These days, most of the commentary coming out of ICBA concerning the two main housing agencies, Fannie Mae and Freddie Mac, relates to the elephant in the room: risk to taxpayers. Since the two have been in conservatorship, Congress has allowed for a sweep of their earnings into the Treasury Department’s coffers, leaving them with no (meaning zippo, nada, zilch) capital. This strikes most in the community banking industry as odd, since the need for a capital buffer is ingrained in their thinking.

Regardless, ICBA will continue to campaign for a more traditional disposition of the agencies’ earnings, and the agencies will continue with their mission of providing a secondary market for housing finance.

This hits home with community bankers through their bond portfolios. Mortgage-backed securities (MBSs), as of June 30, comprised about 45 percent of all community bank investments, and the vast majority of them were

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Portfolio Management
By Jim Reber and Kevin Smith

Uniform MBSs will be here soon

Housing agencies will be merging their securities in 2019.
guaranteed by either Fannie Mae or Freddie Mac.

Soon, Fannie Mae and Freddie Mac will begin issuing new, common uniform mortgage-backed securities (UMBSs) in place of their current, separately issued mortgage securities. There will also be a voluntary exchange process for investors who want to convert “old” MBSs to UMBSs. The goal is to help foster increased liquidity, to the benefit of the U.S. housing market. Left unsaid is that this should represent a cost savings through consolidation of overhead. This column will give an overview of the Single Security Initiative (SSI).

**Purpose and objective**

On Sept. 6, 2008, the Federal Housing Finance Authority (FHFA) placed both Fannie Mae and Freddie Mac into conservatorship. After stabilizing the two agencies and ensuring their ongoing support of mortgage and housing markets, the FHFA began to focus on longer-term plans to strengthen mortgage markets. Among these plans was the development of a Common Securitization Platform for use by both agencies, and for the SSI to develop a UMBS.

The goals (although they haven’t been publicly stated) seem to focus on fostering as much liquidity as possible, potentially to provide a cost savings and to provide a platform that other secondary market participants could use in the future. Think private capital insurance-wrapped mortgage securities.

**Effect on community banks**

For community banks, this should largely be a non-event, as no action is required on current holdings. Nor does it change anything about the underlying collateral, structure or cash flows of current securities. Most of the work is technical in nature, the brunt of which falls on the data providers, pricing vendors and broker-dealers.

Depending on the specifics of the exchange process, especially tax considerations, it may provide an avenue to consolidate portfolio line items, as Fannie and Freddie bonds can exist in a single pool.

The new UMBS platform is planning to go live in June 2019. Community bankers who hedge their mortgage originations in the TBA market will be the first to see changes, as early as February 2019, as the TBA market makes the transition.

**What do you do now?**

Not much. Just being aware of this puts you ahead of the game. As the June 2019 go-live date approaches and more information is available, expect further updates from the broker-dealer community. As always, simply knowing and understanding your investment portfolio goes a long way. A happy possibility is that your MBS performance could be enhanced through agencies’ cost savings and through the improved liquidity of your current holdings. Stay tuned for developments.

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**ICBA Securities and its exclusive broker, Vining Sparks, present the next segment of their 2018 webinar series on Sept. 18. James Plunkett will discuss “Mortgage Market with a Focus on CMOs.” One hour of CPE is available. To register, visit viningsparks.com**

**UMBS analysis available**

Vining Sparks released a Strategic Insight dated May 23, 2018, that discusses in-depth the Single Security Initiative. For your copy, contact the authors or your Vining Sparks sales rep. Vining Sparks will also be updating sample investment policies, its Client Access portal and its popular Performance Profile as information becomes available.

**ICBA is on the job**

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