Potential Enhancement to STACR Program

STACR REMIC

August 2019
Freddie Mac is contemplating making an enhancement to the structure of its Structured Agency Credit Risk (STACR®) program. The enhancement would enable the company to structure future STACR offerings as notes issued by a trust in an arrangement that qualifies as a Real Estate Mortgage Investment Conduit (REMIC). This enhancement is intended to help expand the potential investor base for STACR securities, in particular to make the program more attractive to Real Estate Investment Trust (REIT) investors.

Freddie Mac is facilitating this change by making a REMIC tax election on a majority of fixed-rate single-family loans that it acquires. Freddie Mac began making REMIC tax elections with respect to loans contributed to UMBS/MBS/PCs* on or after July 1, 2018.

Our analysis of the enhancement concludes that the change is aligned with a key guiding principle of our STACR program, which is to ensure that we avoid any disruption of the To-Be-Announced (TBA) market. This fact sheet provides information about, and our analysis of, the potential enhancement.

*Go-Live of the Single Security Initiative affected the naming conventions for TBA-eligible and non-TBA-eligible securities:
1) Single Security: All new or exchanged 55-day TBA-eligible securities are referred to as Uniform MBS/UMBS.
2) Freddie Mac Securities (Legacy TBA-eligible and non-TBA-eligible): 45-day securities are named Freddie Mac Gold PC (no new issuances after Single Security go-live) or Freddie Mac Giant PC; all New 55-day securities non-TBA eligible are named Freddie Mac MBS or Freddie Mac Giant MBS; 75-day securities ARMs/Legacy 75-day fixed rate are named Freddie Mac ARM PCs, Freddie Mac ARM Giant PCs, Freddie Mac PCs (remaining 75-day fixed-rate).
UMBS/MBS/PCs Analysis

UMBS/MBS/PCs would largely be unaffected by this potential enhancement

- We will continue to utilize a grantor trust to issue UMBS/MBS/PCs that are backed by whole mortgage loans.
- UMBS/MBS/PCs will continue to be single-class guaranteed mortgage pass-through certificates, and UMBS/MBS/PCs investors will receive the same cash flows as they do today.
- The UMBS/MBS/PCs trust will continue to hold an undivided interest in the mortgage loans and each UMBS/MBS/PCs certificate will continue to represent a pro rata undivided beneficial ownership interest in a pool of mortgage loans.
- UMBS/MBS/PCs investors will continue to receive all payments of principal and interest paid on the underlying mortgage loans, less servicing and guarantee fees.
- There is no change to the cash flow from servicers to Freddie Mac to UMBS/MBS/PCs investors.
- Servicer remittance and reporting are unchanged.
- We do not anticipate any impact to TBA-eligibility, investor policy guidelines, eligibility for securitization or re-securitization, or to the single security initiative.
- The legal structure of the UMBS/MBS/PCs is unchanged (see diagram on page 6).
The proposed enhancement is expected to be a net positive for investors

• The enhancement would enable Freddie Mac to structure future STACR offerings as notes issued by a trust in an arrangement that qualifies as a REMIC. This enhancement is intended to help expand the potential investor base for STACR securities, in particular to make the program more attractive to REIT investors.
• The REMIC structure would allow for continued participation from investors outside the United States for the B bonds.
• The structure reduces investors’ counterparty exposure to Freddie Mac.
• The structure of the STACR securities, including the capital structure, cash flows and loss calculations will remain largely unchanged.
Other Analysis

Seller/Servicers will be unaffected

• Reporting, servicing, pricing, etc. will be unaffected by the proposed enhancements and seller/servicers will be able to continue operations as they do today.

Tax Disclosure Changes

• Because Freddie Mac currently elects REMIC tax treatment on the large majority of loans we purchase and guarantee, we have updated the section on federal income tax consequences in the UMBS/MBS/PCs offering circular.
• UMBS/MBS/PCs investors will now be required to tax account on an accrual basis for UMBS/MBS/PCs for which REMIC elections have been made on the underlying loans. This should not affect institutional investors, but will impact individual investors that invest directly in UMBS/MBS/PCs.
The diagram above illustrates the following from a legal perspective:

1. Lenders deliver mortgage loans to Freddie Mac (process unchanged).
2. Freddie Mac assigns the mortgage loans to the UMBS/MBS/PCs Trust and makes a REMIC election with respect to the mortgage loans. The UMBS/MBS/PCs Trust holds legal title to the mortgage loans.
3. Cash flows to the UMBS/MBS/PCs investors are unchanged. UMBS/MBS/PCs investors receive fully-guaranteed pass-through securities. No changes to the UMBS/MBS/PCs pool prefix.
4. **Optional:** If UMBS/MBS/PCs investor used the collateral for a structured security such as a CMO, the CMO restructuring would be the first re-securitization of the loans underlying the UMBS/MBS/PCs. Unchanged from today, since original UMBS/MBS/PCs remains a pass through security.
The diagram above illustrates the following from a tax perspective:

1. Lenders deliver mortgage loans to Freddie Mac (process unchanged).
2. Freddie Mac makes the REMIC election on the majority of incoming fixed-rate loans and creates internal REMICs, which are comprised of the I-REMICs/Q-REMIC.
3. The Q-REMIC will hold a reserve fund. Freddie Mac funds an inside reserve fund in return for the Subordinate Regular Interest. Subordinate Regular Interests from the Q-REMIC are contributed to the STACR REMIC which allows the arrangement to qualify as a REMIC.
4. The trust issues STACR REMIC Securities (details in following page). Investors receive STACR REMIC Regular Interests tied to the performance of certain mortgage loans. Proceeds received from the issuance of the securities are deposited into the Collateral Account.
Proposed STACR REMIC Structure

1. Credit and prepayment performance of the reference obligation determines performance of STACR securities

Reference Pool
- Loans acquired by Freddie Mac that meet target selection criteria
- Freddie Mac has made REMIC elections for loans

If there were losses on the reference obligations, the STACR Reference Tranches and the STACR notes would be written down by a corresponding amount, starting with the class B3H Reference Tranche and continuing in reverse sequential order.