ENTERPRISE UMBS POOLING PRACTICES

REQUEST FOR INPUT *(extended 11/18/2019)*

November 2019

Division of Conservatorship

Introduction **1**

The UMBS Market and the UMBS Final Rule **2**

I. The New Consolidated Market for Enterprise UMBS 3
II. The UMBS Final Rule, Prepayment Activity, and Security Performance 4

Pooling Practices and Security Performance **5**

I. Specified Pools 7
II. Single-Lender and Multi-lender Pools 8
III. Securities Performance 9
IV. Challenges with Faster Paying Pools 9
V. Cash Window Acquisitions 11

Proposal **12**

Questions and Public Input Instructions **14**

Glossary **16**

Introduction

In the securitization process, the choice of which loans to group together as collateral for an individual security is called pooling. The Federal Housing Finance Agency (FHFA) is seeking public input on Fannie Mae's and Freddie Mac's (the Enterprises') pooling practices as they relate to the formation of "To-Be-Announced" (TBA)-eligible Uniform Mortgage-Backed Securities (UMBS)[1] regardless of whether the pooling is done by an Enterprise for loans acquired through the cash window/whole loan purchase conduit or by a seller for loans acquired through a guarantor swap transaction.[2] Pooling policies are important because they may affect the distribution of prepayments (for example, from mortgage refinances, loan payoffs, or other causes), which, in turn, may affect the value of mortgage-backed securities (MBS) to investors and, therefore, mortgage interest rates to consumers. Differences across the Enterprises in their policies for the formation of larger multi-lender pools, single-lender pools, smaller pools, and specified pools[3] can lead to differences in the cash flows, pricing, and performance of their MBS, with potentially adverse consequences for the fungibility of UMBS.

FHFA is also seeking public input about other policies and practices that might affect UMBS fungibility, including the Enterprises' oversight of seller/servicer[4] refinance policies and their monitoring of seller/servicer-specific UMBS prepayment speeds. Enterprise requirements related to – and oversight of – seller/servicer refinance practices is important to ensure the consistency and alignment of UMBS cash flows. Similarly, Enterprise policies and practices with respect to monitoring of seller/servicer-specific prepayment speeds can affect the likelihood and magnitude of misalignment of prepayments across their UMBS. These practices also can affect investors, lenders, taxpayers, and consumers.

---

[1] The Uniform Mortgage-Backed Security or UMBS is the new common mortgage-backed security (MBS) issued by Fannie Mae and Freddie Mac. The UMBS replaces the Enterprises' previous offerings of TBA-eligible, single-class, single-family, fixed-rate MBS.

[2] The Enterprises have two channels for acquiring loans: the whole loan purchases and the lender swap transactions. In the whole loan purchase channel, the Enterprises purchase whole loans and create pools to form MBS. In the lender swap channel, a lender delivers a pool of mortgages to an Enterprise in exchange for Enterprise-guaranteed MBS backed by that pool.

[3] A specified pool is a pool of mortgage loans that serves as collateral for a MBS and trades at a premium over the generic TBA price.

[4] A seller/servicer is an institution approved to sell mortgages to and/or service mortgages purchased by an Enterprise. The term "seller" refers to a seller/servicer acting in its capacity as a seller of mortgages, and the term "servicer" refers to a seller/servicer acting in its capacity as a servicer of mortgages. A seller may sell mortgages it originated itself or mortgages it purchased from other originators (or lenders). A servicer may service the mortgages it sold to an Enterprise or other mortgages sold to the Enterprise by other sellers.

Finally, this Request for Input includes a proposal for Enterprise pooling practices that could further enhance UMBS fungibility. The proposal would require the Enterprises to channel the vast majority of their non-specified pool production into larger, multi-lender pools in order to reduce the variability in cash flows to investors.

FHFA will consider the public input solicited here in determining what actions may be appropriate with respect to alignment of Enterprise pooling policies. In particular, the requested input will help FHFA determine whether further action or alignment is necessary to ensure reasonably consistent cash flows and continued fungibility of the Enterprises' UMBS and to understand where further alignment might benefit investors, lenders, borrowers, and taxpayers. In addition, FHFA is interested in understanding if having more aligned pooling practices could facilitate the issuance of UMBS by market participants beyond Fannie Mae and Freddie Mac.

The UMBS Market and the UMBS Final Rule

On March 12, 2019, UMBS trading began in the forward TBA market,[5] marking the consolidation of the formerly distinct markets for each Enterprise's MBS. In June 2019, settlement of TBA trades for UMBS began. The new, consolidated UMBS market has been functioning well, with trade volumes and spreads to Treasury securities generally within historic ranges.

