Change to US Agency Mortgage Cohort Aggregation

23 February 2023

The FTSE US Mortgage-Backed Securities Index comprises 30- and 15-year TBA deliverable pass-through mortgage-backed securities (MBS) guaranteed by Freddie Mac (FHLMC), Fannie Mae (FNMA), and Ginnie Mae (GNMA). The index is rebalanced on a monthly basis[1] to reflect new issuance and principal pay-downs, and is represented by cohorts which are constructed by aggregating mortgage pools by coupon, agency, program, and origination year.[2]

The Single Security Initiative, which was implemented on 03 June 2019, created a common mortgage-backed security (MBS) to be issued and guaranteed by either Fannie Mae or Freddie Mac, and backed by fixed-rate 30-, 20-, 15-, and 10-year single-family mortgage loans. The security is called the Uniform MBS (UMBS). A single To-Be-Announced (TBA) contract is used to represent UMBS issued by Freddie Mac and Fannie Mae for the same term and coupon. The approach taken by FTSE Russell to reflect the Single Security Initiative allowed for separate index cohorts which represent Fannie Mae UMBS, Freddie Mac UMBS, and legacy 45-day delay Freddie Mac mortgage pools.

To reflect the alignment of the US Agency MBS pass-through market to a single UMBS, which is underpinned by a combined UMBS To-Be-Announced (TBA) contact for both Fannie Mae and Freddie Mac guaranteed pools, FTSE Russell announces that a single cohort will be used to aggregate 30-year and 15-year UMBS pools with the same coupon, term and origination year, effective with June 2023 index profiles. Implementation details of this change can be found in the remainder of this announcement.

Implementation Details for Change to FTSE Mortgage Index Cohort Aggregation

Effective with June 2023 index profiles, Freddie Mac and Fannie Mae UMBS pools will be aggregated in a single cohort based on coupon, term, and origination year vintage. Balances for Freddie Mac UMBS will be added to existing Fannie Mae UMBS cohorts prior to index fixing day for June 2023 index profiles, and Freddie Mac UMBS cohorts will exit the index at the May 2023 month-end index rebalancing.

As of January 2023 index profiles, it is projected that:

- $284.7 billion in par amount outstanding of Freddie Mac 15-year UMBS will be added to the respective 15-year Fannie Mae UMBS cohorts, and 22 Freddie Mac 15-year UMBS cohorts will exit the index.
- $1,969.2 billion in par amount outstanding of Freddie Mac 30-year UMBS will be added to the respective Fannie Mae 30-year UMBS cohorts, and 51 Freddie Mac 30-year UMBS cohorts will exit the index.

The impact to the prices for cohorts that transition from representing Fannie Mae UMBS only to both Freddie Mac and Fannie Mae UMBS is expected to be minimal. The prices for Freddie Mac UMBS will be held constant from the implementation date of the cohort aggregation change in May until month-end rebalancing for June index profiles.

June 2023 index profile will reflect a single set of UMBS cohorts and the following attributes will be

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[1] Each month, 'factor' information for all outstanding agency-guaranteed mortgage pools is provided by GNMA, FNMA, and FHLMC, and used to update the balances of index cohorts. Each mortgage pool has a factor which represents the fraction of the original pool still outstanding. The outstanding amounts are aggregated, and the difference between the original and current outstanding is used to calculate the pay-down return for each index cohort. This monthly factor update process results in an updated list of pools and balances which are aggregated for each cohort and determine index cohort weights, prices, and paydown return.

[2] An index price for these cohorts is calculated based on the pricing methodology which was implemented in April 2019. This methodology uses an average of all underlying pool-level prices sourced from Refinitiv, weighted based on the outstanding balance of each pool, to arrive at a cohort-level price (both specified and non-specified pools are included in the average).

updated for these instruments:

- **Ticker**: the Ticker for Fannie Mae 30-year UMBS cohorts will be changed from "FNMA" to "UMBS30YR" and the Ticker for Fannie Mae 15-year UMBS cohorts will be changed from "FNCI" to "UMBS15YR"
- **Description**: the Description for Fannie Mae UMBS cohorts will be updated to remove the reference to "FNMA". For example, "30-YR FNMA UMBS 4% – 20XX PROD" will change to "30-YR UMBS 4% – 20XX PROD"

The instrument identifier and ParentTicker (assigned as "UMBS") for Fannie Mae UMBS will remain the same through the implementation of the change.

Sub-Indices and Sector-Level Files

In sector-level files, reporting for Fannie Mae UMBS and Freddie Mac UMBS will no longer be provided. As such, the following sub-indices, which have been made available as part of our standard index offering starting in July 2019, will be retired:

- MTG_FNMA_UMBS – 15-year and 30-year UMBS issued by Fannie Mae
- MTG_FNMA30_UMBS – 30-year UMBS issued by Fannie Mae
- MTG_FNMA15_UMBS – 15-year UMBS issued by 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

FTSE Russell will continue to publish the following sub-indices, which were added to our standard index offering in July 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

FTSE Russell will continue to publish sub-indices for legacy 45-day delay Freddie Mac MBS.

Please contact us at fi.index@lseg.com if you have any questions.
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