



Potential enhancement to Fannie Mae's Connecticut Avenue Securities (CAS) Program and corresponding update previously made to our Mortgage Backed Securities (MBS) Prospectus and Trust Agreement Frequently Asked Questions (FAQs)

Summary

Q1. Why are you proposing making this change?

Credit Risk Transfer (CRT) is a key objective for Fannie Mae and our conservator, the Federal Housing Finance Agency (FHFA). Our objective in developing the Connecticut Avenue Securities™ (CAS) program is to ensure a scalable and liquid market for credit risk that is responsive to market feedback. In order to continue to promote the objective of creating a broad and liquid market for credit risk, we are exploring ways to expand the investor base, notably for REITs, which are a natural pool of capital for mortgage risk. This change would make the program more attractive to REIT and certain other investors, while maintaining a critical objective of the overall CRT effort, which is to avoid disruption to the To-Be-Announced (TBA) Mortgage Backed Securities (MBS) market.

Q2. What is the proposed change? (UPDATED)

Fannie Mae proposes to structure future CAS offerings as notes issued by a trust that qualifies as a Real Estate Mortgage Investment Conduit (REMIC). Fannie Mae would facilitate this change based on the REMIC tax election being made on the majority of the single-family loans that we acquire and guarantee, which became effective as of May 1, 2018.

Q3. What is the timing of this proposed change? (UPDATED)

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 on this proposal, both domestically and internationally, has been favorable. Based on requests from some investors for additional details on the proposal, we have provided additional materials, which include updated memorandums from Katten Muchin Rosenman LLP and Dechert LLP. In addition, we provided responses to all questions posed by Securities Industry and Financial Markets Association (SIFMA).

MBS Impacts

Q4. Does this change have an impact to the MBS market?

As detailed below, our assessment indicates that the change to our MBS has not impacted the MBS market. We anticipate that the change to our CAS program would increase the investor base for our CRT securities and abides by our guiding principle to not disrupt the TBA MBS market.

Q5. Does this change the nature of the MBS trust? Does the MBS trust issue REMIC securities or pass-through securities? (UPDATED)



The MBS trust remains a grantor trust, continues to issue single-class pass-through securities guaranteed by Fannie Mae, and these MBS entitle holders to the same payments of principal and interest on whole mortgage loans. The overwhelming majority of the MBS trusts hold mortgage loans for which we now make a REMIC election. We provided details on the minor additions we made to our Single Family MBS Trust Agreement in the Katten Muchin memo. These changes facilitate the REMIC election and are intended to be beneficial to MBS investors and the MBS trustee.

Q6. Is there any impact to TBA eligibility for the MBS as a result of the REMIC election? (UPDATED)

TBA eligibility is not impacted as a result of the REMIC election. MBS continue to be single-class guaranteed mortgage pass-through certificates, and MBS investors receive cash flows calculated in the same manner as they were previously received.

Q7. How does this change impact the Single Security initiative? (UPDATED)

We do not anticipate any impact to the Single Security Initiative as a result of this change. Since we are not changing the contractual structure or making material changes to the trust agreement for the MBS, MBS issued before this change can be re-secured with MBS issued after this change.

Q8. How does this impact investment guidelines, particularly for investors who cannot invest in REMICs? (UPDATED)

The MBS trust continues to issue single-class pass-through securities guaranteed by Fannie Mae; the legal entitlement to principal and interest (and guaranty payments) has not changed. Further, MBS prefixes (e.g., CL, CI, etc.) are not impacted as a result of this enhancement. Accordingly, we do not believe that any changes need to be made to investment guidelines. However, investors have been encouraged to independently assess their investment guidelines in regards to this enhancement.

Q9. Does this impact the whole pool test for MBS REIT investors? (UPDATED)

We are not aware of any negative impact to REITs that invest in MBS. Fannie Mae has received an opinion from outside counsel confirming that the whole pool analysis for MBS has not changed as a result of implementing this enhancement. The memorandum from Katten Muchin provides additional information and analysis, and our published Single-Family MBS Prospectus provides disclosure related to this topic.

Q10. How does this impact resecuritizing the MBS, including into REMICs? (UPDATED)

This proposed change does not impact eligibility to securitize and resecuritize MBS securities, including into REMICs. A future resecuritization will be able to commingle pools issued before and after this REMIC election.

Q11. What does it mean to have a loan with a REMIC election? (UPDATED)

Under our trust agreement, whole mortgage loans continue to be conveyed by Fannie Mae to the MBS grantor trust. As further detailed in the Katten Muchin memo, thereafter, beneficial interests in the mortgage loans are exchanged for beneficial interests in another trust following one or more REMIC tax elections. Although this process affects the tax treatment of MBS, the MBS are entitled to the same payments of principal and interest on the underlying mortgage loans as were MBS previously. Minor revisions have been made to our Single-Family MBS Trust Agreement and our Single-Family MBS Prospectus as a result; these revisions are detailed in the memorandum from Katten Muchin.



