reports.

7. How will the market know what has been exchanged and what hasn't?

Freddie Mac plans to publish new data elements to facilitate tracking the outstanding supply across 45- and 55-day cohorts. These exchange data elements will be contained in three new reports – a Daily Exchange Activity report, a Cumulative Exchange Activity report and a Daily Level 1 (L1) report. Freddie Mac will also provide tie-out tables so that market participants can check that their supply calculations match Freddie Mac's disclosures. Freddie Mac's Single Security Program Exchange and Payment Delay Compensation Proposal has more details and examples of these reports.

8. Can 45-day PCs be exchanged to a 55-day Supers security at the same time or does the 45-day PC first need to be exchanged for a UMBS and then delivered into a Supers security? UPDATED

An exchange transaction is required for any 45-day collateral before the 55-day Supers security can be issued. This requires two separate transactions; however, if an investor chooses to they may request both an exchange and a Giant/Supers transaction to settle on the same date. In this case, the dealer would receive the 55-day mirror security(s) from the exchange, then immediately return them to Freddie Mac as collateral for the Giant/Supers, which would be issued to the investor through the dealer.

9. Can non-TBA 45-day products be exchanged for 55-day mirror securities?

All Freddie Mac 45-day fixed-rate PCs – whether TBA-eligible or not – will be available for exchange, as long as the PC is not 100% re-securitized.

10. After a Freddie Mac PC is exchanged into a UMBS, can the Freddie Mac UMBS be changed to a Fannie Mae UMBS?

No. At the first-level of securitization, the UMBS cannot be changed into a UMBS issued by the other Enterprise, e.g., a UMBS guaranteed by Freddie Mac cannot be changed into a UMBS guaranteed by Fannie Mae, and likewise. At the second-level of securitization, any UMBS, regardless of the guarantor, may be re-securitized into a Supers security. Investors may choose to execute a Supers security to receive a re-securitization from a different issuer/guarantor than the UMBS or Supers issuer/guarantor that they own for their specific strategy and portfolio management purposes.

11. Will exchange of Freddie Mac PCs for UMBS all take place at the implementation of the Single Security Initiative? Will a window open in advance of the Single Security Initiative implementation date and issuance of the new securities?

The exchange window for Freddie Mac PCs will open on or prior to the Single Security Initiative implementation date and will remain open for the foreseeable future once the Single Security Initiative launches.

12. Should I consolidate CUSIPS in anticipation of the UMBS exchange?

While this is not necessary, investors may choose to form Giants early to help ease the administrative burden of exchanging multiple smaller securities.

13. Will exchanges be 1-for-1? Or will a dealer be able to submit 100 existing bonds and get one larger security back equal in size to the submitted bonds (e.g., a Giant)? UPDATED

Exchanges will be one-for-one, that is, one UMBS CUSIP delivered for one PC CUSIP received. Dealers may submit multiple pieces of the same CUSIP to receive a UMBS that can be allocated across multiple investor accounts. A Supers security can be any combination of many securities for one Supers security received.

14. How will Freddie Mac validate how much of each CUSIP can be submitted for exchange?

Freddie Mac's Dealer Direct application will determine the remaining amount of par eligible for exchange for each security by **subtracting** the amount of par re-securitized in Giants and REMICs to date and the amount of settled exchanges to date from the at-issuance par amount. Note: Including pending exchanges in the validation introduces the possibility of preventing an exchange if another dealer hadn't yet canceled its pending exchanges for a CUSIP it traded away. This is similar to the way Giant collateral is validated today.

15. How soon after exchange collateral is delivered to Freddie Mac will the mirror securities be wired to the dealer? UPDATED

Once Freddie Mac receives all the 45-day collateral for a particular deal, it will deliver the 55-day mirror security to the dealer. Note: Some delays may occur at peak times.

If the exchange is contributing to a Giant/Supers deal, it will be the dealer's responsibility to deliver the 55-day collateral back to Freddie Mac's collateral account, along with any additional non-exchange 55-day collateral that may be contributing to the same Giant/Supers. The collateral will be matched and issued as it is today.

16. What happens if a dealer fails to deliver all expected collateral on settlement day? UPDATED

Exchanges will be matched automatically within each transaction. Each piece that is delivered will be matched individually. The associated compensation for the payment delay will be paid in a separate wire. To minimize the impact of failed transactions, Freddie Mac will automatically reassign failed collateral to the next available settlement date and reduce the scheduled float compensation payment accordingly (unless the dealer indicates those collateral items should be canceled altogether). There will be no fee for failed or cancelled exchange transactions.

.