

FAQ: Bloomberg US MBS Index Specified Pools Inclusion

Background

As part of the index review and governance process, Bloomberg [announced](#) a change to the methodology of the US MBS Index. This change will allow specified mortgage pools to contribute to the pricing of the MBS index. After incorporating feedback from client consultations, formal plans have been announced around the implementation details and timing. This document will provide for a detailed review of the forthcoming changes, as well as frequently asked questions around them.

Frequently Asked Questions

What is the timing of these changes?

The changes outlined in this document will go into effect in the Projected Universe on November 10th as part of the rebalancing on the 8th business day. Subsequently, specified cohorts will enter the Returns Universe starting December 1st, 2022.

A final announcement will be made by mid-October to confirm this November 10 go-live date. In the event that additional pre-release testing is needed, January 12th, 2023 will be the final implementation date.

How does the structure and pricing of the new index differ from the existing index?

The US MBS Index is formed by grouping the universe of almost 1 million individual TBA-deliverable MBS pools into approximately 4000 generic aggregates, of which, currently 430 are index-eligible. The existing process maps conventional pools to a vintage generic defined by program, coupon and vintage year with Fannie 55-day and Freddie 55-day pools mapping to separate cohorts. These are identified by the FA and FR prefix representing Fannie and Freddie pools, respectively (e.g. FAFL 2.5 2020 and FRCL 2.5 2020). Legacy Freddie 45-day pools belong to their own respective cohort using the FG prefix (e.g. FGLMC 5 2016). Each generic is a representation of its mapped pools and contributes their total amount outstanding to the US MBS Index, and are what is used for the purpose of returns and analytics. For the purpose of pricing, however, specified pools are stripped out of the constituent population leaving only the residual non-specified pools also known as worst-to-deliver (W2D) pools. The resulting price of a given generic is thereby a weighted average price of the remaining W2D pools based on the amount outstanding.

In the new index, Bloomberg will first combine Fannie 55-day and Freddie 55-day

conventional programs into UMBS programs. Fannie 55-day and Freddie 55-day conventional programs currently represented by FA and FR prefix generics will be consolidated into UMBS programs represented by FN prefix generics. For example, FA CL 2.5 2020 and FR CL 2.5 2020 will be combined into FN CL 2.5 2020. Any UMBS cohorts that exceed \$10 billion in unpaid principal balance (UPB) will be partitioned into specified cohorts as well the remaining non-specified (W2D) cohort in a sequential manner known as the cohort waterfall. Lastly, once it has been determined a cohort will be broken down in this way, only specified or W2D cohorts with at least USD \$300 Million UPB will be included in the index.

Cohorts that do not exceed USD \$10 Billion UPB will not be broken down into specified/W2D cohorts remaining in their vintage generic form and must continue to meet a minimum amount outstanding requirement of \$1 Billion to be included in the index.

Index generic prices will be determined using pricing from all underlying pools rather than only W2D pools. This applies to new specified and W2D cohorts as well as the remaining vintage generics with balances between \$1-10 billion. This will provide for consistency in the new approach of using both specified and non-specified pools as part of the daily pricing process.

Note that Legacy Freddie 45-day generics are eligible to be broken out into specified/W2D cohorts. Smaller cohorts not broken out will have new securities created with a "TFG" prefix (more on that below). Lastly, as stand-alone Freddie 55-day generics will cease to exist, the UPB of legacy Freddie 45-day generics will no longer be combined with its corresponding Freddie 55-day generics to determine index eligibility. This will result in some legacy Freddie 45-day generics leaving the index.

There will be no change to Ginnie Mae I and II programs with respect to nomenclature or pricing approach. Note that Ginnie Mae II (G2) custom pools were removed from the index in 2020. The multi-issuer pools remaining in the index are and will continue to be represented by sub generics with the 'Multi' suffix (E.G. G2SF 2020 MULTI).

Where can I see the full list of spec cohorts available?

The list and waterfall of all applicable index cohorts and generics was [published](#) on February 8th, 2022. This list represents enduring specified pay-up stories. This will be monitored over time to ensure it is reflective of the MBS market. This waterfall is as follows. More information on this can be found on the Bloomberg Terminal via `BMMI<go>` -> Whitepapers -> Analytics and Data Documents -> Bloomberg Specified Pool Cohort Update (May 2022).

