



## **Fact Sheet: Potential enhancement to Fannie Mae's Connecticut Avenue Securities (CAS) Program and corresponding update to our Mortgage Backed Securities (MBS) Prospectus and Trust Agreement**

Fannie Mae continues to explore ways to innovate and improve its credit risk transfer programs, including its benchmark Connecticut Avenue Securities™ (CAS) credit risk transfer program. As part of continued innovation, Fannie Mae has led the development of a potential new structure to expand the overall Agency credit risk transfer market. This proposed enhancement to our CAS program is designed to promote the continued growth of the market by expanding the potential investor base for these securities, making the program more attractive to Real Estate Investment Trust (REIT) investors, as well as certain other investors, and limiting investor exposure to Fannie Mae counterparty risk.

The enhancement will enable Fannie Mae to structure future CAS offerings as notes issued by trusts that qualify as Real Estate Mortgage Investment Conduits (REMICs). Fannie Mae facilitated this change by making a REMIC tax election on a majority of single-family loans that we acquire and guarantee. This election applies to loans on a going-forward basis after the change was implemented effective May 1, 2018. Our Single-Family MBS Trust Agreement was amended to incorporate targeted changes to facilitate this election and provide associated benefits to our MBS investors. Our Single-Family MBS Prospectus was updated to reflect this election and the Trust Agreement amendments on a go-forward basis.

Since the release of our initial announcement, Fannie Mae has been conducting outreach efforts with a variety of industry stakeholders to solicit feedback on the proposal. Feedback has been favorable, with respect to the potential future changes to the CAS program, as well as the lack of impact to the MBS market. No concerns regarding the MBS market have been raised. Based on requests from some investors for additional details on the proposal, we provided additional materials, which include updated memorandums from Katten Muchin Rosenman LLP and Dechert LLP. In addition, we responded to questions posed by Securities Industry and Financial Markets Association (SIFMA).

Our analysis indicates that the change is aligned with a key guiding principle of our CAS program - ensuring that we avoid any disruption of the To-Be-Announced (TBA) MBS market. This fact sheet provides information about, and our analysis of the enhancement.



## **Seller/servicer analysis**

- There has been no impact to seller/servicers as a result of this change
- Loan pricing, pooling, hedging, and delivery has not been affected
- Lenders continue to service and report on MBS as they did previously

## **Analysis specific to MBS investors**

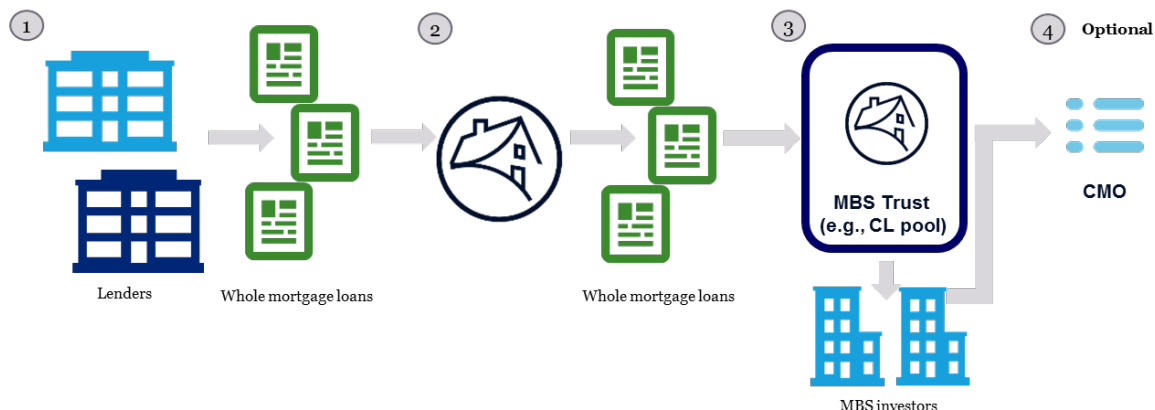
- Solely in order to facilitate the issuance of CAS securities as REMICs, Fannie Mae began making a REMIC election on the majority of the mortgage loans that we acquired from lenders
- The mortgage loans continue to flow directly from Fannie Mae to the MBS Trust. Under our trust agreement, the MBS trust continues to own whole mortgage loans as they did previously.
- MBS continue to be issued by Fannie Mae out of grantor trusts. MBS continue to be single-class guaranteed mortgage pass-through certificates, and MBS investors receive the same cash flows as they did previously. No changes have occurred to the MBS prefixes (e.g., CL, CI).
- MBS investors continue to receive the same payments of principal and interest as they did previously
- Our Single-Family MBS Trust Agreement was amended to incorporate targeted additions to facilitate this election and provide associated benefits to our MBS investors. Duties and obligations of the trustee and master servicer remain unchanged
- Remittance and reporting remain unchanged
- TBA eligibility, eligibility for securitization or re-securitization are not impacted by the REMIC election
- We are not aware of, nor do we anticipate any impact to investment guideline eligibility, or to the Single Security Initiative



