



AN UPDATE

ON IMPLEMENTATION OF THE SINGLE SECURITY AND THE COMMON
SECURITIZATION PLATFORM

July 2016



Division of Conservatorship

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Background

The Federal Housing Finance Agency's (FHFA) *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* includes the strategic goal of developing a new securitization infrastructure for Fannie Mae and Freddie Mac (the Enterprises) for mortgage loans backed by 1-4 unit (single-family) properties. To achieve that strategic goal, the Enterprises, under FHFA's direction and guidance, have formed a joint venture, Common Securitization Solutions (CSS). CSS's mandate is to develop and operate a Common Securitization Platform (CSP or platform) that will support the Enterprises' single-family mortgage securitization activities, including the issuance by both Enterprises of a single mortgage-backed security (Single Security) and to develop it in a way that allows for the integration of additional market participants in the future. Single Securities will finance the same types of fixed-rate mortgages that currently back Enterprise-guaranteed securities eligible for delivery into the "To-Be-Announced" (TBA) market.

FHFA is responsible for ensuring that the Enterprises' activities foster liquid, efficient, competitive, and resilient national housing markets. Similarly, the Enterprises' charters direct them to provide liquidity and stability to the secondary market for residential mortgages. The TBA market is an important contributor to a strong, vibrant, and highly liquid secondary mortgage market, which benefits lenders, investors, and borrowers. The TBA market serves to make more capital available for mortgage lending, enables broad lender participation, and reduces costs throughout the housing finance system. In fact, TBA market liquidity can also translate to important borrower benefits in the form of lower mortgage rates, more efficient lending processes, lower transaction costs, and the ability to "lock in" the interest rate on a mortgage prior to closing on the loan.

Preservation and enhancement of the TBA market for Enterprise mortgage-backed securities (MBS) are important objectives in the development of the Single Security. The goals of developing a Single Security are to establish a single, liquid market for the MBS issued by both Enterprises that are backed by fixed-rate loans and to maintain the liquidity of this market over time, and achievement of these goals will enhance the liquidity of the TBA market.

Achievement of these goals will also help FHFA meet its statutory obligation to ensure the liquidity of the nation's housing finance markets. The Single Security should also reduce the trading value disparities between Fannie Mae and Freddie Mac TBA securities.

FHFA, the Enterprises, and CSS are developing the Single Security and the CSP in a transparent manner. The development process involves regular releases by FHFA of public updates that



provide information to policy makers and the public and that solicit feedback.¹ This Update addresses three topics that stakeholders have indicated are important to the industry:

- Milestones that the Enterprises and CSS must achieve in order to implement the Single Security and FHFA's expectations about when these milestones will be achieved;
- The final Single Security features and disclosures, including how privacy risks related to loan-level disclosures will be addressed; and
- How the Enterprises and FHFA review potential changes in Fannie Mae and Freddie Mac programs, policies, and practices to help ensure the continuation of the current close similarity of the prepayment rates of the Enterprises' MBS.

Milestones in the Development of the Single Security and CSP

CSS and the Enterprises are preparing for two releases of the CSP. **Release 1** will allow Freddie Mac to begin to use the CSP. Specifically, under Release 1 Freddie Mac will use the CSP's Data Acceptance, Issuance Support, and Bond Administration modules to perform activities related to its current single-class, fixed-rate securities—Participation Certificates (PCs) and Giant PCs—and certain activities related to the underlying mortgage loans (such as tracking unpaid principal balances).

Release 2 will allow both Enterprises to use the Data Acceptance, Issuance Support, Disclosure, and Bond Administration modules to perform activities related to their current fixed-rate securities, both single- and multi-class; to issue Single Securities, including commingled resecuritizations; and to perform activities related to the underlying loans. Release 2 will also allow the Enterprises to use the CSP to issue and administer certain non-TBA mortgage securities, including Fannie Mae securities backed by adjustable-rate mortgages.

The *2016 Conservatorship Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* (2016 Scorecard) calls for the implementation of Release 1 of the CSP software in 2016 and Release 2 in 2018. This section describes the major Release milestones and their progress. Many of the milestones pertain to the three types of system testing that the

¹ See Federal Housing Finance Agency, *An Update on the Structure of the Single Security (May 2015)*; Federal Housing Finance Agency, *An Update on the Common Securitization Platform (September 2015)*; and Federal Housing Finance Agency, *2015 Scorecard Progress Report (March 2016)*.



