



August 2019 Update: Freddie Mac FAQs

Potential STACR Enhancement

General FAQs

1. Why are you proposing making this change?

[Credit Risk Transfer](#) is a key objective for Freddie Mac and our conservator, the Federal Housing Finance Agency (FHFA). Our objective in developing the [Structured Agency Credit Risk](#) (STACR®) program is to ensure a scalable and liquid market for credit risk that is responsive to market feedback. In order to continue to promote a broad and liquid market for credit risk, we are exploring ways to expand and diversify the investor base, notably for REITs who are a natural pool of capital for mortgage risk. This change would make the program more attractive to REITs and certain other investors, while avoiding disruption to the To Be Announced (TBA) market.

2. What is the proposed change?

Freddie Mac proposes to structure future STACR offerings as notes issued by a trust that qualifies as a Real Estate Mortgage Investment Conduit (REMIC). To facilitate this change, Freddie Mac began making a REMIC tax election on a majority of single-family loans that we acquire.

3. What is the timing of this proposed change?

We have implemented changes to our Offering Circulars in a timeframe that would allow us to aggregate a sufficient amount of loans with a REMIC election to bring a STACR REMIC transaction to market in the second half of 2019. The aggregation period between when Freddie Mac acquires a loan and when we transfer the credit risk on such loans through our STACR program is generally a minimum of six months.

UMBS/MBS/PC¹ FAQs

4. Does this change have an impact to the TBA market?

Our on-going assessment currently indicates that this change would not impact the UMBS market. We anticipate that this change increases the investor base for our CRT securities and abides by our guiding principle to not disrupt the TBA market.

5. Does this change the nature of the UMBS/MBS/PC trust? Are the securities issued by the UMBS/MBS/PC trust REMIC securities or pass-through securities?

The UMBS/MBS/PC trust will remain a grantor trust. Pursuant to our trust agreement, that grantor trust will continue to issue single class pass-through securities guaranteed by Freddie Mac and backed by whole mortgage loans. From a tax perspective, only, the UMBS/MBS/PC grantor trust holds mortgage loans with a REMIC election.

6. Does a REMIC election impact TBA eligibility for UMBSs?

We do not anticipate any impact to TBA eligibility as a result of the REMIC election. UMBSs will continue to be single-class guaranteed mortgage pass-through certificates, and UMBS investors would receive the same cash flows as they do today.

7. How does this planned change impact the Single Security?

It does not impact Single Security.

8. How does this impact investment guidelines, particularly for investors who cannot invest in REMICs?

The UMBS/MBS/PC grantor trust will continue to issue single class pass-through securities guaranteed by Freddie Mac and backed by whole mortgage loans; the legal entitlement to principal and interest (and guarantee) payments will not change. Accordingly, we do not believe that any changes will need to be made to investment guidelines.

9. Does this impact the whole pool test for UMBS/MBS/PC REIT investors?

We do not anticipate any impact to REITs that invest in UMBS/MBS/PCs. The UMBS/MBS/PC trust would continue to issue UMBS/MBS/PCs that are whole pool certificates.

¹ Go-Live of the Single Security Initiative affected the naming conventions for TBA-eligible and non-TBA-eligible securities:

1) Single Security: All new or exchanged 55-day TBA-eligible securities are referred to as Uniform MBS/UMBS.

2) Freddie Mac Securities (Legacy TBA-eligible and non-TBA-eligible): 45-day securities are named Freddie Mac Gold PC (no new issuances after Single Security go-live) or Freddie Mac Giant PC; all New 55-day securities non-TBA eligible are named Freddie Mac MBS or Freddie Mac Giant MBS; 75-day securities ARMs/Legacy 75-day fixed rate are named Freddie Mac ARM PCs, Freddie Mac ARM Giant PCs, Freddie Mac PCs (remaining 75-day fixed-rate).

10. How does this impact re-securitizing the UMBS/MBS/PCs, including into REMICs?

This proposed change will not impact eligibility to securitize and re-securitize securities, including into REMICs. A future re-securitization would be able to comingle pools in which the underlying loans do not have a REMIC election and underlying loans that have a REMIC election.

11. What does it mean to have a loan with a REMIC election?

Under our trust agreement, the UMBS/MBS/PC grantor trust continues to hold beneficial ownership of whole mortgage loans. However, for tax purposes only, the UMBS/MBS/PC grantor trust would now own an interest in mortgage loans with a REMIC election; thus, we did not make any material changes to our trust agreements. We did not make material changes to our Offering Circulars for underlying loans with a REMIC election either.

12. Would Collateralized Mortgage Obligations (CMOs) that use UMBS/MBS/PCs as collateral be considered Re-REMICs?

Re-REMIC is a term Freddie Mac uses to identify structured pools (CMOs) comprised of existing CMOs. Freddie Mac is not planning on tagging, as a Re-REMIC, newly formed REMICs which use UMBS/MBS/PCs with underlying loan level tax REMIC elections because the underlying cash flows are unaltered and remain a pass through.

13. Does the REMIC election on the underlying loans affect the tax treatment of the UMBS/MBS/PC pools for the UMBS/MBS/PC investor?