## The structure of the MBS remains unchanged

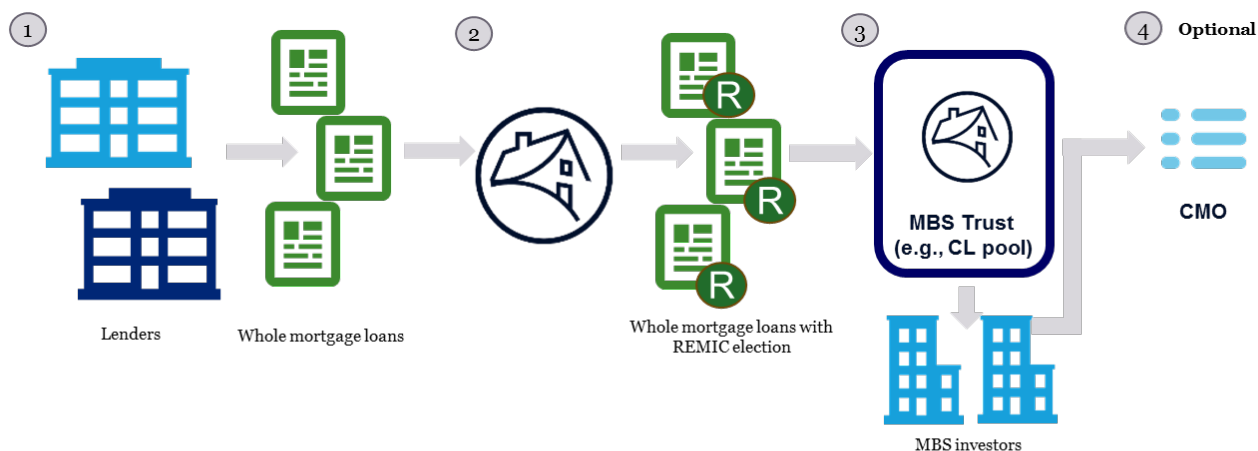
### Comparison of the structure of the MBS before and after the REMIC election on the underlying loans

#### Fannie Mae MBS pass-through (Before)



- 1** Lenders deliver mortgage loans to Fannie Mae.
- 2** Fannie Mae deposits whole loans directly into the MBS Trust.
- 3** The MBS investor receives fully guaranteed pass-through securities backed by whole mortgage loans.
- 4 Optional:** If the MBS were later to be used as collateral for a structured security such as a CMO, that CMO restructuring would be the first resecuritization of the loans underlying the MBS.