Cohort Category	Definition	Index MBS Id 4th Char	Terminal Access*
Low Loan Balance (LB)	LB, Max OLS <= \$85K	A	LB085
	LB, \$85K < Max OLS <= \$110K	B	LB110
	LB, \$110 < Max OLS <= \$125K	C	LB125
	LB, \$125K < Max OLS <= \$150K	D	LB150
	LB, \$150K < Max OLS <= \$175K (Orig Date >= 200901)	E	LB175
	LB, \$175K < Max OLS <= \$200K (Orig Date >= 201401)	F	LB200
	LB, \$200K < Max OLS <= \$225K (Orig Date >= 201701)	G	LB225
	LB, \$225K < Max OLS <= \$250K (Orig Date >= 202101)	H	LB250
	LB, \$250K < Max OLS <= \$275K (Orig Date >= 202201)	I	LB275
		J,K	Reserved for LB
High Loan-to-Value (LTV)	Not LB, Min OLTV >= 95	L	LTV
Geography (GEO)	Not LB, Not LTV, %NY>99%	N	NY
	Not LB, Not LTV, %PR>99%	P	PR
	Not LB, Not LTV, %FL>99%	S	FL
	Not LB, Not LTV, %TX>99%	T	TX
Occupancy (OCC)	Not LB, Not LTV, Not GEO, %Investor>99%	U	OCC
Low FICO (FICO)	Not LB, Not LTV, Not GEO, Not OCC, Max Credit Score < 700	V	FICO
Non-specified (W2D)	Not LB, Not LTV, Not GEO, Not OCC, Not FICO	W	W2D
Vintage Generic Replica	Same as vintage generic, i.e. FGBZ3418 = FGB03418	Z	e.g. FGLMC 3.5 2018 Mtge

Note: 'Z' generics are identified with 'TFG' prefix on the Terminal®, e.g. TFGLMC 3.5 2018.

If a pool meets multiple spec criteria what determines which spec cohort the pool will belong to?

It is possible for a pool to meet more than one specified criterion, however a pool will always map to a single specified cohort. This is the reason for a waterfall approach rather than a matrix approach. Within the waterfall, priority is given to those stories that have historically exhibited relatively stronger prepayment protection and in turn higher relative pay-ups. For example, a pool could be 85K max OLS and Low FICO. In this example the pool would be classified as 85K max OLS and map to the relevant cohort (E.G. FNCL 4 2018 LB085).

Which vintage generics will be broken out into spec cohorts and how are those spec cohorts determined?

Only conventional 55-day (UMBS) vintage generics with greater than USD \$10 Billion UPB will be broken out into specified and resulting W2D cohorts. Individual spec cohorts will be created once their balance reaches \$50M and then maintained until payoff, but only those meeting the minimum size requirement of USD \$300 Million UPB will be included in the index.

Will there be some vintage generics broken out where not all of its specified cohorts will be in the index?

Yes, while the minimum threshold to break out a vintage generic is \$10 Billion UPB there is no guarantee the resulting specified and W2D cohorts will all meet the \$300 Million UPB minimum. For example, the UMBS vintage generic FNCL 2.5 2021 is partitioned into a set of cohorts including the Puerto Rican geography cohort, FNCL 2.5 2021 PR. Since FNCL 2.5 2021 PR is under \$300 Million UPB it is not index eligible

How do I determine which vintage generic and cohort an individual pool maps to?

There are several calc route fields within Bloomberg that can help identify which generic/cohort a pool maps to.

- AN194 - Generic Ticker Vintage (GENERIC_TICKER_VINTAGE) - Identifies the vintage generic that matches the agency, coupon, and origination year of the pool.
- AN199 (SPEC_COHORT_WATERFALL) - Identifies the specified cohort the pool maps to (if applicable) or whether it maps to W2D
- AN202 (SPEC_COHORT_WATERFALL_LEVEL) - Specifies the integer value corresponding to the default waterfall level reported by Generic Specified Cohort Waterfall level

Looking at two pools from the same vintage generic, we can see how they map to two separate specified cohorts in the following example.

Pool	AN194	AN199	AN199 Formula	Cohort
FNCA8235	FNCL 3 2020	LB200	=BDP(A1& " mtge","AN199")	FNCL 3 2020 LB200
FRRA0119	FNCL 3 2020	W2D	=BDP(A2& " mtge","AN199","AN202=1")	FNCL 3 2020 W2D

More information how these fields should be used can be found on the Bloomberg Terminal via [BMMI<go> -> Whitepapers -> Analytics and Data Documents -> Bloomberg Specified Pool Cohort Update \(May 2022\)](#).

