Selling for Securities

How to **Exchange** Mortgages in Your Pipeline for Securities, **Optimize** Your Liquidity and Profitibility and **Manage** Risk

Freddie Mac
Single-Family

Work with Freddie Mac to turn your mortgage pipeline and retained mortgage holdings into higher-yield investment securities.

You'll manage risk, improve liquidity and optimize profitability.

Sell your mortgages in exchange for Freddie Mac Uniform Mortgage-Backed Securities℠ (UMBS®) through our guarantor or swap execution and in return receive high-quality, AAA-rated, liquid securities — backed by your own loans — that attract investors from around the world.

Manage Your Risks in a Changing Market

As a Freddie Mac Seller/Servicer, you must adjust to an ever-changing market, and that includes understanding and using all secondary market sale options available to you.

Holding securities created from your mortgages, rather than holding whole loans in your portfolio, mitigates your credit, interest rate and market risk. When you sell your mortgages in exchange for Freddie Mac securities, we assume the risks while you continue to earn the yield on your asset. Investors typically receive payment on Freddie Mac UMBSs on the 25th of the month.

With a securities execution, you'll have more opportunities to:

- Address changes in interest rates and other trends that affect your net margins and the profitability of your mortgage holdings;
- Adjust your balance sheet based on market trends; and
- Earn higher yields for different mortgage types.

On an ongoing basis, a securities execution is a profitable companion to cash sale strategies.

You can also ease any concerns you may have about the effect of interest rate changes on net interest margins and the market value of your mortgage portfolio, or the risks associated with delinquencies, non-performing loans and foreclosures.

Swapping your mortgages for securities allows you to continue earning the principal and interest on your loans while Freddie Mac takes on the risks that come with market and economic changes.

Improve Your Liquidity

Holding securities created from your mortgages provides more liquidity than holding whole loans in your portfolio. If the need arises, you can sell your securities faster and at more favorable prices than you'll receive for whole loans. Turning your mortgages into securities allows you to quickly turn assets into cash.

Optimize Your Profitability

With a securities execution you can also:

- **Optimize your balance sheet.** Sell discounted loans to reinvest at higher yields using all-in or note-level pricing. Increase collateral by swapping premium loans for Freddie Mac UMBSs.
- **Reduce risk-based capital for depositories.** Holding an agency security may reduce your regulatory risk-based capital requirements because you're only required to apply a 20% risk weight for a security, versus a minimum 50% risk weight for whole loans.
- **Reduce banking regulatory risk-based capital requirements.** Apply a 20% risk weight by selling to Freddie Mac and retain a security and the servicing, versus a minimum 50% risk weight required for the depository lender to hold whole loans.
- **Maximize origination fee income.** When you securitize mortgages, you'll realize the origination fee revenue right away rather than distributing it over the entire time you hold the loan.
- **Improve return on equity via servicing income.**

An Example of Selling Mortgages in Exchange for Securities

The Challenge

Lender A traditionally retains a large percentage of their originations and has a $90 million mortgage portfolio. They are now reaching their maximum loan-to-deposit ratio and need to restructure $50 million of mortgage assets, reduce their risk-based capital requirements and retain servicing.

The Process

Lender A had little experience with swap transactions and called their Freddie Mac representative for guidance. After discussing the situation, their representative recommended a swap and hold securitization strategy to meet Lender A's business objectives. Lender A's representative explained how the transaction would work. Lender A obtained a master commitment, pooled their mortgages together and delivered them to Freddie Mac using Loan Selling Advisor® — our tool that integrates all secondary marketing functions, from pricing to contracting to funding to loan delivery — and a Fixed-Rate Guarantor execution. Lender A received a Freddie Mac UMBS Certificate, backed by their own mortgages, to hold in their investment portfolio.

The Result

The swap and hold transaction allowed Lender A to:

- Create additional liquidity.
- Restructure their balance sheet to adjust their loan-to-deposit ratio and manage the assets on their books more effectively.
- Reduce regulatory risk-based capital requirements to apply a 20% risk weight by selling to Freddie Mac and retaining a security and the servicing, versus a minimum 50% risk weight required for the lender to hold whole loans.
- Pass on the credit, interest rate and market risk to Freddie Mac while continuing to earn yield on their assets.
- Maintain their borrower relationships and servicing revenue stream, with a transaction that was completely transparent to their borrowers.

