Fannie Mae®

August 2025

Basics of Fannie Mae Single-Family MBS

Contents

MBS Overview

Mortgage-backed securities (MBS) are investment products made up of residential mortgage loans with similar characteristics that are grouped, or "pooled" together, securitized, and sold to investors. The cash flows (principal and interest payments) from the underlying mortgage loans are passed through to the investors.

Creating a single-family MBS starts when a bank or financial institution issues a mortgage loan to a borrower to help buy or refinance a home with one to four residential units. These loans can have different maturity terms, including 15-year or 30-year, and can be fixed-rate or adjustable-rate. Borrowers typically repay these loans through monthly payments that include both principal and interest.

Fannie Mae ensures that the loans we buy meet our guidelines for credit quality and loan size, after which we securitize them into a pool of mortgages. The resulting Fannie Mae MBS (also known as Agency MBS) carries a guaranty of timely payment of principal and interest to the investor by Fannie Mae, whether or not there is sufficient cash flow from the underlying mortgages.[1]

About Fannie Mae

We provide liquidity and stability to the U.S. housing market and expand access to affordable mortgage credit. We set and maintain industry standards, which make affordable housing options available during all market conditions, and allow for consistent mortgage rates nationwide.

Mortgage Pass-Through Certificates

Credit quality and the Fannie Mae guaranty

The quality and value of Fannie Mae MBS depend on several key factors:

- Fannie Mae's guaranty of full and timely payment of both principal and interest.
- The quality of the underlying mortgages.
- The financial strength behind the guaranty.

Fannie Mae MBS offer investors high-quality assets with attractive yields to meet their portfolio needs. Investors should carefully review our disclosure documents and consider consulting with investment advisors to understand the risks and benefits of investing in MBS.

The guaranty is important to investors because it reduces risk and improves the marketability of our MBS. However, the certificates and payments of principal and interest on the certificates are not guaranteed by the United States government and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. Therefore, it is essential that Fannie Mae uses prudent underwriting guidelines to evaluate the credit quality of the loans and minimize the risk of potential losses to investors.

1. It should be noted that Fannie Mae's obligation under this guaranty is solely Fannie Mae's and is not backed by the full faith and credit of the U.S. government.

Mortgage-backed securities (MBS) are often referred to as “mortgage pass-through certificates.” This name reflects how they function: monthly payments from the underlying mortgage loans are passed through to investors. These payments include the scheduled principal and interest, as well as any unscheduled payments.

The interest paid to the investor is based on the coupon or “pass-through” rate, which is lower than the interest rate paid by the borrowers on the underlying loans. This pass-through rate is calculated by subtracting the servicing fee and the guaranty fee from the borrowers’ interest rate.

Fannie Mae MBS investors receive a pro-rata share of the payments received on the underlying mortgage loans. Such pro-rata share is distributed on the 25th day of each month, or, if the 25th falls on a non-business day, the first business day following. For newly issued certificates, the first payment is made on the distribution date in the month following the issuance.

The Federal Reserve Bank of New York, acting as Fannie Mae’s central paying agent, is predominantly responsible for wiring monthly payments to registered securityholders.

Fixed-Rate MBS

Fannie Mae’s fixed-rate MBS are securities backed by pools of mortgages with interest rates that remain fixed for the entire term of the loans. This includes the most popular American mortgage, the 30-year fixed-rate mortgage, as well as 20-, 15-, or 10-year fixed-rate mortgages. These certificates are typically issued with pass-through rates of 50-basis-point increments (e.g., 4.5%, 5.0%, 5.5%, etc.).

While Fannie Mae allows varying interest rates on the underlying mortgages in a pool, the minimum interest rate on a loan in the pool cannot be lower than 25 basis points above the pool’s pass-through rate, and the maximum interest rate cannot exceed 112.5 basis points above the pool’s pass-through rate. For example, a security with a pass-through rate of 5.0% can contain loans with interest rates between 5.25% and 6.125%.