#### Taking a REMIC election on loans does not impact the pass-through cash flows to MBS investors (After)



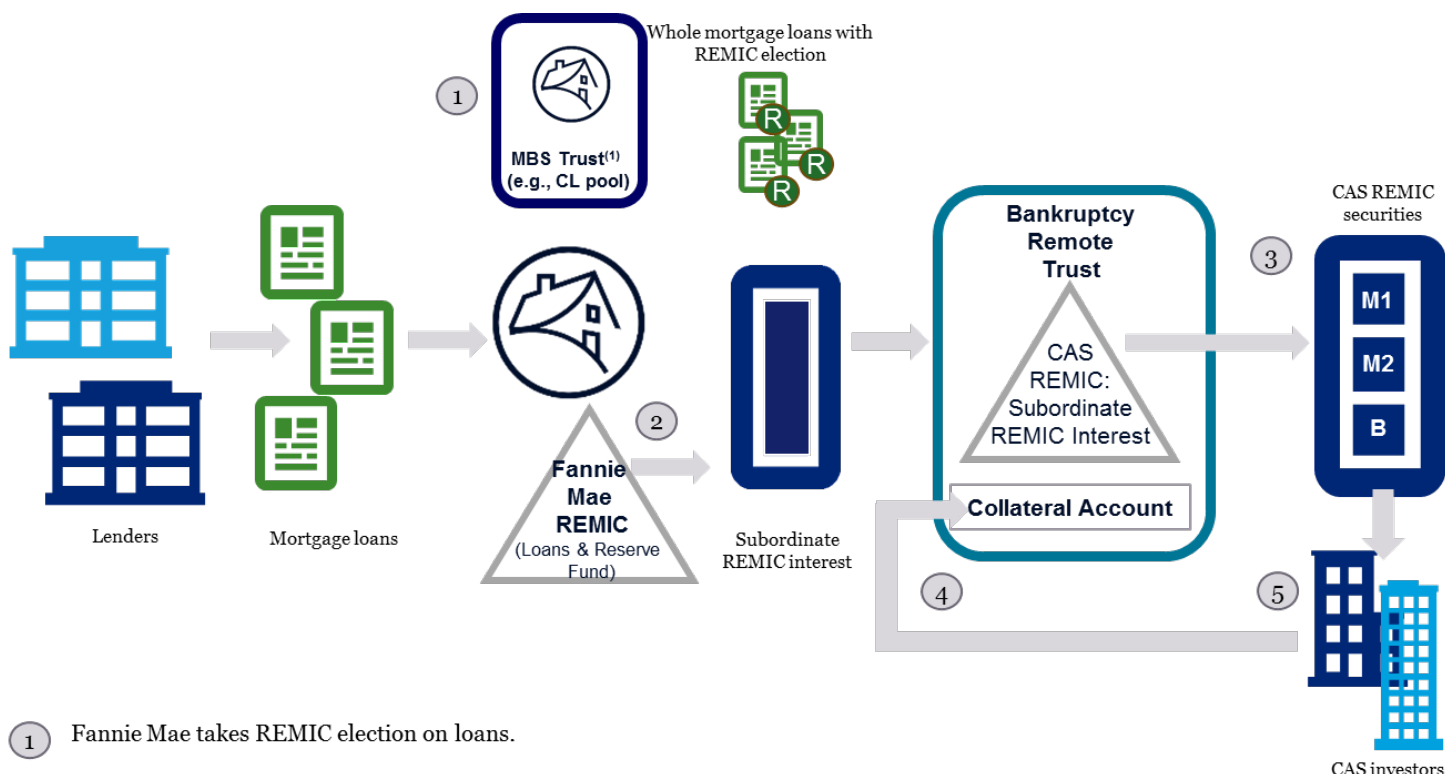
- 1** Lenders deliver mortgage loans to Fannie Mae.
- 2** Fannie Mae makes the REMIC election with respect to loans that are acquired and assigned to the MBS trust. The MBS Trust continues to hold legal title to the mortgage loans.
- 3** Cash flows to the MBS are unchanged. The MBS investor continues to receive fully guaranteed pass-through securities. The MBS maintains its typical prefix (e.g., CL pool).
- 4 Optional:** If the MBS were later to be used as collateral for a structured security such as a CMO, that CMO restructuring would be the first resecuritization of the loans underlying the MBS. This is unchanged from today since the original MBS remains a pass-through security.



## Analysis specific to CAS investors

- The enhancement would enable Fannie Mae to structure future CAS offerings as notes issued by trusts that qualify as REMICs.
- This enhancement would make the CAS program more attractive to REIT investors. In addition, this enhancement would allow for expanded participation from investors outside the United States.