Single Security and CSP Update

Enterprises and CSS must complete before implementation of each release. Other milestones pertain to CSS creating the internal business processes that it will need to operate the CSP and perform the Enterprise securitization activities supported by each release.²

Table 1 indicates the milestones for each Release and when they were reached or when FHFA expects them to be reached. Appendix A provides further details about these milestones. FHFA also expects to update this information on a regular basis in the future and to post FHFA's *CSP / Single Security Timeline* on FHFA's website to provide a summary of key achievements and upcoming milestones and when they are targeted for completion. (See Appendix B.) Given the multi-year nature of this initiative, the complexity of the Releases, and the need to coordinate across the Enterprises and CSS, the timing of some of the interim milestones may change. Nonetheless, FHFA, the Enterprises, and CSS remain committed to implementing Release 1 in 2016 and Release 2 in 2018. FHFA will promptly communicate any changes to the 2016 or 2018 dates.

Table 1: Summary of Milestones for Release 1 and Release 2

Milestone	Release 1		Release 2	
	Responsible Parties	Completion or Target (*) Date	Responsible Parties	Completion or Target (*) Date
Step Completed or To Be Completed				
Single Security Features and Disclosures	Not Applicable	Not Applicable	The Enterprises	2016*
Application Development	Freddie Mac, CSS	2016	The Enterprises, CSS	2017*
System-to-System Testing	Freddie Mac, CSS	1Q 2016	The Enterprises, CSS	2017*
Publish Implementation Timeline	Not Applicable	Not Applicable	FHFA	4Q 2016*
End-to-End Testing	Freddie Mac, CSS	2016*	The Enterprises, CSS	2017*
Operational and Production Readiness Preparations	Freddie Mac, CSS	2016*	The Enterprises, CSS	2018*
Parallel Testing	Freddie Mac, CSS	2016*	The Enterprises, CSS	2018*
Freddie Mac Legacy PC Exchange Portal	Not Applicable	Not Applicable	Freddie Mac	2018*
Implementation	Freddie Mac, CSS	4Q 2016*	The Enterprises, CSS	2018*

* Anticipated completion date

² In addition to these milestones related to the development, testing, and implementation of the CSP and Single Security, CSS has also undertaken activities to allow itself to operate as a stand-alone company. For example, in May 2016, CSS implemented human resource management systems and processes, which allowed the transition of staff from being employees of the Enterprises to being employees of CSS.



Single Security Features and Disclosures

An Update on the Structure of the Single Security, released by FHFA in May 2015 (May 2015 Update), described the features of the Single Security and provided certain information on the loan- and security-level disclosures for first-level and second-level Single Securities. During the remainder of 2015 and throughout the first half of 2016, FHFA worked with the Enterprises on finalizing the remaining aspects of these features and disclosures.

The May 2015 Update indicated that the key features of the Single Security will essentially be the same as those of the current Fannie Mae MBS. These features include a payment delay of 55 days; certain pooling prefixes; mortgage coupon pooling requirements; minimum pool submission amounts; general loan requirements such as first lien position, good title, and non-delinquent status; and seasoning requirements. The Single Security features announced in the May 2015 Update are the final features and no changes have been made.

In working to finalize the loan-level disclosures for Single Securities, the Enterprises and FHFA sought to determine the best way to meet the needs of investors while also protecting individual borrower privacy. Balancing those objectives included making choices about how best to disclose geographic information about each property and mask certain loan-level data attributes. Data masking may involve, for example, rounding loan amounts or omitting the day or month on which the borrower is obligated to make the first mortgage payment.

The Enterprises and FHFA have determined that Single Security loan-level disclosures will provide the state in which a property is located, the original unpaid principal balance (UPB) of a mortgage loan rounded to the nearest \$1,000, the month and year of the loan's first payment date, and the loan's current UPB rounded to the nearest \$1,000 for the first six months after origination and the exact UPB in subsequent months. Disclosing this information will mitigate the risk of borrower identification while providing investors the information they need to price Single Securities.

The Enterprises will also release technical specifications for Single Security loan- and security-level disclosures. These specifications will provide the layout and contents of the at-issuance and ongoing disclosure files that each Enterprise will release for first- and second-level Single Securities and will also highlight any other changes adopted by the Enterprises to align the disclosure data. Industry stakeholders will be able to use the specifications to modify their systems and business processes to prepare for Single Security issuance. At a later date, the Enterprises will release sample disclosure files for single-class Single Securities, disclosure specifications for multiclass Single Securities, and sample disclosure files for multiclass Single



Securities so that market participants can ensure that their modified systems and business processes match the expected disclosures.

Alignment of Enterprise Programs, Policies, and Practices

In response to the May 2015 Update, industry stakeholders have stated that the structure of the Single Security, including investors' ability to execute commingled resecuritizations, will help to create strong incentives for the market to treat Single Securities issued by Fannie Mae and Freddie Mac as fungible. At the same time, stakeholders continue to express concern that those incentives would dissipate if the prepayment rates of the Enterprises' securities were to diverge. Such a divergence could occur if Enterprise policies, programs, and practices that significantly affect prepayments were not aligned.