Institutional investors will not have their tax consequences changed, nor will individuals that hold UMBS/MBS/PCs through a fund or tax-advantaged account. However, individuals that hold UMBS/MBS/PCs directly (that is, not through a fund or tax-advantaged account) will need to report taxable income on an accrual basis after a REMIC election is made with respect to that loan.

14. How does this impact an individual investor who own UMBS/MBS/PCs?

Some individual investors that hold PCs directly (that is, not through a fund or tax-advantaged account) that were issued prior to July 1, 2018, can elect to report taxable income for PCs using the cash method of accounting. Individual investors who hold UMBS/MBS/PCs with issue dates on or after July 1, 2018 will have to report taxable income for those UMBS/MBS/PCs using the accrual method of accounting, if a REMIC election was made with respect to the underlying loans. Individual investors should consult their tax advisors for further guidance. Freddie Mac provides access to tax factor information on its [webpages](#).

15. Loans delivered into what prefixes have the REMIC election? How will you identify the population of single-family loans that do not have a REMIC election?

Freddie Mac began making a REMIC election on a majority of single-family loans it funds. The Offering Circulars identify the prefixes for which the underlying loans will not have a REMIC election, which would generally include prefixes comprised of loans that are otherwise not REMIC-eligible, such as loans with loan-to-value ratios greater than 125 percent. In addition, certain otherwise eligible loans may be excluded on occasion.

16. Will this enhancement impact UMBS/MBS/PC prefixes?

No. The UMBS/MBS/PC prefixes will not change.

17. Are there any changes to the UMBS/MBS or PC Trust Agreements?

We do not expect any material change to the UMBS/MBS Trust Agreement or the PC Trust Agreement.

18. Will UMBS/MBS/PC disclosures change?

There will be no material changes to the UMBS/MBS/PC disclosure file layout.

19. Does this introduce any changes to cash window or swap pools?

There would be no changes to loans delivered into or pools issued through either process.

STACR FAQs

20. What will the proposed new STACR structure look like?

Under the proposed new structure, the STACR notes would be issued by a trust that, in part, qualifies as a REMIC and therefore the notes would be treated as regular interests for federal income tax purposes. This structure should address certain U.S. tax constraints that previously existed for REITs and non-U.S. persons investing in STACR securities.

21. How does the new structure reduce investors' potential counterparty exposure to Freddie Mac?

STACR notes under the new structure would be issued by a trust and proceeds from the sale of the notes would be placed in a trust account, which would be managed by a third party trustee. Funds from the trust account will be used to pay principal to note holders and compensate Freddie Mac for losses. This structure differs from the STACR debt structure in which STACR notes are issued as Freddie Mac corporate debt and proceeds of the note sale are commingled with Freddie Mac corporate debt. The structure is similar to the STACR trust structure in which proceeds from the sale of the notes are retained and invested by the trust.

22. Will the capital structure, cash flow waterfall, and/or loss provisions in STACR deals change?

We anticipate that the capital structure, cash flow waterfall, and loss provisions will remain substantially the same as under the current STACR structure. We expect to continue offering M1, M2, B1 and B2 notes as par-priced floating rate notes tied to 1-month LIBOR with a final maturity of 30 years. However, we continually evaluate our program for enhancements in response to changing market conditions and investor needs.

23. Will the STACR notes issued by a REMIC trust continue to be ERISA-eligible?

We anticipate that the M1 and M2 notes issued under the new structure will be ERISA-eligible.

24. What assurances will Freddie Mac provide to investors that the STACR notes issued under the new structure will qualify as a REMIC?

For each STACR REMIC transaction, we anticipate that Freddie Mac will obtain a REMIC opinion from its outside tax counsel.

25. How would the new STACR structure be reported on TRACE?

We understand that many market participants would prefer that securities issued under the new STACR REMIC structure be reported on TRACE in a similar manner (timing in particular) as today. We expect that STACR REMIC securities will be reported in a similar manner to STACR Trust Notes on TRACE.

26. What would change as a result of the STACR REMIC structure being issued as a 144A structure, compared to the current structure issued under Freddie Mac's agency exemption?

Since January 2018, STACR securities issued as Freddie Mac debt were issued in minimum denominations of \$10,000 and were limited to qualified institutional buyers (QIBs) even though the securities were issued under Freddie Mac's agency exemption. STACR REMIC securities, like STACR Trust securities, will be issued by a trust and will be offered in accordance with 144A. In a 144A offering, the sale of STACR securities will be limited to QIBs, and will have minimum denominations of \$10,000.

27. Will Freddie Mac begin transferring credit risk on different populations of loans?

We anticipate that our target loan population for STACR transactions will continue to focus on 30-year fixed rate loans with loan-to-value ratios greater than 60 percent. We expect that the eligibility criteria for selection of loans for credit risk transfer in STACR transactions will remain largely unchanged.

28. Will this change to the STACR program have any impact on Freddie Mac's ACIS program?

No. These STACR program enhancements will not have any impact on our ability to transfer portions of our single-family credit risk through our re-insurance credit risk transfer program, ACIS, and we do not anticipate any changes to the ACIS program.