

## Implementation Details for FTSE Mortgage Index Handling of the Single Security Initiative

FTSE Russell would like to affirm the proposed handling of the Single Security Initiative for the FTSE US Mortgage Index that was published in January 2019<sup>1</sup>. This announcement provides further details on the specific changes that users of our index data can expect through the transition period to reflect the approach described below:

- New sub-indexes and market structure reporting that reflects the combined universe of Freddie Mac and Fannie Mae Uniform Mortgage-Backed Security (UMBS) will be made available to index users to reflect the unified pass-through structure.
- At the cohort level, the index will continue to provide granularity by issuer in UMBS cohort construction (in line with current treatment) when Single Security is implemented. UMBS issued by Freddie Mac and Fannie Mae may be combined into a single cohort in the future, subject to governance and ongoing review of the market.
- Freddie Mac UMBS will be tracked separately from legacy 45-day delay Freddie Mac pools in mortgage index cohorts, reflecting the separate nature of the TBA markets that underpin these pools post go-live.
  - New issue and exchanged Freddie Mac UMBS cohorts will enter the index once their amount outstanding meets the existing \$1 billion by origination year for inclusion.
  - The \$5 billion issue size minimum by mortgage coupon for inclusion will be applied across both legacy 45-day delay Freddie Mac pools and Freddie Mac UMBS.
  - Legacy 45-day delay cohorts will remain index eligible provided they continue to meet the amount outstanding minimum of the index, and subject to availability of pricing.
  - The compensation investors receive for exchanging legacy 45-day delay Freddie Mac pools for new 55-day delay UMBS issued by Freddie Mac will not be captured as part of total return<sup>2</sup>.
- Consistent with other indexes in its fixed income index family, the FTSE Mortgage Index will continue to observe a monthly rebalance cycle where the weights that determine the contribution of each cohort to index returns are based on beginning of the month market value. Given these rebalancing mechanics, the earliest date index users can expect to see the inaugural Freddie Mac UMBS cohorts contribute to index returns is for the July profile<sup>3</sup>.

<sup>1</sup> For further details please see: [https://www.yieldbook.com/f/m/pdf/ftse\\_indexes/announcements/IX2\\_20190124.mtg.single.pdf](https://www.yieldbook.com/f/m/pdf/ftse_indexes/announcements/IX2_20190124.mtg.single.pdf)

<sup>2</sup> The exchange is non-mandatory and will be initiated at the option of investors at no fee. Investors will receive compensation for the approximate fair value of 10 days' delay in payment. We encourage index users to reach out to their contacts at Freddie Mac for full details.

<sup>3</sup> Using the example of the Freddie Mac 30-year 3% 2016 vintage cohort: any Freddie Mac exchanges of legacy 45-day delay pools into UMBS that take place when the exchange window opens in May through May 31 will be reflected in the factor updates that take place in early June for "preview" purposes of the next month's (July) index profile. Any exchanges and paydowns that take place in May will be deducted from the legacy Freddie Mac cohort balance for purposes of its contribution to index returns for July. The exchanged amount of Freddie Mac 30-year 3% 2016 into UMBS will be reflected in a the new Freddie Mac UMBS cohort, which will first be eligible to contribute to index returns starting on July 1 provided all other index inclusion criteria are met.

### Index Reports

Index reports will provide additional reporting for the combined universe of Freddie Mac and Fannie Mae UMBS, as well as granularity for Freddie Mac legacy 45-day delay pools and Freddie Mac UMBS pools. Unrelated to the Single Security Initiative, to better reflect the market for Ginnie Mae pools, FTSE Russell will also start to provide granularity for Ginnie Mae 1 and Ginnie Mae 2 as part of the new reporting layouts.

Changes for the following files, which are produced on a monthly basis on each month-end, will be effective June 30, 2019:

- **USBIG Index Monthly Profile** - pages 14-16, 22
- **USBIG Mortgage Index Monthly Profile**
- **Mortgage Float-Adjusted Index Monthly Profile**
- **USBIG Index Monthly Return** - pages 5-7, 14, 17

Changes for the following file, which is produced on T-3 each month, will be effective June 25, 2019:

- **USBIG Index Profile Fixing** - pages 11-14, 16, 20

Changes for the following file, which is produced on a daily basis, will be effective July 1, 2019:

- **USBIG Index Daily Profile Return** - pages 7-8, 19-20

Changes for the following file, which contains index history and is usually produced on a monthly basis after each month-end, will be available in early July 2019:

- **Total Rate-of-Return Indexes** - pages 6-7, 12-13

FTSE Russell will provide any of the above mentioned files upon request from index users who would like to see the new reporting layout.

### Sector-Level Files

Sector level files will provide additional reporting for the combined universe of Freddie Mac and Fannie Mae UMBS, as well as granularity for Freddie Mac legacy 45-day delay pools and Freddie Mac UMBS pools. Unrelated to the Single Security Initiative, to better reflect the market for Ginnie Mae pools, FTSE Russell will also start to provide granularity for Ginnie Mae 1 and Ginnie Mae 2.