Some industry stakeholders argue that the possibility of future divergence of such policies, programs, and practices creates significant risk that the Single Security initiative will fail in its goal of broadening and enhancing the liquidity of the secondary mortgage market on an on-going basis. To mitigate that risk, stakeholders suggest that FHFA should make a strong public commitment to maintaining alignment of relevant Enterprise policies, programs, and practices. Further, they suggest that FHFA should indicate publicly the market metrics that the Agency will monitor to track the prepayment rates and relative prices and yields of each Enterprise's securities and the steps FHFA will take if a significant divergence of prepayment rates develops.

FHFA agrees that maintaining the consistency of the prepayment speeds of the Enterprises' MBS is important to the success of the Single Security because prepayment speeds affect the cash flows that investors receive. Since the inception of the conservatorships, FHFA and the Enterprises have worked to align a variety of policies, practices, and procedures that have helped achieve the current consistency of prepayment speeds of comparable Fannie Mae and Freddie Mac securities. FHFA believes that it is not necessary or appropriate in order to achieve such consistency to require complete alignment of the Enterprises' programs, policies, and practices that could affect prepayment speeds, but believes that continued alignment in some specific areas would be beneficial.



To that end, in the 2016 Scorecard, FHFA called for the Enterprises to:

- Assess new or revised Enterprise programs, policies, and practices for their effect on the cash flows of MBS eligible for financing through the TBA market, e.g., prepayments and the removal of delinquent mortgage loans from securities in exchange for payment of the remaining principal amount to the investor (repurchases or buy-outs);
- Provide ongoing monitoring of loan acquisitions, security issuances, and prepayments; and
- Provide all relevant information on a timely basis to support FHFA reviews.

These requirements are intended to institutionalize at the Enterprises and at FHFA careful and on-going assessments of the effects of new programs, policies, and practices on the performance of the Enterprises' TBA-eligible MBS.

This section describes the processes that the Enterprises and FHFA currently follow in reviewing potential changes in Enterprise programs, policies, and practices. It also describes specific improvements in each Enterprise's processes made in consultation with FHFA and how FHFA monitors the characteristics and prepayment rates of TBA-eligible securities issued by the Enterprises. To provide context, the section first reviews efforts during the conservatorships to align aspects of the Enterprises' single-family mortgage guarantee business.

I. Alignment Efforts under the Conservatorships

Under the conservatorships and at FHFA's direction, the Enterprises have engaged in efforts to align many aspects of their single-family guarantee businesses. Notable examples include the collection of standardized data under the Uniform Mortgage Data Program (UMDP), alignment of the loan level price adjustment and delivery fee portions of single-family guarantee fees, the adoption of uniform eligibility standards for seller/servicers, and the adoption of uniform financial and operational standards for private mortgage insurers.

Certain policies and practices have a particularly significant effect on prepayment speeds. FHFA and the Enterprises, as part of several alignment efforts undertaken for other policy reasons, have taken a number of steps that have had the effect of contributing to the close current similarity of the prepayment speeds of Enterprise mortgage-backed securities. The following are examples of such actions.

- The Enterprises modified their selling guides to require standardized documentation of creditworthiness, ability to repay, and adherence to collateral standards;



- The Enterprises implemented standardized refinances of HARP-eligible loans;
- FHFA required elimination of contract provisions under which certain sellers had committed to sell to an Enterprise a minimum share of the mortgage loans they originated that are eligible for sale to the Enterprises;
- The Enterprises implemented, in a generally aligned manner, initiatives related to mortgage loans with 97 percent loan-to-value (LTV) ratios;
- The Enterprises aligned several policies and practices related to FHFA’s Servicer Alignment Initiative, including delinquency management practices (i.e., borrower contact); standard loan modification offerings, foreclosure alternatives, short-term hardship solutions, and loss mitigation practices during disasters; and a common framework of servicer incentives and penalties (i.e., foreclosure timelines and compensatory fees); and
- Under FHFA’s direction, the Enterprises implemented a new selling representation and warranty (R&W) framework that has uniform R&W definitions, timelines for R&W relief, servicing defect and remedies policies, and alternatives to repurchase for many R&W violations, and provides an independent dispute resolution mechanism for appeals of R&W violations.

An FHFA objective is for the Enterprises to implement a number of current initiatives in a reasonably aligned manner. For example, under the 2016 Scorecard, the Enterprises are developing plans to implement “Duty to Serve” requirements in three underserved markets—manufactured housing, affordable housing preservation, and rural housing. In addition, FHFA and the Enterprises are assessing the feasibility of the Enterprises using updated or alternate credit score models in their business operations. Also under consideration is the possibility of a refinance program for mortgage loans with high LTV ratios to be implemented after HARP expires at the end of 2016.