FHFA believes that the new, consolidated UMBS market will lead to a more efficient, resilient, and liquid secondary mortgage market and further FHFA's statutory obligation and the Enterprises' charter obligations to ensure the liquidity of U.S. housing finance markets. So far, that market is on track. The UMBS-enabled market consolidation addresses long-standing structural issues and trading disparities between Fannie Mae and Freddie Mac.

For the UMBS market to thrive, market participants must continue to agree that UMBS are fungible with respect to the issuing Enterprise. That is, investors must generally agree that a UMBS of a certain coupon and maturity issued by one Enterprise is roughly equivalent to the corresponding UMBS issued by the other.

To support investor confidence in that fungibility, FHFA promulgated a UMBS **Final Rule** governing Enterprise actions that affect UMBS cash flows to investors, issues quarterly prepayment monitoring reports, and has used its powers as the Enterprises' conservator to limit certain pooling practices with respect to the creation of UMBS. Currently FHFA-imposed limits

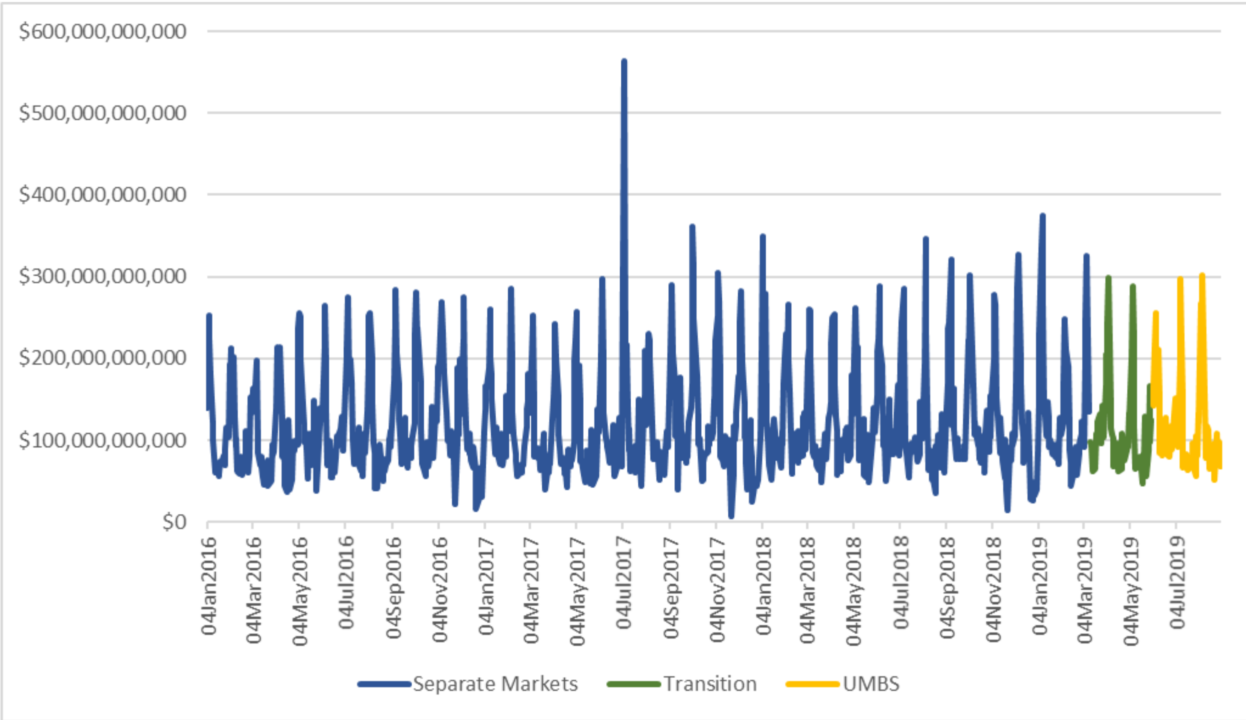
[5] The TBA market is a forward market for certain MBS, including those issued by Fannie Mae and Freddie Mac.

on pooling practices apply to the relationship between the coupon on an MBS and the rates borrowers pay on the mortgages pooled to form that MBS and to the maximum servicing fee charged for individual loans in such pools.

I. The New Consolidated Market for Enterprise UMBS

After years of preparation, the initial months of UMBS trading and settlement have been smooth and orderly, and have established a well-functioning consolidated Enterprise TBA market with fungibility of UMBS across issuers. As of September 30, 2019, UMBS trading has totaled over $17 trillion, and other measures of market functioning are generally within recent norms. For example, Figure 1 shows the level of total trading in Enterprise MBS on the TBA market.