How It Works

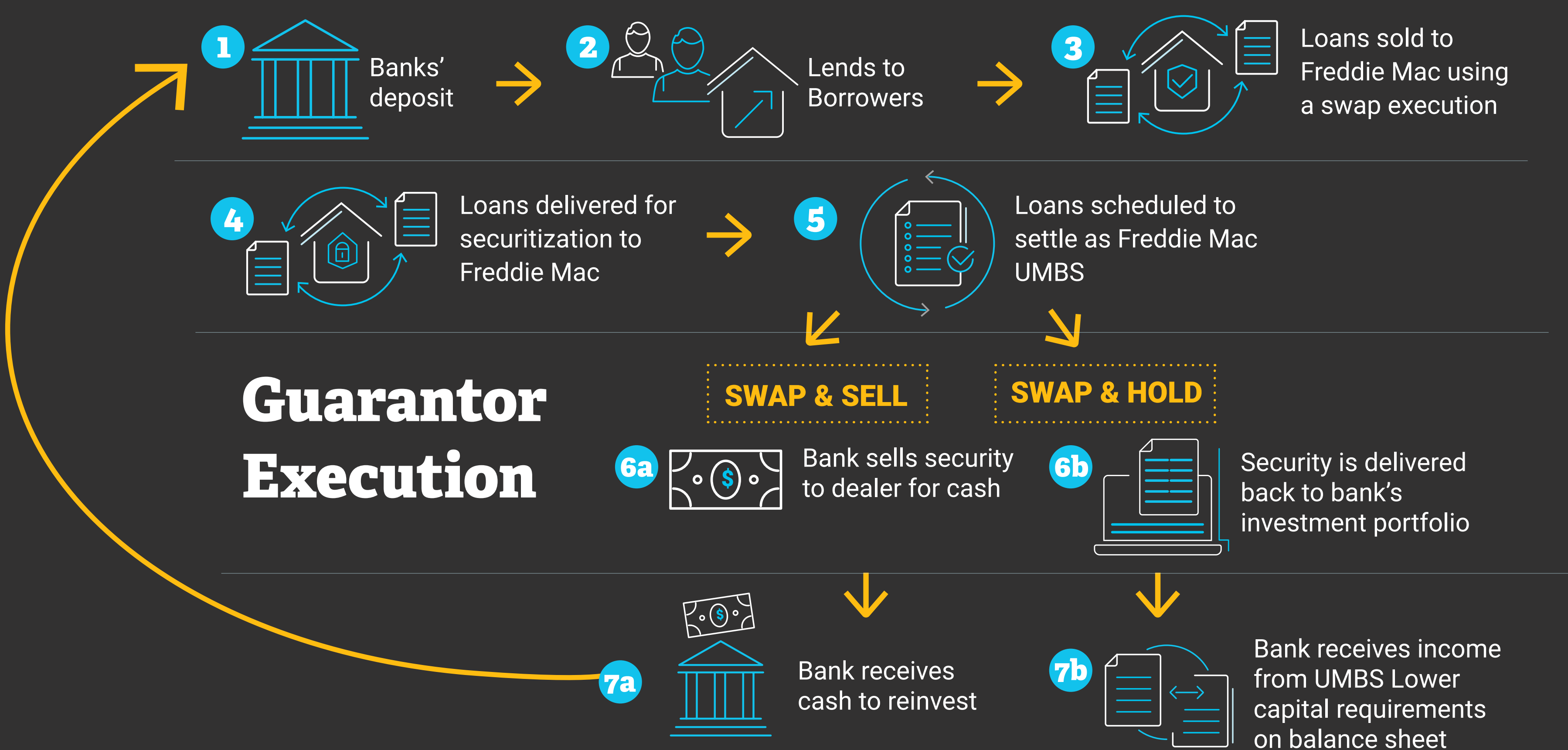
Through a swap execution, you sell your mortgages to Freddie Mac and receive a Freddie Mac UMBS backed by the same mortgages. Whether you decide to hold the securities in your portfolio or sell them to a dealer for cash, swapping loans for UMBSs offers you a number of benefits over holding whole loans.

Swap and Hold

With a swap and hold, you swap the loans in your pipeline or portfolio with Freddie Mac and receive a security backed by your own mortgages. By holding these securities instead of whole loans in your investment portfolio, you'll have lower capital requirements on your balance sheet. And if you service the loans, you'll continue to enjoy the monthly servicing income as well as yield on the security.

Swap and Sell

If you choose to swap and sell, you can sell the securities you receive in exchange for your mortgages to a dealer for cash to make more loans.