In addition to these efforts, FHFA and the Enterprises have done other alignment work specifically to support the Single Security. The May 2015 Update noted that the Enterprises are substantially aligned today on key policies and practices related to the removal of delinquent mortgage loans from securities. It also described other policies and practices related to the removal of delinquent loans from securities on which the Enterprises have agreed with FHFA to align substantially before they begin to issue Single Securities.³ Once those policies and practices are substantially aligned, the Enterprises’ policies and practices related to the removal

³ May 2015 Update, Appendix D at D-3. These discussions occurred pursuant to direction from FHFA.



of mortgage loans from securities will be generally similar and aligned for purposes of the Single Security. As discussed above, the Enterprises have also aligned on the features and disclosures for the Single Security.

II. Processes to Ensure Continued Alignment to Support the Single Security

FHFA believes that the processes described provide support for continued consistency of the prepayment rates of each Enterprise's TBA-eligible mortgage-backed securities, including Single Securities.

Change Management Governance Processes. As conservator of the Enterprises, FHFA requires each Enterprise to provide timely notice to FHFA of any planned changes in Enterprise business processes or operations that Enterprise management has determined in its reasonable business judgment to be significant. These include proposed changes to single-family and multifamily credit policies and loss mitigation strategies. FHFA expects each Enterprise to maintain or establish processes to provide such notification promptly so that FHFA may participate in key decisions as FHFA determines appropriate. To meet these requirements, each Enterprise has a formal internal Enterprise-wide governance process to ensure that any significant proposed changes to its programs, policies, and practices are identified, reviewed, escalated, and submitted to FHFA for review in a timely manner.

Fannie Mae's governance process requires that all internal stakeholders in the Enterprise's internal single-family securitization process inform its MBS Policy Group of any changes to programs, policies, and practices that could have an effect on Fannie Mae's Single-Family MBS Program, including TBA-eligible securities. The MBS Policy Group is required to approve any such program, policy, or practice prior to its implementation. For any such program, policy, or practice that Fannie Mae deems significant, the Enterprise must submit a request for prior review and approval by the FHFA Director as conservator. Each request must include a supporting analysis.



Freddie Mac's governance process requires its Securitization Group to evaluate the effect of proposed Corporate New Business Initiatives (CNBI). The Securitization Group is responsible for monitoring the prepayment rates of Freddie Mac PCs. If Freddie Mac determines that a CNBI is significant enough to require the review and approval by FHFA, it prepares a Risk Analysis Memorandum for submission to FHFA. The memorandum describes the identified risks, including any potential effect on PC prepayment rates, and mitigating actions to address those risks.

FHFA Review. FHFA has established a rigorous and analytical process to review notifications and approval requests from the Enterprises related to new or revised Enterprise policies, programs, and practices. FHFA's review considers, as appropriate, analyses submitted by the Enterprises, including assessments of the effect of potential changes in Enterprise policies, programs, and practices on the prepayment rates and performance of TBA-eligible securities. One objective of the FHFA review is to provide an independent assessment of proposed new or revised Enterprise programs, policies and practices. Going forward, one specific focus of the FHFA review will be to assess whether proposals will strengthen and support the Single Security.

Once an Enterprise provides a notice or approval request to FHFA of a new or revised program, policy, or practice, the proposal is assigned to a lead FHFA division. The responsible FHFA division assigns a lead analyst to review the submission and, as appropriate, may establish a cross-agency working group to review the proposal, including representatives from other FHFA divisions and offices. Qualitative and quantitative analyses are undertaken and tailored to the specific proposal. A recommendation to appropriate FHFA officials regarding each proposal is based on the specific facts and circumstances of the proposal. In certain instances, discussions with both Enterprises are undertaken to ensure that there is a full understanding of the proposal and whether alignment between the Enterprises is necessary or desirable. Based on the facts and circumstances, discussions with affected external stakeholders may also take place, through informal means and/or more formal processes (such as requests for public input). Based on the analysis undertaken, FHFA makes its decision and communicates that decision to the Enterprise.

In addition to the notifications FHFA receives from Enterprises, FHFA proactively monitors activities at each Enterprise to ensure that the Agency is aware of proposals relating to new or modified programs, policies, and practices. FHFA personnel attend senior management and business line meetings and risk oversight committees, regularly meet with key personnel in all business lines, and receive and review reports from the Enterprises on their activities. These monitoring activities help to ensure that FHFA identifies and can provide early feedback to the Enterprises on new activities as they are being developed and assessed. FHFA's on-going



monitoring of single-family MBS issuance and prepayment rates will ensure that all changes that could have a significant effect will be identified and considered well before they are implemented.