Figure 1: Total Daily Trading in Enterprise MBS, January 2016 through August 2019



Source: FHFA calculations from FINRA TRACE data

Two other indicators of market acceptance of UMBS and the consolidation of the TBA market for Enterprise MBS focus on the exchange of legacy Freddie Mac MBS (known as participation certificates or PCs) and the resecuritization and commingling of the Enterprises' UMBS into second-level single-class securitizations known as Supers. To facilitate the transition to UMBS and to support fungibility of UMBS across the Enterprises' issuances, Freddie Mac established

two mechanisms for investors to voluntarily exchange legacy Freddie Mac PCs for "mirror" securities that trade as UMBS. As of September 24, 2019, market participants had exchanged over $200 billion of legacy Freddie Mac securities.

The commingling of Freddie Mac and Fannie Mae UMBS into Supers support fungibility by providing investors a mechanism to provide securities of one Enterprise as collateral for securities issued and guaranteed by the other. Table 1 provides information on the Supers issuances. As of September 24, 2019, the Enterprises have issued $86.6 billion in Supers of which $74.5 billion are commingled, with Fannie Mae issuing 73 percent of all Supers and 75 percent of all commingled Supers.

Table 1: Supers Issuance by Issuing Enterprise as of September 24, 2019 (in $ millions)

Issuing Enterprise	Commingled Supers	Single Agency Supers	Total
Fannie Mae	$ 56,215	$ 7,357	$ 63,572
Freddie Mac	$ 18,287	$ 4,750	$ 23,037
Total	$ 74,502	$ 12,107	$ 86,609

Source: Freddie Mac

II. The UMBS Final Rule, Prepayment Activity, and Security Performance

FHFA and the Enterprises worked closely with market participants to facilitate TBA market consolidation.[6] Public input emphasized the necessity of aligning cash flows to investors. To achieve that alignment, FHFA developed principles for alignment and directed the Enterprises to develop governance processes around changes to their programs, policies, and practices that could reasonably affect cash flows to investors in TBA-eligible MBS.[7] FHFA also worked with the Enterprises to establish *ex post* monitoring of prepayment speeds across cohorts of their TBA-eligible securities.[8]

In 2018, FHFA initiated publication of quarterly **Prepayment Monitoring Reports** to document the degree of prepayment alignment across those cohorts. In response to further industry

[6] See **Notice of Proposed Rulemaking** for a summary history of public input and the **Final Rule** for a summary of additional comments received in response to the proposed rule.

[7] See **Update on the Implementation of the Single Security Initiative and Common Securitization Platform, July 2016**.

[8] See **Update on the Implementation of the Single Security Initiative and Common Securitization Platform, December 2017**.

feedback highlighting concerns that these requirements would not outlive the conservatorships, FHFA promulgated the UMBS Final Rule, which became effective on May 6, 2019. The Final Rule requires the Enterprises to maintain policies that promote aligned investor cash flows for TBA-eligible MBS and codifies alignment requirements that FHFA implemented under the Fannie Mae and Freddie Mac conservatorships. That Final Rule has been integral to the successful transition to and fungibility of UMBS.

As a result of these efforts and others by the Enterprises, the cash flows to investors measured at the cohort level have been aligned within reasonable thresholds, as documented in FHFA's quarterly Prepayment Monitoring Reports.[9]

Despite the Enterprises' success in aligning prepayment speeds of overall cohorts, some market participants continued to express concern about the potential divergence of prepayment speeds across the fastest paying quartiles of a cohort.[10] In response to that concern, FHFA included in the UMBS Final Rule additional alignment thresholds with respect to prepayment speeds for the fastest paying quartiles of cohorts. As information accumulates with respect to the prepayment behavior of these quartiles and its interaction with TBA market performance of UMBS, FHFA will use it to inform future decisions.

Pooling Practices and Security Performance

The pooling decision is important because it is a fundamental driver of the prepayment speeds associated with that security; it also directly affects three sets of stakeholders: the Enterprises, investors, and seller/servicers. In the TBA market where many securities may satisfy the conditions to be delivered in settlement of a given trade, the dispersion of prepayment characteristics across those securities can affect the price investors are willing to pay, with greater dispersion associated with lower prices and, therefore, higher costs to lenders and borrowers.

The Enterprises. The Enterprises currently create three types of pools (single-lender, multi-lender, and specified[11]) to satisfy the demands of various market participants, to support TBA market functioning, and to provide the best possible price to sellers commensurate with the

---

[9] See Prepayment Monitoring Report, Second Quarter 2019, Chart 2 and 3, pages 8 through 16.
[10] In the current interest rate and market environment, loans that prepay faster than normal are the least desirable from the investor perspective.
[11] Specified pools have been predominantly single-lender but multi-lender specified pools may also be formed by an Enterprise.

characteristics of the mortgages they originate. Efficiently satisfying these demands, in turn, helps lower consumer mortgage rates.