Adjustable-Rate Mortgage (ARM) MBS

Fannie Mae’s adjustable-rate mortgage (ARM) MBS are backed by pools of mortgages with interest rates that adjust over time. The most common type is the hybrid ARM, which begins with a fixed interest rate for an initial period – typically between three and ten years – before transitioning to a variable rate. For example, a 5/6 hybrid ARM has a fixed interest rate for five years, after which the rate adjusts every six months.

When the interest rate resets after the fixed interest rate period, it is calculated by adding a fixed spread, known as the “gross margin,” to a specified index (such as Secured Overnight Financing Rate [SOFR] or another benchmark). The sum is typically rounded to the nearest 1/8th of a percentage point, forming the “fully-indexed” interest rate. While the index may fluctuate over time, the gross margin generally remains constant for the life of the loan.

At issuance, Fannie Mae ARM MBS are assigned a pool prefix, which corresponds to the general characteristics of the underlying mortgage loans, and a subtype that provides more detail about the ARM structure.

Agency MBS Trading

TBA (To-Be-Announced) Market

The majority of Agency MBS trading takes place in the to-be-announced ("TBA") market. Dealers typically provide dollar-price quotes for TBA MBS up to three months in advance of settlement. When trading TBA MBS, investors know the maturity, coupon, face value, price, and settlement date, but not the pool number or CUSIP. Two days before the settlement date, known as "48-hour day," the seller must provide the CUSIP(s) to the buyer of the TBA contract. The collateral delivered at settlement must meet specific eligibility requirements, but the exact CUSIPs to be delivered are chosen by the seller, often in a way that fulfills the "cheapest to deliver"[2] obligation at the agreed TBA price.

The TBA mortgage market is highly liquid, serving various purposes for different market participants. Lenders use TBA securities to hedge their mortgage pipelines, while dealers and investors use TBA securities for a variety of reasons, such as to hedge pool investments, or to finance alternative short-term investments. A defining characteristic of the TBA market is the "homogeneity assumption," which treats individual mortgage pools as interchangeable. This assumption enables the creation of a large fungible market from a diverse set of underlying loans, significantly enhancing market liquidity.

Specified Pools

Pools that have additional value above TBA securities are often traded as Specified MBS. In the Specified MBS market, the pool number and CUSIP are known at the time of the trade. While these pools can typically be delivered into an open TBA position of the same term and coupon at settlement, their collateral characteristics may make them more valuable than TBA MBS.

Specified pools typically consist of loans with more desirable prepayment characteristics, protecting investors from call risk in a declining interest rate environment or extension risk in a rising interest rate environment. As a result, these pools will trade at a higher price, or "pay up," compared to the current TBA dollar price. Examples of such pools include those with 100% investor properties, loan sizes less than or equal to $85,000, or properties concentrated in one geographic area (state).