## The REMIC election on loans enables Fannie Mae to structure CAS deals as CAS REMICs



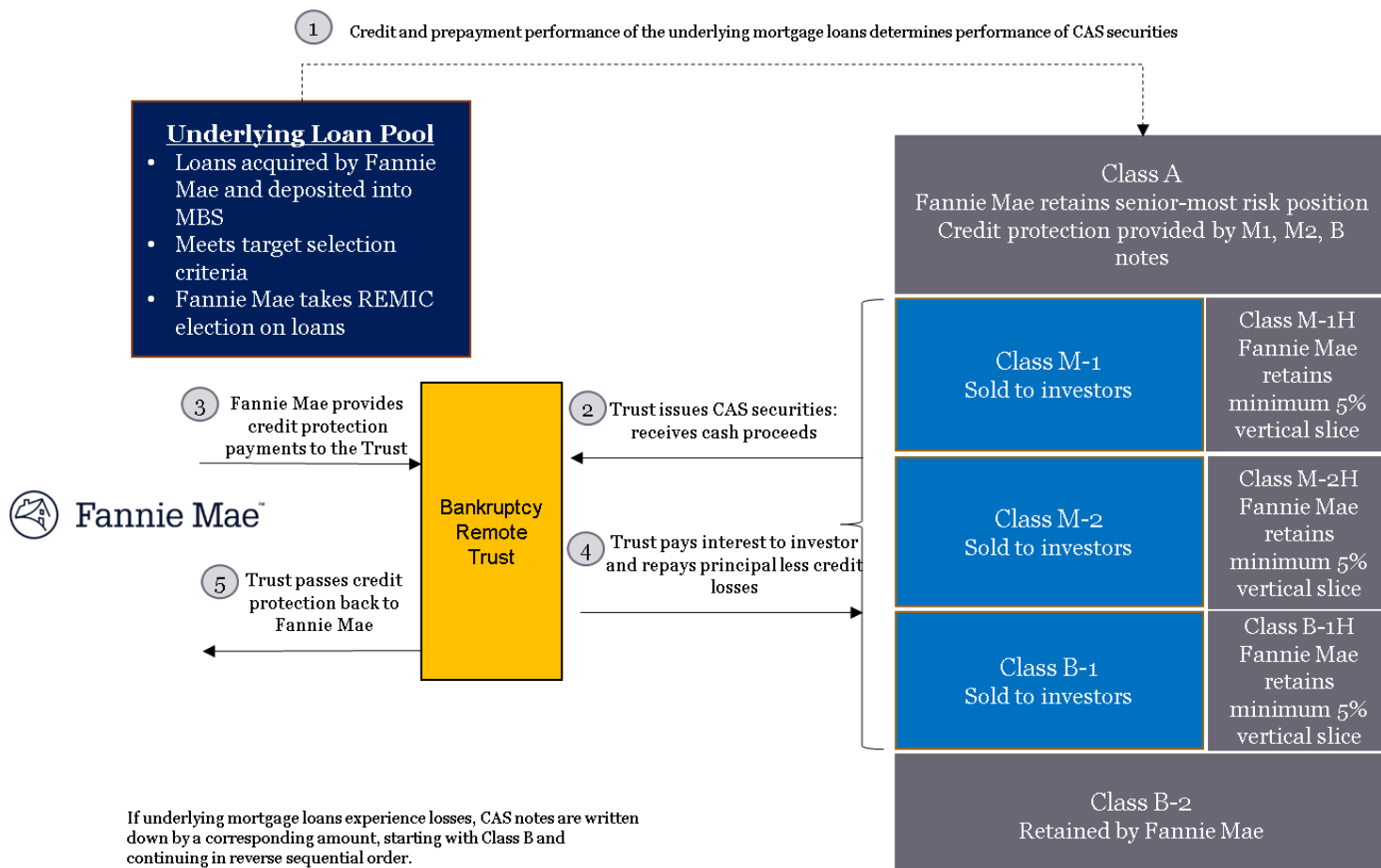
- 1 Fannie Mae takes REMIC election on loans.
- 2 The Fannie Mae internal REMIC depicted here includes the REMICs that are part of the Ten Day Trusts and the Quarterly Trust, which are more fully described in the Clifford Chance memorandum. Fannie Mae internal REMIC creates a subordinate REMIC interest, which is contributed to the CAS REMIC Trust. The subordinate REMIC interest is supported by assets in the reserve fund and excess mortgage interest.
- 3 CAS REMIC issues CAS REMIC securities (*see following page*).
- 4 Issuance proceeds are deposited into the collateral account.
- 5 The CAS investor receives REMIC credit securities tied to performance of mortgage loans.

(1) See page 3 for an illustration of the MBS



## Proposed CAS REMIC structure

- This enhancement to our CAS offerings would limit investor exposure to Fannie Mae counterparty risk.
- The structure of the CAS securities, including the capital structure, cash flows and loss calculations, would largely remain unchanged.



### Related Links:

- [Latest Announcement](#)
- [Updated FAQs](#)
- [Updated Katten Muchin Memorandum](#)
- [Updated Dechert Memorandum](#)