Investors. Investors may prefer and pay more for pools with particular characteristics to comply with specific laws and regulations or to achieve proprietary investment strategies. The premiums investors pay for such pools are referred to as pay-ups. For example, Real Estate Investment Trusts (REITs) have regulatory requirements to purchase predominantly securities backed by undivided interests in the whole loans. These requirements create an incentive for REITs to invest in pools that are small enough that they can purchase the entire pool.[12] Other investors may have particular views about the specific characteristics of mortgages that are most valuable given the economic and interest rate environment. Securities created to satisfy these investor preferences can often be sold at higher than TBA prices. That customization may, however, cause the remaining securities to have less desirable qualities and, when coupled with other pooling practices that increase variation among TBA-eligible securities, may result in lower prices for securities traded in the TBA market.

Seller/Servicers. Pooling standards also may interact with seller/servicers practices. In seeking to maximize the value of the mortgages they originate, seller/servicers may create pools of loans that have particular characteristics associated with more stable prepayment speeds such as those that are identified with specified pools (such as low balance loans, loans to borrowers with low FICO scores, high loan-to-value (LTV) ratio loans, or loans collateralized by investment property or property in New York, Texas, or Puerto Rico).

FHFA is looking to determine whether changes to pooling practices could improve overall market stability, efficiency, or performance and is contemplating further alignment of the pooling of mortgages to create TBA-eligible UMBS. FHFA believes that larger, multi-lender pools will behave more consistently across time and across issuers, decreasing volatility in the differences across fastest paying quartiles of each cohort and contributing to the overall stability of the consolidated TBA market for Enterprise UMBS.

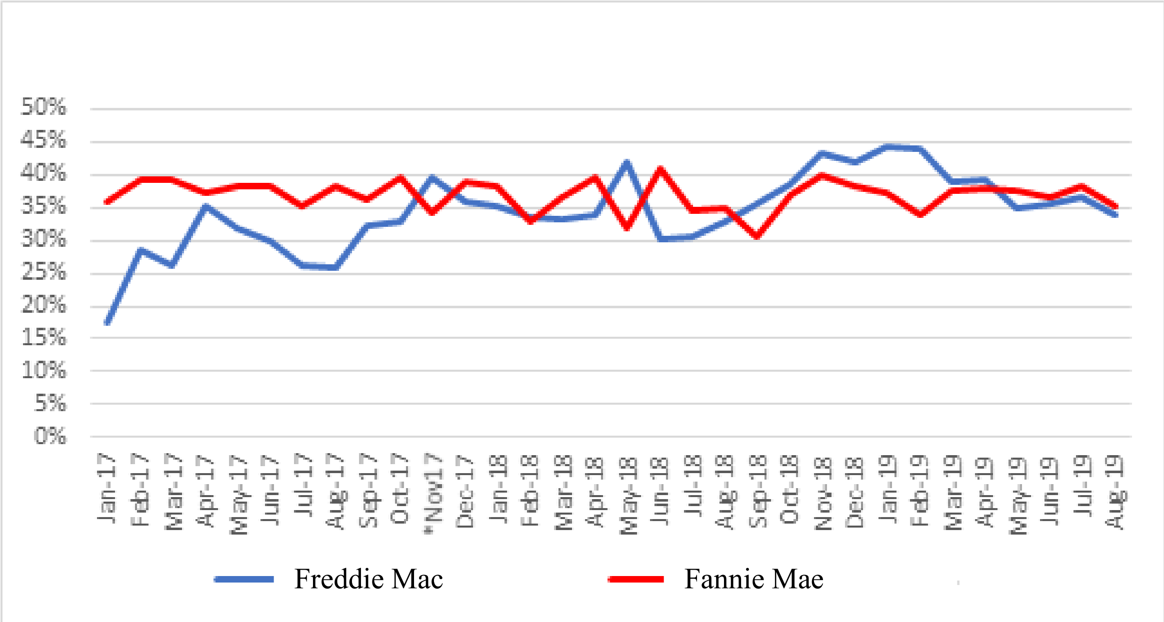
The discussion below examines the three types of mortgage pools, including the Enterprises' current practices with respect to each, and the effects of pooling practices on securities performance and on seller/servicers.

[12] To qualify for exclusion from the Investment Company Act of 1940, REITs are required to hold 55 percent of their mortgage assets in "qualifying interests," which include mortgage pools that consist of undivided interests in whole loans. Therefore, REITs prefer pools that are small enough to buy in their entirety. Mortgage REITs held $322 billion in Enterprise and Ginnie Mae MBS at the end of the second quarter of 2019.

I. Specified Pools

Specified pools consist of loans that have prepayment characteristics for which investors are willing to pay a premium (or pay-up) over generic TBA prices and, therefore, typically trade outside the TBA market. In recent years, specified pools have generally accounted for 30 percent to 40 percent of the issuance of 30-year, TBA-eligible securities by each of the Enterprises as illustrated in Figure 2.