A Variety of Execution Options

Whether you're a community bank, credit union, regional mortgage lender or national mortgage lender, we offer options to maximize the return on your mortgage sales and increase your profitability — and it's easier than you might think.

Fixed-Rate Guarantor

Through Fixed-Rate Guarantor, you can trade your 10-, 15-, 20-, and 30-year fixed-rate mortgages for Freddie Mac UMBSs. Use this execution to maximize your origination fee income and increase your servicing portfolio. With Fixed-Rate Guarantor, the UMBSs you obtain are backed exclusively by mortgages you've sold to Freddie Mac.

- Fixed-rate Guarantor gives you UMBSs backed exclusively by at least $1 million of your own fixed-rate mortgages.
- As the investor in the security, you receive your first payment 55 days after the UMBS is issued.
- Every month that follows, you receive a payment from the UMBS 24 days after the borrowers' scheduled principal and interest (P&I) are due.
- To maximize your return, you can take advantage of buyup and buydown and pooling options, float and credit fees in yield that match your investment goals.
- Take advantage of Freddie Mac's accelerated settlement cycles available through Loan Selling Advisor to receive your UMBS in as little as three days after the delivery of your mortgages.

WAC ARM Guarantor

With adjustable-rate mortgages (ARMs), a securities execution becomes an even more important choice. Freddie Mac's Weighted Average Coupon (WAC) ARM Guarantor is a competitive securities execution for your 30-day average SOFR-indexed ARMs.

With a $500,000 minimum commitment, you can receive a WAC ARM participation certificate (PC) that is an attractive investment, providing you with an asset to match short-term liabilities and liabilities with floating rates.

- WAC ARM Guarantor offers attractive options, including optional delivery periods.
- You can form larger WAC ARM guarantor pools that may bring in higher PC prices.
- Receive your WAC ARM PC in as little as three days after the delivery of your mortgages by using Freddie Mac's accelerated settlement cycle, available exclusively through Loan Selling Advisor.

MultiLender Swap

With MultiLender Swap, the minimum pool size is $1 million but your commitment can be as low as $1,000, allowing you to reap the benefits of a securities execution with as little as one mortgage.

MultiLender Swap gives you a pro rata share of a UMBS or a Super™ that represents an undivided interest in a security with assets consisting of UMBSs and/or other Supers. You'll receive a Super in exchange for your conventional 10-, 15-, 20-, and 30-year fixed-rate mortgages.

- As the investor, you'll receive payment from your UMBS or Super 55 days after issuance, and monthly payments just 24 days after the borrowers' scheduled P&I are due.
- With a variety of UMBS pools each month with various UMBS coupons and eligible mortgage note rate ranges, you can settle on the UMBS of your choice whenever you want. With MultiLender Swap, you can settle throughout the month, except for the last two to five business days.
- With a settlement cycle of just one day, you can deliver your loans up to the day before the settlement date of the security and receive almost immediate funding.

Other Considerations

Two significant features to consider when planning a swap transaction are Freddie Mac's accelerated settlement cycles and note-level buyup/buydown options.

Accelerated settlement cycles allow you to reduce the amount of time between mortgage delivery and security settlement. Note-level buyup/buydown lets you include mortgages with different note rates in the same UMBS pool while managing the servicing fees you receive.

Accelerated Settlement Cycles

With Freddie Mac's accelerated settlement cycles, you can receive UMBSs in as little as one to four days after the delivery of your mortgages in exchange for a market-based gold rush fee.

In addition to the standard five-day settlement cycle, take advantage of settlement cycles of one, three or four days with MultiLender Swap. Or, select settlement cycles of three or four days for your Fixed-rate Guarantor and WAC ARM Guarantor transactions.

Using an accelerated settlement cycle can give you up to four additional business days to deliver your mortgage package and receive your UMBS pool in exchange. Having those extra days will allow you to increase your profitability by putting more mortgages into current-month pools — even mortgages that have closed in the same month.

The extra days also allow you to lower your borrowing costs by reducing your dependence on warehouse lines or other financing vehicles.

Even in a low interest rate environment, the UMBS price pickup you'll realize by using an accelerated settlement cycle to form current-month UMBSs can be greater than the positive carry of your warehouse lines plus the gold rush fee.

