

Freddie Mac Gold PC Exchange not Taxable; Taxability of Additional Payments Not Covered

The IRS has published its [Revenue Ruling 2018-24](#) regarding certain tax treatment of the Gold PC exchange offer that Freddie Mac plans to make as part of the Single Security Initiative. According to the ruling, the exchange of 45-day Gold PC securities for 55-day Freddie Mac mortgage-backed securities will not be taxable. The IRS ruling is consistent with the earlier guidance from the SEC, where the SEC did not object to treating the exchange as a minor modification for accounting purposes.

Freddie Mac's original request for a ruling from the IRS included the security exchange, the associated float compensation payment, and a potential inducement fee. At this time Freddie Mac has no plans to pay an inducement fee. The IRS's ruling defines the security exchange — which the IRS refers to as a “conversion” — as follows: “Freddie Mac will also permit holders of existing PCs the opportunity to exchange their PC for a UMBS that represents the same proportionate undivided beneficial interest in the pool of Mortgages as their existing PC on a voluntary basis.” This definition covers only the exchange of securities. While the float compensation payment – which the IRS refers to as a “make whole payment” – and the potential inducement payment are discussed in the “Facts” section of the ruling, the ruling addresses only the tax consequences of the conversion and not the tax treatment of the associated payments.

Market participants should consult their own tax experts to determine how to treat the float compensation and inducement payments. For questions about this ruling or Freddie Mac's proposed Gold PC exchange offer, please email single_security@freddiemac.com.