How many line items will be in the new index?

As of time of this publication, the current (production) index has 431 members in the Returns Universe and 430 members in the Projected Universe. The MBS pro forma index has 901 members

in the Returns Universe and 904 members in the Projected Universe.

How can I isolate the pay-up for the new specified cohorts?

The following fields will be available through Bloomberg Data License for clients who want to decompose a generic/cohort price including understanding the weighted average pay-up for a given generic/cohort.

PY312 - BVAL Payup (BVAL_POOL_PAYUP)

PX627 - BVAL TBA Executable Bid Price (BVAL_POOL_TBA_EXECUTABLE_BID_PX)

DT057 - BVAL Cash Settle Adjustment (BVAL_CASH_SETTLE_ADJUSTMENT)

What are TFG's and what do they represent?

Pricing for Legacy Freddie 45-day generics will be changing to be derived from a weighted average price for all pools that map to the generic rather than just non-specified (W2D) pools. This is expected to result in a higher price for these vintage generics. At the time of this writing, Legacy Freddie 45-day securities comprise about 5% of the index - still a significant amount. In order to prevent introducing an artificial price jump for the existing constituents and in turn an artificial increase in the price return for these vintage generics during the month of the transition, they will be re-introduced to the index Projected universe using an alternative identifier, namely using the TFG prefix rather than the FG prefix. The incoming TFG generics will be identical to their FG twins except their naming convention and their pricing methodology. Existing FG generics will drop from the Returns Universe at the end of November.

Can you elaborate on the pricing methodology used in the specified cohorts?

BVAL will continue to provide prices for all underlying pools for pricing purposes, including specified pools. BVAL identifies and buckets pools in a manner that is consistent with the new index cohort structure. Once a pool has been identified as belonging to a particular specified cohort the pay-up is re-calculated daily using the most recent and relevant market data available.

How can I see what the new index will look like?

The Bloomberg Index team publishes two pro forma indices which represent exactly what the index would look like today using the new methodology. These indices are 37186 and 37187 with 37186 representing our flagship index (LUMSTRUU) and 37187 representing the float-adjusted version (LMBGTRUU). These indices have been published since July and can be added to client index feeds, viewed in PORT, and accessed on the Bloomberg terminal via DES<go> or MEMB<go> to better understand what the new index will look like and how it compares to the index today.

Will this update impact metrics such as OAS, OAC and OAD?

Yes, the new index membership will flow through to all index level calculations including OAS, OAC and OAD.

Why do I not see a larger change in metrics such as OAS, OAD and OAC?

The new index represents a more refined partition of the agency MBS universe than the current set of vintage generics but not a change in the content. The collateral characteristics for the existing set of vintage generics already include all specified pools as far as these calculations are concerned. Given how discounted the index is relative to par at present and how low specified pay-ups are in aggregate, price difference is small and have a negligible impact on overall index OAS/ OAD/OAC.

However, you were to look at a specific pair of FN and FR vintage generics and then the broken out UMBS specified and W2D cohorts for the same you would find a noticeable variation in OAS/OAD/OAC across the various specified and W2D buckets that aggregate approximately up to the OAS/OAD/OAC of the overall coupon/vintage cohort. Note in the example below that FNCL 5 2022 cohorts' OADs range from 85% to 123% of the overall vintage.

Current Index						New Index						
Index ID	Description	UPB (\$Bil)	Price	OAS	OAD	Index ID	Description	UPB (\$Bil)	Price	OAS	OAD	as % of Avg
FNA05022	FACL 5 2022	16	101.41	46	3.71	FFAB5022	FNCL 5 2022 LB110	0.5	103.71	46	4.65	123
FRA05022	FRCL 5 2022	12	101.29	49	3.74	FFAC5022	FNCL 5 2022 LB125	0.4	103.45	44	4.50	119
						FFAD5022	FNCL 5 2022 LB150	1.1	103.09	44	4.33	115
						FFAE5022	FNCL 5 2022 LB175	1.2	102.55	46	4.25	113
						FFAF5022	FNCL 5 2022 LB200	1.7	102.18	49	4.21	112
						FFAG5022	FNCL 5 2022 LB225	1.5	101.97	47	4.08	108
						FFAH5022	FNCL 5 2022 LB250	1.5	101.87	42	3.81	101
						FFAL5022	FNCL 5 2022 LTV	1.4	101.22	42	3.60	95
						FFAN5022	FNCL 5 2022 NY	0.5	102.47	43	4.65	123
						FFAS5022	FNCL 5 2022 FL	1.3	101.26	65	4.26	113
						FFAT5022	FNCL 5 2022 TX	0.8	101.05	39	3.20	85
						FFAU5022	FNCL 5 2022 OCC	2.7	101.50	44	3.79	100
						FFAV5022	FNCL 5 2022 FICO	1.9	100.95	54	3.92	104
						FFAW5022	FNCL 5 2022 W2D	11.0	100.88	41	3.41	90
Total		28	101.36	47	3.72			28	101.46	45	3.77	