Accelerated Settlement Example – MultiLender Swap

You're unable to package and deliver your loans by October 17 for Freddie Mac's October 30-year Giant PC pool. Without an accelerated settlement cycle, you'd be forced to carry these loans over month-end and include them in November's Giant PC pool. But, since you can select a 1-day settlement cycle for your MultiLender Swap contract, you can package and send your notes on October 20, deliver the loans via Loan Selling Advisor as late as October 21, and still get your loans into the October 30-year Giant PC pool. This enables you to pick up the current-month PC price gain and avoid the cost of financing the loans until November's Giant PC.

Here are the calculations, given the following assumptions:

- $5 million worth of 30-year fixed-rate loans at a 6.00% note rate
- Month-end price drop: 6/32nds, or 0.1875%
- Financing costs: 5.00%
- Gold rush rate: 1 basis point (0.01%)

1 month of mortgage interest income ($5M x 0.06/12)	$ 25,000
Less: 1 month of financing costs ($5M x 0.05/12)	$ 20,833
Income from carry	$ 4,167
Income Stream from 1-day Settlement Cycle	
Current-month PC price gain ($5M x .001875)	$ 9,375
Less: Gold rush fee	$500
Income from 1-day settlement cycle	$ 8,875
Advantage of accelerated settlement	
Income stream from 1-day settlement cycle	$ 8,875
Less: Carry income	$ 4,167
Profit from 1-day settlement cycle	$ 4,708

Accelerated Settlement Example – Fixed-rate Guarantor

This example highlights the advantage of receiving your Guarantor pool early by using an accelerated settlement cycle.

Here are the calculations, given the following assumptions:

- 30-year pool with an unpaid principal balance (UPB) of $5 million
- 3-day settlement cycle
- Gold rush fee rate of 0.5 basis point (0.005%)

Dealer pays up 1 tick (0.03125%) for a Guarantor funding in 3 days.

Dealer pay-up ($5M x 0.03125%)	$ 1,562.50
Less: Gold rush fee ($5M x 0.005%)	$ 250.00
Net profit from 3-day settlement cycle	$ 1,312.50

Note-Level Buyups and Buydowns

Note-level buyup/buydown offers you a way to include mortgages with a wider range of note rates in your PCs and UMBSs while managing excess servicing and retaining more cash up-front. (Buyup/buy downs are not applicable to all PCs; see the section on WAC ARM PCs).

- You can buy up your credit fee in yield to reduce the amount you would otherwise receive as servicing spread. In exchange for paying a higher fee, you will receive cash back from Freddie Mac.
- You can also buy down your credit fee in yield to zero, so that you can include mortgages with a wider range of note rates in the same security pool. In exchange for a lower credit fee in yield, you will pay a buydown fee to Freddie Mac.

The example on the right shows how you can use Freddie Mac's note-level buyup/buydown option with a MultiLender Swap transaction.

Transaction assumptions: Freddie Mac posts a UMBS coupon of 3 percent, with an eligible note range of 3.25 to 4.125 percent. The lender qualifies for 25-basis-point servicing and a 30-basis-point credit fee in yield.

Lender's Mortgages	#1	#2	#3	#4
Mortgage note rate	3.250	3.375	3.500	3.625
Servicing spread	(0.250)	(0.250)	(0.250)	(0.250)
Guarantee fee	(0.300)	(0.300)	(0.300)	(0.300)
Subtotal	2.700	2.825	2.950	3.075
Buydown amount	+0.300	+0.175	+0.050	n/a
Buyup amount	n/a	n/a	n/a	(0.075)
UMBS coupon on the MultiLender swap pool	(3.000)	(3.000)	(3.000)	(3.000)
Retained excess servicing	0	0	0	0

Using the note-level buyup/buydown option allowed this lender to pool more mortgages into the 3.00 percent pool and eliminated any excess servicing.

Freddie Mac UMBSs and PCs

When you sell loans in exchange for securities, you become an investor in Freddie Mac securities. These are pass-through, mortgage-backed securities that represent an undivided interest in a group, or pool, of mortgages.

These securities generate an income stream that is used to pay investors. The P&I on each loan in the pool is “passed through” to the investor. And when you swap for securities, you become an investor and receive that payment.

UMBSs

The UMBS is a TBA-eligible security and is the cornerstone of Freddie Mac’s mortgage-backed securities program.

When you sell mortgages in exchange for a UMBS through the Fixed-rate Guarantor execution, you receive UMBSs backed exclusively by the mortgages you sold to Freddie Mac, allowing you to reap the benefits of the fastest paying conventional mortgage pass-through securities. Liquidity, transparent disclosure, high credit quality and versatility make Freddie Mac’s UMBSs attractive to investors.