Going Forward. FHFA is working with each Enterprise to make specific improvements in its current processes. Some industry stakeholders have suggested that FHFA establish specific numeric thresholds for determining what new Enterprise initiatives must be submitted for review—for example, proposals that could affect prepayment rates by five percentage points or that could affect one percent of borrowers—and that FHFA require the Enterprises to implement any such change in an identical manner. While changes that have such effects on prepayment rates are likely candidates for alignment, FHFA has not adopted a specific threshold given the imprecision of such estimates.

Going forward, each Enterprise will submit to FHFA for review proposed changes that the Enterprise believes could have a measureable effect on the prepayment rates and performance of TBA-eligible securities, including its analysis of any effects on prepayment speeds and/or removals of delinquent mortgage loans from securities under a range of scenarios. Decisions on implementation of changes in policies, programs, and practices will be reached based on the specific facts and circumstances of each change and related policy considerations. Policy considerations will include promoting the Enterprises' charter and mission responsibilities and encouraging competition in the secondary mortgage market.

For certain areas that most directly affect prepayment rates and security performance, FHFA intends to ensure that Enterprise programs, policies, and practices are closely aligned. These areas include the following:

- Programs that may replace the Home Affordable Refinance Program (HARP);
- Delinquency management initiatives, such as streamlined modification programs that may be implemented after the Home Affordable Modification Program (HAMP);
- General refinance programs;
- Policies and practices related to the removal of mortgage loans from securities (“buy-outs”);
- Servicer compensation; and
- Other proposals that could materially change the credit risk profile of the single-family mortgages securitized by an Enterprise.



Some industry representatives have recommended that the implementation of the Single Security include an explicit requirement that sellers deliver a representative mix of their production to each Enterprise. One concern about the effect of such a requirement is that not all lenders currently sell to both Enterprises. In some cases, the Enterprises' counterparty standards may differ, which can result in some lenders only being approved by one Enterprise.

In addition, for lenders that are or could be approved by both Enterprises, there are costs associated with establishing the operational infrastructure to support deliveries to both. Mandating the delivery of a representative mix could cause lenders to reduce the variety of mortgage loan products they offer or to narrow their underwriting standards. Nonetheless, the Enterprises do set an expectation with lenders that do business with both Enterprises that they will deliver a representative mix of TBA-eligible loans. Further, the Enterprises have processes in place to monitor loan deliveries and to take appropriate action if they identify anomalous results. As discussed in the next section, FHFA will also be actively monitoring whether overall loan deliveries to each Enterprise constitute a representative mix.

It should also be noted that the Enterprises do generally purchase a nationally representative mix of loans. Charter and regulatory requirements, such as those associated with the Affordable Housing Goals, provide strong incentives for both Enterprises to serve the whole mortgage market, versus just focusing on the highest credit quality borrowers (whose mortgages often have the greatest negative convexity or prepayment risks). Those requirements create further incentives to have aligned programs, policies, and practices, particularly for those mortgage loans that could most adversely affect security performance. In addition, because the Enterprises' product eligibility requirements adhere to the Consumer Financial Protection Bureau's definition of a Qualified Mortgage, the type of loan products purchased by the Enterprises are closely aligned, i.e., fully amortizing, maximum term of 30 years, limitations on points and fees, etc. Thus, the Enterprises' adherence to the CFPB requirements aligns the prepayment performance of their TBA-eligible securities by constraining the product characteristics of the underlying mortgages.

FHFA will continue to monitor Enterprise programs, policies, and practices that are initially determined to have no significant effect on prepayment rates or security performance. As appropriate, FHFA will work with the Enterprises to address any unexpected effects as they arise.



III. Monitoring of Enterprise Single-Family Mortgage Security Issuances and Prepayment Rates

FHFA regularly reviews standard reports that track, monitor, and assess each Enterprise's monthly purchases of single-family mortgage loans and issuance of TBA-eligible mortgage securities. As part of this review, FHFA assesses the characteristics of the mortgage loans securitized by each Enterprise, including the distributions of attributes such as LTV ratio, credit score, loan purpose, and loan product.

FHFA also reviews standard reports that track, monitor, and assess the monthly prepayments rates of Enterprise TBA-eligible securities. These reports provide information by mortgage product type, coupon, and origination year, and allow for assessment of prepayment rates for cohorts based on differences in characteristics such as seller, servicer, LTV ratio, credit score, and loan purpose (purchase/refinance). In addition to reviewing these reports, FHFA reviews other standard prepayment reports prepared by the Enterprises as well as relevant research published by securities dealers.

With respect to both security issuance and prepayment rates, if FHFA identifies unusual or anomalous patterns in the data, FHFA will initiate discussions with the Enterprises to understand the drivers of the patterns. Any actions taken would be based on review of the data. Over time, FHFA may establish thresholds for use in initiating such discussions, i.e., constant prepayment rates (CPRs) for a given cohort that differ by more than a certain amount.