Q12. Are Collateralized Mortgage Obligations (CMOs) that use MBS as collateral considered Re-REMICs as a result of this proposed enhancement? (UPDATED)

Under this enhancement, MBS will continue to be pass-through securities. Accordingly, if after purchasing an MBS an investor chooses to utilize a CMO structure to alter the cash flows, that CMO restructuring would be the first resecuritization of the loans underlying the MBS.

Q13. Does the REMIC election on the underlying loans affect the tax treatment of the MBS pools for an institutional investor? (UPDATED)

We do not believe that the tax treatment for institutional investors has been affected.

Q14. How does this impact the tax treatment of an individual investor who owns MBS? (UPDATED)

Some individual investors who hold MBS directly (that is, not through a fund or tax-advantaged account) today generally can report taxable income for MBS using the cash method of accounting. Individual investors who hold MBS with a REMIC election will have to report taxable income for that MBS using the accrual method of accounting. While this affects the timing of reported income by one month, the amount of reported income will not change. Individual investors should consult their tax advisors for further guidance. Fannie Mae provides access to tax factor information on its [webpages](#).

Q15. Loans delivered into what prefixes will receive the REMIC election? How are you identifying the population of single-family loans that will not adopt this tax designation? (UPDATED)

Fannie Mae has adopted this designation at the loan-level for all loans within a majority of our MBS prefixes. Our updated MBS Prospectus has identifies the prefixes for which the underlying loans would be excluded from the 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%. We currently exclude the following nine (9) prefixes from the REMIC election, LA, CW, CR, CP, Z1, S1, S2, OL, and OI. In addition, certain otherwise eligible MBS pools may be excluded on occasion. If a REMIC election has not been made for an MBS pool that is not on the above excluded prefix listing, we will disclose such event to investors in a posted listing.

Q16. Have there been any changes to MBS prefixes as a result of this change? (UPDATED)

No. The MBS prefixes have not changed as a result of this enhancement.

Q17. Have there been any changes to the MBS Trust Agreement? (UPDATED)

Based on investor feedback we decided that targeted additions to our Single-Family Trust Agreement were beneficial to MBS investors. These additions are also specified in the memorandum from Katten Muchin.

Q18. Will this change impact clean up call options on MBS? (UPDATED)

Fannie Mae does not exercise clean-up call options on its MBS and this enhancement will have no impact on that practice.



Q19. Have the at-issuance MBS disclosures change as a result of this enhancement? (UPDATED)

There have been no changes to the at-issuance MBS disclosure file layout.

Q20. Does this introduce any changes to cash window or swap pools? (UPDATED)

No, there has been no change to loans delivered into or pools issued through either process as a result of this change.

CRT Impacts

Q21. What will the proposed new CAS structure look like?

Under the proposed new structure, the CAS notes would be issued by a trust that qualifies as a REMIC.

The CAS notes offered under the new structure will qualify as REMIC 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 CAS securities.

Q22. How does the new structure reduce investors' potential counterparty exposure to Fannie Mae?

CAS 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 Fannie Mae for losses. This differs from the current CAS notes that are issued as Fannie Mae corporate debt, and which proceeds of the note sale are commingled with Fannie Mae corporate funds.

Q23. Will the capital structure, cash flow waterfall, and/or loss provisions in the CAS deals change as a result of the new structure?

We anticipate that the capital structure, cash flow waterfall, and loss provisions will remain substantially the same as under the current CAS structure. We expect to continue offering M1, M2, and B1 notes as par-priced floating rate notes tied to 1-month LIBOR with a final maturity of 12.5 years. However, we continually evaluate our program for enhancements in response to changing market conditions and investor needs.

Q24. Will the CAS 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 also be ERISA-eligible, however the B1 notes would not be ERISA eligible under the new CAS structure.

Q25. What assurances will Fannie Mae provide to investors that the CAS notes issued under the new structure will qualify as a REMIC?

For each CAS REMIC transaction, we anticipate that Fannie Mae will obtain a REMIC opinion from its outside tax counsel.



Q26. How would the new CAS structure be reported on TRACE? (UPDATED)

CAS secondary trading activity will continue to be reported on TRACE under the proposed CAS REMIC structure. We worked with the broker-dealer community and FINRA and have confirmed that reporting on TRACE will remain substantially unchanged from (timing in particular) current CAS reporting.

Q27. What would change as a result of the CAS REMIC structure being issued as a 144A structure, compared to the current structure issued under Fannie Mae's agency exemption? (UPDATED)

Fannie Mae already limits the sale of CAS securities to qualified institutional buyers (QIBs). Accordingly, changing the securities law exemption to Rule 144A will not change the potential investor base. As mentioned above, we worked with the broker-dealer community and FINRA with the goal of ensuring that the change in exemption will not alter the transparency of our securities trading.

Q28. When will Fannie Mae make more details available on the new CAS structure?

As a result of market feedback to date, we have provided additional details in the memorandum from Clifford Chance in order to provide more information and enhance transparency around the potential changes.

Q29. Will Fannie Mae begin transferring credit risk on different types of loans as a result of this change?

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

Q30. Will this change to the CAS program have any impact on Fannie Mae's Credit Insurance Risk Transfer (CIRT) programs?

No. These CAS 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, CIRT, and we do not anticipate any changes to the CIRT program as a result.

Related Links:

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