Single Security Evolution

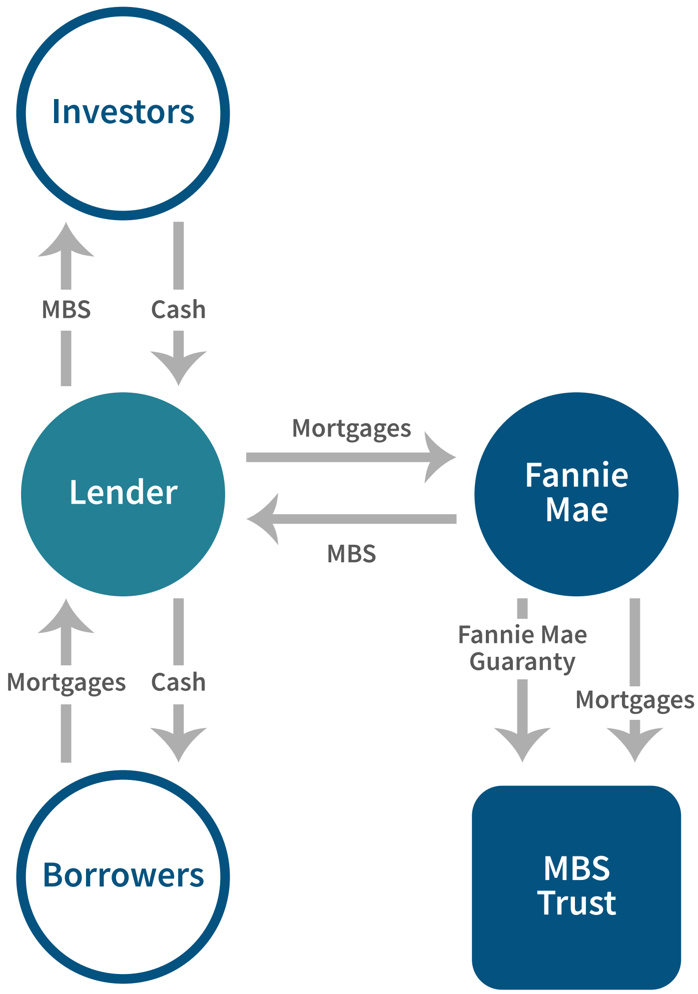
Under the direction of our regulator and conservator, the Federal Housing Finance Agency (FHFA), Fannie Mae and Freddie Mac united to create a standardized TBA structure known as Uniform Mortgage-Backed Security, or UMBS™. TBA-eligible UMBS can be issued and guaranteed by either Fannie Mae or Freddie Mac and are backed by 30-, 20-, 15-, and 10-year fixed-rate single-family mortgages. The Single Security initiative ensures that Fannie Mae UMBS and Freddie Mac UMBS are fungible for deliveries into a single, unified TBA market. In these contracts, the maturity, coupon, face value, price, and settlement date of an MBS are known at the time of the trade, but the actual pool number, and the CUSIP are not disclosed until two days before settlement.

The Single Security initiative also offers single-class re-securitizations backed by UMBS, which are called Supers. Supers permit the securitization of Fannie Mae UMBS and Freddie Mac UMBS in the same security. In this scenario, the enterprise that issues the re-securitization serves as the guarantor of the new security.

2. Sellers typically select the lowest-value security that still meets the contract's criteria.

Fannie Mae Securitization Options

Fannie Mae securitizes a substantial majority of the mortgage loans we acquire.
The securitization transactions primarily fall into three categories: lender swap transactions, portfolio securitizations, and structured securitizations.



Lender Swaps

- An approved mortgage lender delivers a pool of mortgage loans to us, and we place them in a trust for which we serve as the trustee.
- We provide the lender a single-issuer Fannie Mae MBS, which is an MBS made up of loans delivered from one lender, or a proportional share of a Fannie Majors® pool — a large MBS made up of loans from multiple lenders. This is commonly referred to as a "swap."

Portfolio Securitizations

Unlike lender swap transactions, portfolio securitization transactions involve creating and issuing Fannie Mae MBS using mortgage loans that we hold in our retained mortgage portfolio. Most of these transactions are driven by our single-family Whole Loan Conduit activities. Here, we purchase single-family mortgage loans directly from nearly 1,200 lenders and securitize them into single-issuer Fannie Mae MBS or deliver them into a Fannie Majors pool, which are then sold to dealers and investors in the secondary market.

Fannie Majors

Fannie Majors are typically multi-lender Fannie Mae MBS comprised of current-production 30-, 20-, 15-, or 10-year fixed-rate mortgages. Each Majors pool can include loans with no more than 12 months of seasoning. Lenders can deliver as few as one loan into a Fannie Major, and its issuance size can range from $1 million to well over $1 billion. Majors may offer investors a more diversified pool of loans, since lenders nationwide can participate. Fannie Majors are identified by the same prefixes assigned to their single-issuer pool counterparts.

Structured Securitizations

In a structured securitization transaction, we typically re-securitize MBS into a new security in exchange for a transaction fee.