FHFA is also considering whether to establish a quarterly meeting with industry stakeholders to discuss issuance and prepayment metrics, what they are seeing in the market, and other related topics.

Conclusion

FHFA and the Enterprises believe that the activities and processes described above will help to achieve the key goals and objectives of the Single Security initiative, including maintaining a broader, more liquid secondary mortgage market over time. FHFA welcomes public input on this Update from interested parties. Feedback can be [submitted electronically](#) via [FHFA.gov](https://www.fhfa.gov), or to the Federal Housing Finance Agency, Office of Strategic Initiatives, 400 7th Street, S.W., Washington, DC 20024. All submissions received will be made public and posted to FHFA's website.



Appendix A—Details on Release 1 and Release 2 Milestones

I. Release 1

System-to-System Testing for Release 1 (Completed in 1Q 2016). CSS and Freddie Mac have completed joint system-to-system testing of the single-class, fixed-rate functionality of the Data Acceptance, Issuance Support, and Bond Administration modules of the CSP. That involved automated data exchanges between modified or newly-developed Freddie Mac applications and the platform through CSS standard interfaces. Freddie Mac sent data on pools of fixed-rate mortgage loans and related single-class securities to CSS and received valid responses from CSS. The testing encompassed transaction volumes that exceeded, and transaction complexity that was comparable to, those of Freddie Mac's current book of business.

End-to-End Testing for Release 1 (Expected to be completed in 2016). CSS and Freddie Mac will complete testing of business scenarios that involve all relevant systems of Freddie Mac and the CSP, and the related business processes of Freddie Mac and CSS, to be used by Release 1. This testing will involve assessing the ability of CSS and Freddie Mac to perform simultaneously the business processes necessary for Freddie Mac to use the platform for its fixed-rate, single-class securities. This testing will also include the related systems and processes of CSS's bank agent (J.P. Morgan Chase) and the Federal Reserve Bank of New York.

Operational and Production Readiness for Release 1 (Expected to be completed in 2016). CSS will complete the building of the internal business processes the company will need to run the CSP's Data Acceptance, Issuance Support, and Bond Administration modules and support the fixed-rate, single-class securitization activities of Freddie Mac under Release 1. Workflows, policies, procedures, controls, and service level agreements supporting the business processes will be established.

Parallel Testing for Release 1 (Expected to be completed in 2016). CSS and Freddie Mac will run the CSP and Freddie Mac's existing production systems in parallel to ensure that each system produces the expected results for Freddie Mac's current fixed-rate, single-class securities. This testing will also include the related systems and processes of CSS's bank agent and the Federal Reserve Bank of New York.



Release 1 Implementation (Expected in 4Q 2016). Freddie Mac will begin using the CSP's Data Acceptance, Issuance Support, and Bond Administration modules to perform activities related to its current single-class, fixed-rate securities and certain activities related to the underlying mortgage loans in the fourth quarter of 2016.

II. Release 2

Publish Final Single Security Features and Disclosures for Release 2

(Expected in 2016). Later this year, CSS and the Enterprises will separately publish final information about the features of and the loan- and security-level disclosures related to Single Securities. Such information will include the names, definitions, and allowable values of the data attributes to be disclosed and the technical specifications of the data files to be released. This information will allow industry stakeholders to prepare to process the data files once the Enterprises begin issuing Single Securities and the data files are released.

Publish Implementation Timeline for Release 2/Single Security (Expected in

4Q 2016). FHFA will publicly announce the date on which the Enterprises will begin using the CSP to issue and administer the Enterprises' Single Securities. This announcement will give industry stakeholders at least 12 months advance notice before the implementation date.

Application Development for Release 2 (Expected to be completed in 2017).

CSS will complete the development and internal testing of the platform functionality of Release 2 not included in Release 1. Further development and internal testing of the platform may occur as Enterprise and tri-party testing for Release 2 occurs.

System-to-System Testing for Release 2 (Expected to be completed in 2017).

CSS and the Enterprises will complete joint system-to-system testing of the functionality of the CSP's Data Acceptance, Issuance Support, Disclosure, and Bond Administration modules that will support the Enterprises' current fixed-rate securities, both single- and multi-class; the issuance of Single Securities, including commingled resecuritizations; and activities related to the underlying loans. CSS and Fannie Mae will also complete joint system-to-system testing of the functionality of the Issuance Support and Bond Administration modules that support Fannie Mae non-TBA mortgage securities, including those backed by adjustable-rate loans. The testing will encompass transaction volumes that exceed, and transactions of complexity that are comparable to, those of each Enterprise's current book of business.