When you sell 20-year mortgages into a 20-year UMBS pool through the MultiLender Swap execution, you’ll receive a UMBS representing an undivided interest in the same mortgages, as well as mortgages sold to Freddie Mac by other Sellers.

WAC ARM PCs

Under WAC ARM Guarantor, you’ll receive a WAC ARM PC in exchange for the ARMs you sell to Freddie Mac. WAC ARM PCs have flexible pooling requirements, enabling Sellers to include ARMs with a wide variety of note rates.

The PC coupon for a WAC ARM PC is the weighted average of the mortgage coupons of the underlying mortgages, less the sum of the applicable management and credit fees in yield and servicing fees. The WAC ARM PC coupon adjusts monthly, reflecting changes in the weighted average of the mortgage coupons of the underlying mortgages.

Supers

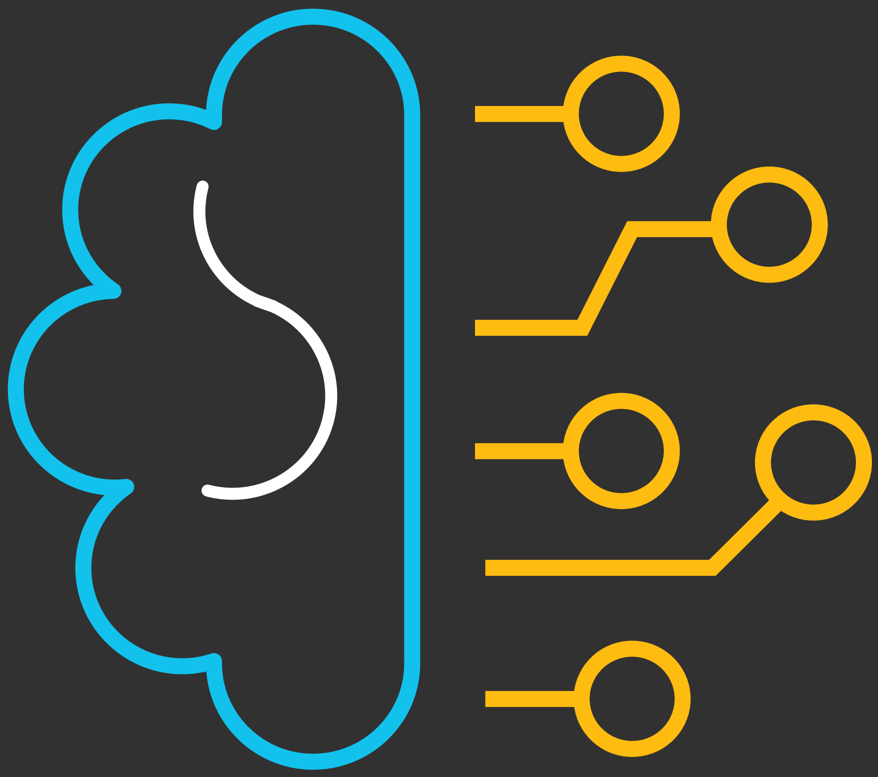
Supers are single-class resecuritizations of UMBSs or other Supers. They are also pass-through securities that receive principal and interest from their underlying assets. Supers enable investors to manage their portfolios more efficiently by consolidating smaller UMBSs into larger Supers.

When you sell conventional 15- and 30-year fixed-rate mortgages to Freddie Mac through MultiLender Swap, you’ll receive a Super representing an undivided interest in the same mortgages, as well as mortgages sold to Freddie Mac by one or more other Sellers. Conventional 20-year mortgages may also be sold to Freddie Mac through MultiLender Swap in exchange for a Super if they are pooled together with conventional 30-year mortgages.

It’s Easier than You Think

Fine-tuning your portfolio or flow business by creating investment securities from your mortgages is easier than you think, and we have additional resources to assist you:

- Sell for Securities using Loan Selling Advisor web page.
- Guarantor Pricing and Contracting in Loan Selling Advisor web page.
- Pricing and Contracting Training web page.
- *Freddie Mac Single-Family Seller/Servicer Guide* – Chapter 6201, Guarantor and MultiLender Swap Programs and Section 6302.3, Guarantor program delivery instructions.



Questions?

Call your Freddie Mac representative to explore the benefits of a Freddie Mac securities execution.

Freddie Mac
Single-Family