Changes for the following files, which are produced on a monthly basis on each month-end, will be effective June 30, 2019:

- **USBIG Monthly Profile (SL)** – File name *SL\_BIGMP\_YYYYMM.csv*
- **USBIG Monthly Profile/Return (SL)** - File name *SL\_BIGMPR\_YYYYMM.csv*
- **History: USBIG Monthly Profile/Return (SL)** – File name *SL\_BIGMH\_YYYYMM.csv*
- **USBIG Mortgage Monthly Profile (SL)** – File name *SL\_BIGMTGMP\_YYYYMM.csv*
- **USBIG Mortgage Monthly Profile/Return (SL)** – File name *SL\_BIGMTGMPR\_YYYYMM.csv*
- **History: USBIG Mortgage Monthly Profile/Return (SL)** – File name *SL\_BIGMTGMH\_YYYYMM.csv*

Changes for the following files, which are produced on a daily basis, will be effective July 1, 2019:

- **USBIG Daily Profile/Return (SL)** - File name *SL\_BIGDPR\_YYYYMMDD.csv*
- **USBIG Mortgage Daily Profile/Return (SL)** – File name *SL\_BIGMTGDPR\_YYYYMMDD.csv*

FTSE Russell will provide any of the above mentioned files upon request from index users who would like to see the new reporting layout.

### **Current Coupon Tracking**

FTSE Russell currently publish information on the current coupon MBS for 30-year Fannie Mae, Freddie Mac and the Ginnie Mae 1 program, which is meant to represent the cohort that is trading closest to par. The current coupon cohort will now also be maintained for UMBS and Freddie Mac UMBS. The existing 30-year Freddie Mac current coupon MBS will be retired. Unrelated to the Single Security Initiative, to better reflect the market for Ginnie Mae MBS, we will publish the current coupon for the combined Ginnie Mae 1 and Ginnie Mae 2 30-year programs, as well as for the Ginnie Mae 2 program only. The following files, which currently contain current coupon tracking, will reflect these changes:

- **USBIG Index Monthly Profile** - pages 14-15, 20
- **USBIG Mortgage Index Monthly Profile**
- **USBIG Index Profile Fixing** - pages 11, 12
- **USBIG Index Daily Profile Return** - pages 7-8, 19-20

### **Additional Sub-Indexes**

New sub-indexes will be made available for the following universes, as part of our standard index offering starting July 1, 2019:

- **MTG\_UMBS** – 15-year and 30-year UMBS issued by Freddie Mac and Fannie Mae.
- **MTG\_UMBS30** – 30-year UMBS issued by Freddie Mac and Fannie Mae
- **MTG\_UMBS15** – 15-year UMBS issued by Freddie Mac and Fannie Mae.
- **MTG\_FHLMC\_UMBS** - 15-year and 30-year UMBS issued by Freddie Mac
- **MTG\_FHLMC30\_UMBS** - 30-year UMBS issued by Freddie Mac
- **MTG\_FHLMC15\_UMBS** - 15-year UMBS issued by Freddie Mac

Existing sub-indexes for Freddie Mac MBS will be used to represent legacy 45-day delay Freddie Mac MBS. Existing sub-indexes for Fannie Mae MBS will continue to be used to represent Fannie Mae UMBS post Single Security go-live.

To better reflect the market for Ginnie Mae MBS, FTSE Russell also intends to start publishing sub-indexes to provide separate tracking for 15-year and 30-year Ginnie Mae 1 and Ginnie Mae 2 programs.

### **Impact to Index Cohorts and Issue-Level Files**

There will be no change to the columns of constituent level files as a result of the transition related to the Single Security Initiative. As new Freddie Mac UMBS is issued and meets the index eligibility criteria, index users can

expect to see additional line items for these cohorts similar to how new origination year cohorts are added to issue-level files. Users can expect the following changes with respect to how data attributes are assigned:

- **Ticker:** Freddie Mac UMBS cohorts with a 30 year term will be assigned a new Ticker of “FHLGU”. Freddie Mac UMBS cohorts with a 15 year term will be assigned a new Ticker of “FHNGU”. Legacy 45-day delay Freddie Mac cohorts will retain their existing tickers (“FHLG” and “FHNG” will continue to be used as the Ticker for 30 year and 15 year legacy 45-day delay Freddie Mac programs, respectively).
- **ParentTicker:** UMBS issued by Freddie Mac and Fannie Mae will be assigned a new ParentTicker of “UMBS”. Legacy 45-day delay Freddie Mac cohorts will retain their existing ParentTicker of “FHLM”.
- **Description:** The Description for Freddie Mac UMBS cohorts will reference “UMBS”. For example, “30-YR FHLMC UMBS – 20XX PROD” and “15-YR FHLMC UMBS PROD”.

Users of the Yield Book can also expect to see these changes flow through to the analytics platform<sup>4</sup>.

Please contact us at [info@ftserussell.com](mailto:info@ftserussell.com) if you have any questions.

FTSE Russell

<sup>4</sup> For further details on readiness activities for Yield Book users please see:  
[https://www.yieldbook.com/fi/s/pdf/YB\\_single\\_security\\_readiness\\_statement.pdf](https://www.yieldbook.com/fi/s/pdf/YB_single_security_readiness_statement.pdf)

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