End-to-End Testing for Release 2 (Expected to be completed in 2017). CSS and each Enterprise will complete testing of business scenarios that involve all the relevant systems of each Enterprise and the CSP, and the related business processes of each Enterprise and CSS, used by Release 2. This testing will involve assessing the ability of CSS and each Enterprise to perform simultaneously the business processes necessary for that Enterprise to use the CSP in support of its securitization activities under Release 2. This testing will also include the related systems and processes of CSS's bank agent and the Federal Reserve Bank of New York.

Tri-Party End-to-End Testing for Release 2 (Expected to be completed in 2018). CSS and the Enterprises will complete testing of business scenarios that involve all the relevant systems of both Enterprises and the CSP, and the related business processes of both Enterprises and CSS, used by Release 2. This testing will involve assessing the ability of CSS and the Enterprises to perform simultaneously—across all three parties—the business processes necessary for both Enterprises to use the CSP in support of their securitization activities under Release 2, including the scenarios of Single Security resecuritizations containing commingled collateral from both Enterprises. This testing will also include the related systems and processes of CSS's bank agent and the Federal Reserve Bank of New York.

Operational and Production Readiness for Release 2 (Expected to be completed in 2018). CSS will complete the building of the internal business processes the company will need to support both Enterprises' securitization activities under Release 2. This includes the processes needed to run the CSP's Data Acceptance, Issuance Support, Disclosure, and Bond Administration modules as well as the processes needed to support the Enterprises' current fixed-rate securities, both single- and multi-class, and certain non-TBA mortgage securities; their issuance of Single Securities, including commingled resecuritizations; and certain of their activities related to the underlying loans. These business processes will include workflows, policies, procedures, controls, and service level agreements.

Parallel Testing for Release 2 (Expected to be completed in 2018). CSS and the Enterprises will run the CSP and the Enterprises' existing production systems in parallel to ensure that each system produces the expected results for securitization activities supported by Release 2.



Implementation of Legacy PC Exchange Portal (Expected in 2018). Freddie Mac will implement the portal through which security dealers can exchange legacy PCs for comparable Freddie Mac-issued Single Securities backed by the same pools of mortgage loans. Prior to the implementation of the Exchange Portal, Freddie Mac will announce a schedule of the fees that the Enterprise will pay owners of exchanged legacy PCs to compensate for the change in the payment delay from 45 days to 55 days.

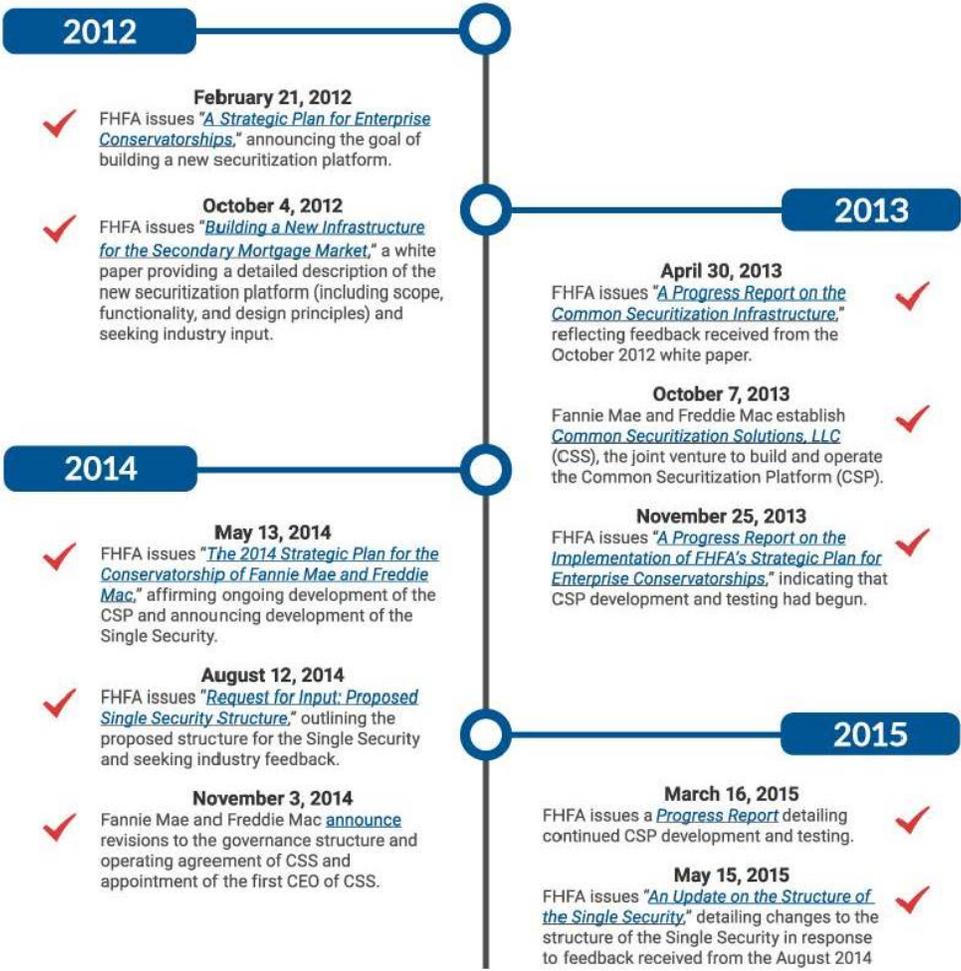
Release 2 Implementation (Expected in 2018). The Single Security implementation is complete with Release 2 implementation, which will include both Enterprises sharing the same security structure for both single and multiclass securities and both utilizing the CSP's Data Acceptance, Issuance Support, Disclosure, and Bond Administration modules.