Source: Bloomberg, {137186 Index MEMB<GO>} on 09/01.

Will this update alter any returns and metrics retroactively?

No, this change has no retroactive implications. The changes are purely on a go forward basis based on the aforementioned effective dates.

What will happen if a generic starts out being above USD \$10 Billion UPB resulting in specified/W2D cohorts being used in the index and subsequently falls below this threshold?

Similar to how a vintage generic is broken out into specified and W2D cohorts when its balance reaches \$10 Billion UPB, when a vintage generic previously above \$10 Billion UPB drops below the \$10 Billion UPB threshold its specified/W2D cohorts will exit the index being replaced by the vintage generic.

What changes to index data values can I expect?

The following fields in the index bond data feed will have new values to accommodate this project: index identifier (aka Cusip), Issuer, Ticker, LB_Class, LB_ClsDND and LB_Level2.

At present, the index identifies Conventional vintage generics with the following convention:

- Characters 1-2: 'FN' for Fannie only, 'FR' for Freddie 55-day, 'FG' for Freddie 45-day
- Character 3: 'A' for 30-year, 'C' for 15-year, 'E' for 20-year
- Characters 4-6: Coupon rate. Characters 4 and 5 represent the integer part of the coupon; character 6 represents the decimal in 8ths. Since the highest coupon in the index is 6.5%, the 4th character is the numeric zero for all index generics.
- Characters 7-8: Vintage year

The new convention for identifiers when specified cohorts enter the index will be:

- Characters 1-2: 'FF' for UMBS, 'FG' for Freddie 45-day
- Character 3: 'A' for 30-year, 'C' for 15-year, 'E' for 20-year
- Character 4: Used to identify the spec story: letters A-Y for a specified or non-specified cohort; letter Z for vintage

generics not broken out into cohorts. Further information in Appendix A.

- Character 5: integer part of the coupon rate
- Character 6: decimal part of the coupon rate in 8ths.
- Characters 7-8: Vintage year

For example:

Fannie Only	Freddie Only	Description	Combined UMBS
FNA02420	FRA02420	55-Day Delay 30 yr 2.5% 2020 vintage	FFA02420
FNC01420	FRC01420	55-Day Delay 15 yr 1.5% 2020 vintage	FFC01420
FNE03016	FRE03016	55-Day Delay 20 yr 3% 2016 vintage	FFE03016

How do I load the new Index Identifiers in PORT?

For consistency with other Bloomberg functions, to use such identifiers in upload files, the identifiers will now require a "B" prefix and "Mtge" ending to be parsed properly in upload files. For example, the index identifier for "FNCI 3 2016" is "FFE03016". To include this instrument in a price file using these identifiers, you must include "BFFE03016 Mtge" in the file. Please note, this is a significant change from what was supported previously. So, if you do upload portfolios or price files using index identifiers, please be sure to adjust your processes to accommodate this new upload convention.

Where can I see the previous publications on this topic?

Prior announcements are listed below with links. Bloomberg Terminal® users can also access these via INP<GO> by choosing "Bloomberg Fixed Income" from the Index Family menu "Announcements" from publication type.

	Publication
January 2020	Indices Changes to the Bloomberg Barclays Indices
April 2021	Indices US MBS Index Specified Pools Inclusion Update
February 22	Indices US MBS Index Specified Pools Inclusion Update 2022
May 22	Indices MBS Index Specified Pools Inclusion Update May 2022
July 22	Indices US MBS Proforma Indices with Specified Cohorts
September 22	Indices US MBS Specified Pools Inclusion Update

Where can I see the future publications on this topic?

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