- **Fannie Mae Supers® (Supers)** are single-class, pass-through, TBA-eligible securities in which the underlying collateral consists of existing UMBS and/or Supers. The securities that back Supers may be issued and guaranteed by either Fannie Mae or Freddie Mac.
- **Fannie Megas® (Megas)** are single-class, pass-through, non-TBA-eligible securities in which the underlying collateral consists of existing Fannie Mae non-TBA MBS and/or Fannie Mae Megas. The securities that back Megas are issued and guaranteed by Fannie Mae.
- **A Real Estate Mortgage Investment Conduit (REMIC)** is a multiclass mortgage-related security in which interest and principal payments from the mortgage-related assets serving as collateral are structured into separately traded securities called classes. The cash flows from the underlying collateral are allocated to these classes, which can differ in coupon rates, average lives, prepayment sensitivities, and final maturities.

Structured transactions can offer several benefits to investors including increased liquidity, operational and accounting efficiencies, and customizable pools. View our Basics of Structured Transactions to learn more.

Selecting an MBS Investment

Fannie Mae MBS appeal to a wide variety of investors because of their ability to meet unique investment needs. We aim to adapt to changing market conditions by creating new securities, offering investors a range of innovative products. Before making an investment, prospective investors may wish to consider factors such as:

- Cash flow requirements balanced against liability management.
- Expectations of the interest rate environment and economic factors that influence prepayment behavior.
- Average investment-life requirements to match asset/liability strategies.
- Other aspects affecting portfolio-hedging strategies.

MBS Valuations and Risk Considerations

The value of an MBS depends on the expected cash flows from the underlying pool of mortgages– and those cash flows are influenced by various elements. While Fannie Mae covers the credit risk on the underlying mortgages it guarantees, there are other risk components to consider:

Prepayment Risk

Risk that borrowers may prepay their mortgages faster or slower than expected, affecting the investment's average life, and potentially, its yield. Most mortgages can be prepaid in whole or in part at any time without penalty.

Interest rate risk

Risk that the price of the security may fluctuate over time as interest rates change. MBS prices are influenced by several factors, including prevailing interest rates, the coupon rate, and the expected duration and liquidity of the security. Interest rate sensitivity can affect the MBS's average life, yield, and returns from reinvesting principal paydowns.

MBS Pricing

Generally, current production MBS bear a coupon rate close to the prevailing interest rates for similar investments at the time of issue. The MBS price is influenced by several factors:

- Type of mortgage backing the security
- Level of market interest rates
- Coupon rate on the security
- Liquidity
- Prepayment assumptions used
- Overall demand for MBS

Price changes to an MBS will affect its yield. Yield is the rate of return on an investment over a given period, expressed as an annual percentage rate. Yield-to-maturity is the annual percentage rate of return on an investment, assuming it is held to maturity. In addition to price, yield is affected by the timing of the security's cash flows, which can vary based on how quickly the underlying mortgage loans prepay and return principal payments back to the investor.

Cash Flow Analysis

The cash flows of an MBS consist of scheduled principal payments, accrued interest payments, and unscheduled principal payments (prepayments). Investors rely on complex mortgage models to make interest rate and prepayment speed assumptions and evaluate the cash flows. These models analyze expected mortgage repayments and the price of the MBS to calculate yield. The primary difference among these models is the methodology used to forecast how quickly principal will be returned. Regardless of the approach, there is no guarantee that the actual rate of return on an MBS will match past performance or model assumptions. Prepayments can vary significantly due to changes in interest rates, economic events, and more.

Prepayment Speeds

Prepayment speed assumptions are a critical factor in evaluating the returns on MBS. Unlike traditional bonds, which repay the entire principal amount at maturity, MBS distribute principal payments over the life of the investment. Prepayment behavior is closely tied to interest rate movements. Generally, as interest rates decline, borrowers have greater incentive to refinance into a lower rate, so prepayments will rise. Conversely, as interest rates rise, borrowers are less likely to refinance, so prepayments tend to decline. Also, borrowers ordinarily repay their mortgage loans in full when they sell their homes. Such prepayments, whether due to a refinance or sale of the related property, are considered voluntary prepayments. Fannie Mae does not assess prepayment penalties on borrowers who pay off their loans early. Involuntary prepayments typically occur when borrowers default on their mortgage payments.