Figure 2: Specified Pools as a Percent of 30-Year Issuance for Each Enterprise



Source: Freddie Mac

Typically, specified pools are characterized by factors associated with slower than average prepayment speeds. For example, investors value slower prepayments when interest rates are falling or when MBS are trading at a premium over their par value. Pools that tend to prepay slower than average include those consisting of loans that have low balances, high LTV ratios, low borrower FICO scores, finance investor-owned properties, or finance properties in New York, Texas, or Puerto Rico.

II. Single-Lender and Multi-Lender Pools

Fannie Mae and Freddie Mac both create UMBS backed by single-lender and multi-lender mortgage pools. As the names imply, single-lender pools consist of mortgages originated (or aggregated) by a single financial institution or other approved mortgage lender, and multi-lender pools consist of mortgages originated (or aggregated) by more than one financial institution or other approved mortgage lender.

Each type of pool offers its own advantages and potential disadvantages. Investors often prefer large, multi-lender pools which can include loans with diverse characteristics from lenders throughout the country. Such diversification mitigates the likelihood of unusual prepayment behavior relative to the average prepayment behavior of the cohort. Multi-lender pools also enable the aggregation of smaller mortgage loan deliveries, usually by smaller-volume lenders, into a larger, more diversified pool.

Each Enterprise has its own program and procedures for acquiring loans to create multi-lender pools. Freddie Mac does so through its Multi-lender Giant program, and Fannie Mae does so through its Majors program. A lender may deliver as few as one loan into these programs, but the total mortgage pool backing one of these securities can range to well over $1 billion. This aggregation feature is an important way for smaller-volume lenders to access the secondary market and obtain better security price execution.

Single-lender pools may be created for a number of reasons. For example, pools may be created by a single lender to capture a pay-up if investors place a value on the pool above the generic TBA price. Lenders with policies or practices that create prepayment behavior that is significantly faster than average may be placed in single-lender pools. Such pools may also be designated as non-TBA-eligible, in which case they may trade at a discount to TBA prices.

In recent years, both Enterprises have increased the issuance of multi-lender pools as a percent of dollar volume of non-specified pool issuance. Multi-lender pools now account for about 70 to 80 percent of the Enterprises' non-specified issuance. That percentage is somewhat lower for pools consisting of 30-year mortgages than for pools consisting of 15-year mortgages.

With respect to their multi-lender and single-lender pooling practices, the Enterprises may take different approaches, which may lead to divergences in prepayment behavior despite overall alignment across the broader cohorts. One possible approach to reduce this divergence in prepayment behavior is to channel as much of its production as possible into large, well-diversified multi-lender pools to mitigate the effect of pools with less desirable

prepayment characteristics on overall TBA pricing by reducing the range of prepayment behavior across pools that are eligible for delivery to settle a given TBA contract. This strategy mutes the influence of loans that have less desirable prepayment characteristics on security value.

III. Securities Performance

Investors evaluate the characteristics of mortgage pools at several levels (individual pools, pool cohorts, and quantiles of pool cohorts) to understand the embedded prepayment risk and the implications for valuation and to develop trading strategies. Such evaluations are not new with the advent of the consolidated UMBS market, as considerable variation across the mortgage pools has always existed within the coupon-origination year cohorts issued by an Enterprise. With the consolidation of the Enterprise TBA market, FHFA is interested in the potential for differences in pooling practices across the Enterprises to cause such investor preferences to undermine UMBS fungibility.

As noted above, different pooling practices between the Enterprises with respect to which loans are included in single-lender and multi-lender pools can lead to different prepayment speeds for each type of pool and affect alignment of those speeds with respect to the fastest paying quartiles. For example, consider the pooling of loans that have attributes associated with faster than average speeds. A practice of including such loans in multi-lender pools would result in multi-lender pools that are likely to have faster prepayment speeds when compared to a practice of including such loans in single-lender pools. Conversely, higher concentrations of such loans in single-lender pools would lead to more pools with faster than average prepayment speeds and worsen the cheapest-to-deliver population in the TBA market.

The difference in pooling practices can result in greater variation of prepayment speeds, which can in turn result in differentials in MBS pricing. Such pricing differentials can lead to a reduction in the fungibility of MBS pools and hinder the overall objective of having an efficient, resilient, and liquid secondary mortgage market.

IV. Challenges with Faster Paying Pools

As previously discussed, the value of a large multi-lender pool is that it reduces the variation in prepayment speeds across securities deliverable into the same TBA contract, which facilitates investor confidence and liquidity of the TBA market. One source of that variation can be faster prepayment speeds of loans from certain seller/servicers and, therefore, faster TBA-eligible

pools from those seller/servicers. Each Enterprise has developed practices to mitigate the effects on the prepayment alignment of UMBS.