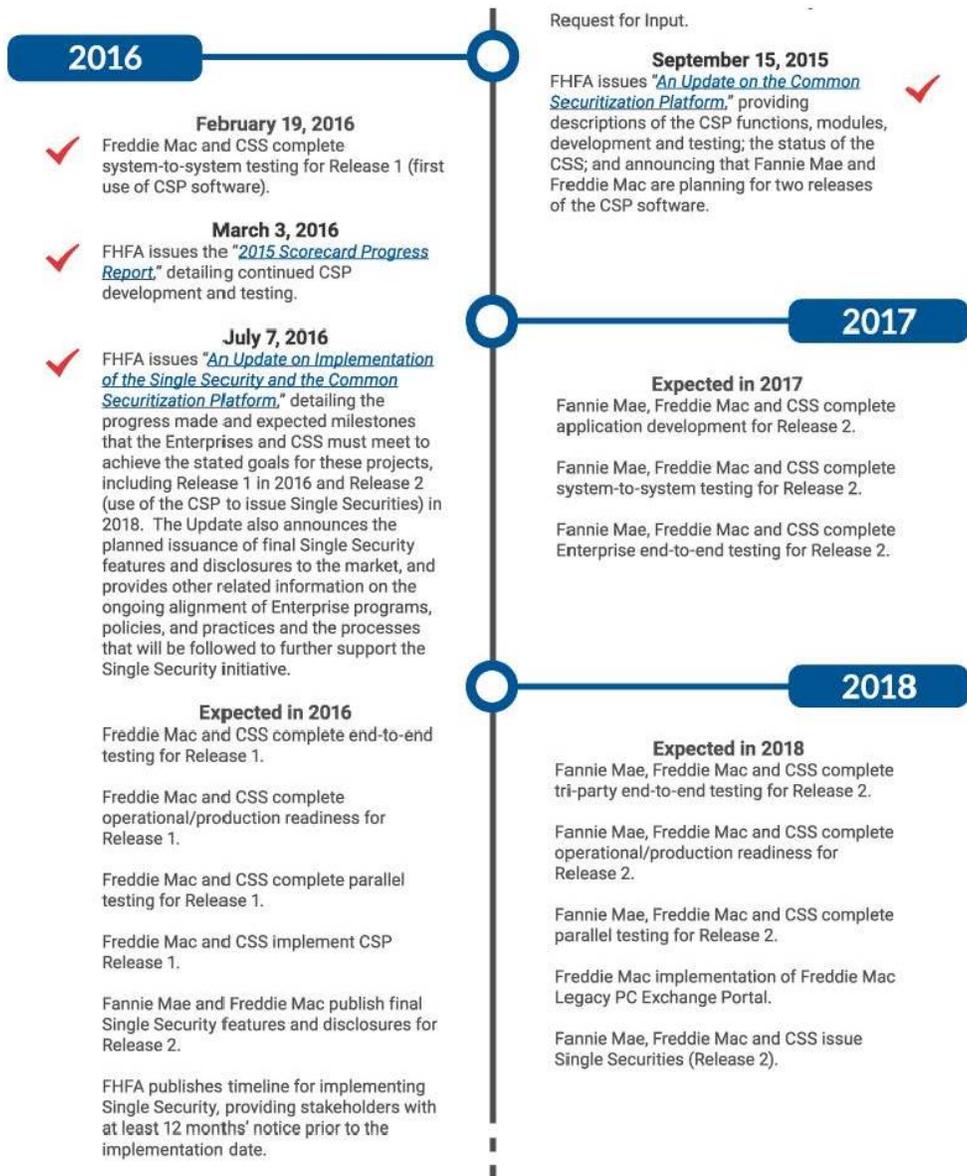
Appendix B—CSP / Single Security Timeline



CSP / Single Security Timeline



Single Security and CSP Update



As of July 7, 2016.

[View printable PDF of Timeline](#)

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