Prepayment Factors

On the fourth business day of every month, Fannie Mae releases pool-level data including the principal factors for the prior month, which is reflective of the scheduled and unscheduled principal payments. The factor represents the percentage of the issuance balance that is outstanding for a Fannie Mae MBS. Until the factors for the prior month are released, investors must rely on estimated factors, which are forecasted by market participants. Given that the yield of a Fannie Mae MBS can be highly sensitive to prepayments, investors may use models to predict prepayment rates and estimate future cash flows.

Factor month	Factor	Balance using $1,000,000 original UPB
September	0.92851152	$1,000,000 * 0.929 ... = $928,511.52
October	0.92756215	$927,562.15
November	0.92646835	$926,468.35

EU and UK Investors

Investors located or managing funds raised in the European Union or the United Kingdom should note that Fannie Mae's MBS and fully guaranteed REMICs are not subject to the European Securitization regulations or the United Kingdom securitization regulations[3] (together the "EU/UK Securitization Regulations"). The EU/UK Securitization Regulations apply to securitizations that use credit tranching to allocate credit risk among two or more classes of securities.

Fannie Mae has obtained an opinion of counsel that its guaranteed mortgage-backed securities (MBS) and guaranteed Real Estate Mortgage Investment Conduit (REMIC) securities do not meet the definition of a "securitization" for purposes of the EU/UK Securitization Regulations because there is no credit tranching in any of these securities due to Fannie Mae's guaranty of timely payment of principal and interest for all classes. As a result, Fannie Mae's guaranteed MBS and guaranteed REMIC securities are outside of the scope of the EU/UK Securitization Regulations.

3. Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 ("EU Securitisation Regulation").

   Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, as it forms part of the domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (as amended) ("UK Securitisation Regulation").

Applications

- PoolTalk provides investors with an easy option to view the disclosure data for Single-Family securities, allowing them to assess the value and performance of their securities over time. It provides pool-level information on Single-Family MBS, SMBS, and REMIC securities, serving as the single repository for Fannie Mae MBS data.
- Data Dynamics offers investors a free data analytics platform continuously updated with new capabilities such as prepayment snapshots and the MBS Cohort Analyzer.

Disclosures/Filings

- **MBS Prospectus:** Contains general information about MBS issued during its effective period, including guaranty details, yield considerations, and mortgage purchase programs.
- **Prospectus Supplement:** Provides specific information about a particular security. Generally, available two business days before the settlement date of the Fannie Mae MBS pool.
- **SEC Filings:** Includes the annual report on Form 10-K, quarterly 10-Q reports, and 8-K reports filed from time to time.

Resources

The following documents provide general underlying characteristics for the mortgage loans underlying the security in an MBS pool:

- **Pool Prefix Glossary:** Pool prefixes for each individual issue of Fannie Mae MBS. The two-character prefix identifies the type of loans and basic certificate terms.
- **Single-Family ARM MBS Subtypes:** Alphanumeric codes specifying ARM features, such as index, initial fixed-rate period, rate and payment adjustments, caps, and convertibility.
- **Basics of Structured Transactions:** Offers details on Supers, Megas, REMICs, Grantor Trusts, and Stripped Mortgage-Backed Securities (SMBS).
- **Basics of Fannie Mae's Whole Loan Conduit:** Explains how the conduit meets liquidity and diversity objectives by purchasing and packaging loans.

Contact us

For additional information or assistance, please call the Fannie Mae Investor Marketing Helpline at 1-800-2FANNIE or via email. The Helpline is available from 8:30 a.m. to 5:30 p.m. ET every business day. Investors can also obtain Single-Family MBS documents from our website at capitalmarkets.fanniemae.com.

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