There are a number of reasons for a seller/servicer's loans to prepay faster than average. Reasons for faster prepayment speeds may include differences in the mix of product that a seller/servicer offers relative to the overall mix of products in the market, differences in the characteristics of borrowers from the market average, and more expedient, easier, or less costly refinance options. As long as the difference in prepayment speeds is consistent with the product mix and borrower characteristics, faster prepayment speeds for the above reasons may benefit consumers and be predictable, but a negative for investors. Putting the faster prepaying loans into large, multi-lender pools rather than single-lender pools reduces the likelihood that the investor will receive a pool with undesirable prepayment characteristics. Therefore, the inclusion of such loans in larger multi-lender pools is beneficial to TBA market performance.

The Enterprises have developed options to manage the idiosyncratic prepayment characteristics of loans from individual seller/servicers. One option is to create larger, multi-lender pools to increase the homogeneity and size of the loan pools backing their TBA-eligible securities as discussed above. Prepayment speeds of such pools are less likely to diverge significantly from those of the overall market. While the adjustments to pooling practices considered here do not address the average prepayment speed of a cohort, larger pools do help assure buyers that they will not receive pools with particularly undesirable prepayment characteristics.

Other seller/servicer practices may be less beneficial to borrowers or investors. For example, loans with many or all of the origination costs embedded in a higher interest rate, when refinanced prematurely, may have little, if any, benefit to borrowers in a refinance, particularly if the refinance costs and the origination costs are excessive over a short period of time. Overly aggressive refinance practices or churning loans through refinance activity without regard to borrower benefits can be detrimental to both investors and borrowers. The inclusion of such loans in large multi-lender pools or in other TBA-eligible pools is detrimental to the interests of borrowers, investors, and the efficiency of the TBA market.

The Enterprises have used a number of options to address these types of idiosyncratic seller/servicer prepayment behavior. Each Enterprise monitors seller/servicer prepayment performance and has thresholds to trigger review. The Enterprises may require that seller/servicers analyze prepayment performance, such as rapid refinance activity, associated with the activity of individual loan officers, investigate outliers, and take appropriate corrective action. Another practice to address inappropriate early prepayments is for an Enterprise to require repayment of any premium paid for the loan if it is repaid within a specified timeframe, for example, three months. The Enterprises also, at times, ask seller/servicers to agree to refrain

from refinance solicitations for the first few months of the loan's life to reduce rapid and early prepayments. Furthermore, the Enterprises have policies that limit the amount of origination costs that can be put into a premium-priced (higher note rate) loan.

With respect to pooling, an Enterprise may address such behavior by requiring the seller/servicer to form individual pools or by adjusting the seller/servicer's share of Enterprise loan purchases.

FHFA seeks public input on the conditions for allowing faster prepaying loans into, or excluding them from, multi-lender pools based on the policies, practices, or prepayment experience of individual seller/servicers. In addition, FHFA seeks public input on specific policies and practices that the Enterprises should consider in their evaluation of seller-servicer prepayment practices.

V. Cash Window Acquisitions

The Enterprises may acquire whole loans either as part of a guarantor swap transaction (where the seller receives a MBS in exchange for a pool of mortgage loans) or for cash. In a guarantor swap transaction, sellers can deliver pools of loans with similar characteristics and receive MBS in exchange. To create a single-lender UMBS pool, the seller must deliver fixed-rate loans with a total unpaid balance of at least one million dollars. The MBS received in exchange will be backed by the loans that were delivered. If the loans are placed in a multi-lender pool, the minimum loan balance that must be delivered is only $1,000 and the seller will receive MBS representing a *pro rata* share of that multi-lender pool. The seller may then hold the MBS in its own investment portfolio or sell it immediately to other investors.

Both Enterprises also acquire whole loans through their cash window or whole loan purchase programs. The Enterprises accumulate these loans in their retained portfolios and then form and issue multi-lender pools backed by these loans. This process accommodates sellers that wish to take advantage of lower minimum delivery requirements, servicing-released or servicing-retained execution, best efforts commitments, and other services that would make a whole loan sale attractive to smaller-volume sellers.

FHFA is seeking public input as to whether aligning certain cash window practices between the Enterprises would be beneficial to market functioning. For example, market functioning could benefit from both regularly scheduled monthly sales of all UMBS collateralized by whole loans acquired in that month as well as advanced notice of anticipated pooling activity. Such changes could benefit investors by providing them with consistent supply and the ability to plan their investment strategies accordingly.

Proposal

Given the foregoing market practices and policy considerations, FHFA is seeking public input on the following approach to the pooling of mortgages for UMBS pools. The proposal contemplates a waterfall for allocating loans across three categories of UMBS pools: standardized multi-lender pools, specified pools, and special-purpose/single-lender pools. The proposal would apply to all pooling of mortgages into UMBS, regardless of whether those mortgages are acquired by the Enterprises through a whole loan purchase or a swap transaction.

The proposed approach is as follows:

- All sellers/servicers would be incentivized or required by Enterprise policy to deliver the vast majority of production into generic multi-lender pools formed by either Enterprise; potentially 70 to 80 percent of each month's TBA-eligible MBS issuance would be in these very large, well-diversified multi-lender pools.
- Specified pools and potentially other pools with market pay-ups (such as certain single-lender pools that have particularly desirable characteristics) would continue to be allowed under prescribed circumstances, and the loans underlying these pools would not be directed into the generic multi-lender pools. The expectation is that a modest share (potentially 20 to 30 percent) of each month's TBA-eligible MBS issuance would be comprised of these pools.
- On a case-by-case basis, to address anomalies in prepayment speeds, certain seller/servicers would be directed to deliver all or part of their production into non-TBA-eligible, single-lender pools; the criteria for these cases would be aligned across the Enterprises and would consider overall lender performance and the effects of such a pooling requirement on the performance and liquidity of UMBS and other market impacts.

Multi-lender Pooling. In order to reap the advantages of forming much larger, multi-lender pools that stem from more consistency in prepayment behavior, this proposal would require that the vast majority of TBA-eligible loans acquired in a specified, aligned timeframe, such as a calendar month, would be aggregated and formed into large multi-lender pools appropriate for the loan's note rate and maturity.

Specified Pooling and Other Pooling with Pay-Ups. Loans that are particularly attractive to investors given prevailing market conditions would be aggregated into specified pools such as those that have a maximum loan size of $200,000, a minimum loan-to-value ratio at the time of loan origination of greater than 80 percent, or a maximum FICO score of less than 700, or where all mortgages in the pool finance investor-owned properties or properties in the states of New York or Texas or the Commonwealth of Puerto Rico. Since investors typically pay more (pay-

up) for these specified pools, the proposed pooling policy would continue to support the specified pool market. These criteria are subject to change over time.

In addition, the market may pay-up for pools from certain seller/servicers whose loan production has desirable characteristics, such as slower prepayment speeds. Such pools would be allowed under this proposal. Similarly, whole loan pools to address the needs of certain investors (such as REITs) would continue to be issued by the Enterprises.

Single-Lender Pooling for Loans with Low-Value Characteristics. Non-TBA-eligible single-lender pools would be used to address the moral hazard that may arise from aggregating particularly loans with low-value characteristics into large multi-lender pools (for example, those from seller/servicers whose policies encourage borrowers to prepay significantly faster than average).

FHFA believes this proposal would result in pooling practices similar to those under the Ginnie Mae II program.[13] Under that program, Ginnie Mae guarantees two types of pools: Multiple Issuer Pool (MIP) Ginnie Mae IIs and Custom Ginnie Mae IIs. Many lenders (which Ginnie Mae refers to as "issuers") may contribute loans to MIPs. Ginnie Mae issues only one Ginnie Mae II MIP with one corresponding CUSIP per coupon each month. MIPs have been as large as $15 billion, with the size depending on lender/issuer TBA-eligible submissions during the accumulation period. Custom Ginnie Mae II pools each consist of loans contributed by only one issuer. Each pool has its own CUSIP, but there may be many pools with the same coupon as determined by issuer demand for single-issuer MBS pools. Custom Ginnie Mae II pools constitute roughly 10 percent of Ginnie Mae II issuance volume.

Ginnie Mae II MIP pools have been well-received in the TBA market, in part because they reduce variation across the pools that investors may receive in settlement of a TBA contract. The result has been increased trading volume, improved liquidity, and better pricing. This proposal similarly seeks to enhance UMBS fungibility so as to achieve these same benefits. In addition to the potential to further enhance UMBS fungibility, having more aligned pooling practices could also facilitate the issuance of UMBS by market participants beyond Fannie Mae and Freddie Mac.

---

[13] Under the Ginnie Mae II program a lender/issuer may issue custom, single-issuer pools or participate in multiple-issuer pools. A custom pool has a single-issuer that originates and administers the entire pool. A multiple-issuer pool typically combines loans with similar characteristics and backs a single MBS. Each participant in a multiple-issuer pool is responsible for administering the mortgage loans that it contributes to the pool. For further information see the **Ginnie Mae MBS Guide**.

Questions and Public Input Instructions

FHFA invites feedback on all aspects of this RFI and the proposed approach to UMBS pooling. FHFA considers the questions enumerated below to be important to its understanding of the implications of further aligning Enterprise pooling practices, the specific approach FHFA is proposing, and other issues raised in this RFI. FHFA will consider the input as the agency determines whether further alignment of Fannie Mae and Freddie Mac pooling practices is necessary to ensure fungibility of UMBS and a well-functioning and liquid TBA market.

FHFA invites interested parties to provide written input on the questions listed below, no later than January 21, 2020. Please submit all responses to the Federal Housing Finance Agency, Division of Conservatorship, 400 7th Street SW, 8th floor, Washington, D.C., 20219. Input may also be submitted electronically using a **response form at FHFA.gov**. Generally, all input received will be made public and posted without changes to FHFA's website. However, if you wish for FHFA to consider any portion of your response exempt from disclosure, please put that portion in a separate attachment and clearly mark it "confidential commercial information." The procedures for identifying
"confidential commercial information" can be found in FHFA regulations at 12 CFR 1202.8, available on FHFA's website.

1. What are the benefits, costs, and implications of the pooling concepts proposed in this RFI? Are they consistent with maintaining UMBS fungibility?

    a. What types of loans or pools of loans would be best suited for the multi-lender pooling approach? What types of pools are beneficial to stakeholders, including specific market participants such as REITs, and the broader housing finance system?

    b. What types of loans or pools of loans would be best suited for the non-TBA-eligible single-lender pooling approach? What types of single-lender pools would be beneficial to stakeholders and the broader housing finance system? What types of loans or pools of loans would not be appropriate for individual single-lender pools and why?

2. Which approaches to pooling (*i.e.*, the Enterprises' current approaches, FHFA's proposed approach, or other approaches) are preferable and why?

   a. If there are other pooling options that FHFA should consider, please specify and describe how UMBS fungibility could be better maintained under an alternative option and discuss other benefits, costs, and implications.

   b. Would more aligned pooling practices facilitate the issuance of UMBS by market participants beyond Fannie Mae and Freddie Mac? If so, why?

3. What benefits, costs, and other considerations should FHFA weigh as it reviews options?

4. Should the Enterprises require or otherwise incentivize production of multi-lender pools? If so, how might the Enterprises do so? How might the Enterprises update any such incentives over time to support the performance of the TBA market?

5. Should seller/servicers that have extraordinarily high prepayment rate performance be barred from inclusion in multi-lender pools and required to form non-TBA-eligible single-lender pools? If so, for what reasons or under what conditions? Should there be any instances where the single-lender, high-prepaying pools would be TBA-eligible? If such action is taken, should it be aligned across the Enterprises? Please explain your reasoning and the ramifications of your position.

   a. How should prepayment performance be measured at the seller or servicer level?

   b. In contrast to pooling limitations, should other measures be taken with regard to excessive prepayments? If so, what measures would you recommend?

6. Should FHFA prescribe limits to the issuance of specified pools through or by the Enterprises? If so, how should a specified pool be defined and how might FHFA apply limits? How might FHFA update any such limits over time to ensure that specified pooling does not unduly impair performance of the TBA market?

7. How might the Enterprises add value to the process of pool formation from whole loan/cash window purchases that are ultimately securitized? For example, would it be useful for the Enterprises to publish advance schedules of planned security issuances with information on security type, security size, and loan purchase bids? If so, what type of advance communications and schedule would you recommend?

8. If changes are to be made to pooling practices, how should such changes be implemented to ensure a successful transition and minimize market disruption? How should the Enterprises or FHFA communicate to the markets to both maintain liquidity and facilitate a transition?

Glossary

Multi-lender pool: A pool of mortgage loans that serves as collateral for a mortgage-backed security and is acquired from more than one seller/servicer.

Pay-up: The premium paid above TBA prices for specified pools.

Pooling: The choice of which loans to group together as collateral for an individual mortgage-backed security.

Prepayment: The amount of principal paid in advance of a mortgage's scheduled payments.

Prepayment speed: The compound annual rate of prepayments as a percentage of the current outstanding principal balance of the pool of loans backing a mortgage-backed security.

Real estate investment trust (REIT): A company that owns or finances income-producing real estate across a range of property sectors and meets regulatory requirements to qualify as a REIT to receive favorable tax and accounting treatment.

Seller/Servicer: An institution approved to sell mortgages to and/or service mortgages purchased by an Enterprise.

Single-lender pool: A pool of mortgage loans that serves as collateral for a mortgage-backed security and is acquired from one seller/servicer.

Specified pool: A pool of mortgage loans that serves as collateral for a mortgage-backed security and trades at a premium over the generic TBA price.

Supers: A second-level securitization of UMBS. Supers may commingle UMBS from both Enterprises.

TBA-eligible security: A mortgage-backed security that conforms to the requirements for settling TBA market trades.

To-Be-Announced (TBA) market: The TBA market is a forward market for certain mortgage-backed securities, including those issued by Fannie Mae and Freddie Mac.

Uniform mortgage-backed security (UMBS): The new common mortgage-backed security issued by Fannie Mae and Freddie Mac. The UMBS replaces the Enterprises' previous offerings of TBA-eligible single class, fixed-rate mortgage-backed securities.

UMBS final rule: A regulation promulgated by FHFA which governs Enterprise actions that affect cash flows to investors from Enterprise UMBS.