

Federal Housing Finance Agency  
Office of Inspector General



# **An Overview of Common Securitization Solutions, LLC**

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## Executive Summary

Fannie Mae and Freddie Mac (the Enterprises) purchase mortgages that meet their underwriting standards and securitize them into mortgage-backed securities (MBS), which investors may purchase. The Enterprises also hold some MBS in their respective portfolios. In 2021, a total of \$6 trillion in single-family MBS was administered on behalf of the Enterprises, and they issued more than \$2 trillion in MBS in the first nine months of 2022.

Securitizing loans and issuing those securities involves several technology-dependent activities, such as data validations, transmissions, and reconciliations. Administering such a large volume of MBS also requires significant technological resources. Because the Federal Housing Finance Agency (FHFA or Agency) considered the Enterprises' securitization systems as outdated, FHFA directed them to create both a platform to issue their MBS and an entity to run the platform.

To develop the platform, the Enterprises formed Common Securitization Solutions, LLC (CSS) on October 7, 2013. CSS is headquartered in Bethesda, Maryland, and a Board of Managers oversees the entity. CSS employed more than 360 personnel in 2021.

After several years of development, CSS launched the Common Securitization Platform (CSP or platform) on June 3, 2019. CSS uses the platform to administer the Enterprises' combined single-family MBS portfolio and issue the Enterprises' single security, called the Uniform MBS (UMBS).

CSS provides vital services that facilitate the Enterprises' role in the secondary mortgage market. According to FHFA, CSS is the largest issuing agent and administrator of MBS, holding approximately 75 percent of total market share and processing 30 million loans on the platform in 2021. The magnitude and complexity of the data and technology involved in operating the platform inherently increases CSS' operational risk, which extends to the Enterprises in light of their dependency on CSS.

This white paper provides an overview of CSS and its role in the secondary mortgage market. In addition, we highlight associated risk areas. We have forthcoming work related to CSS.

**TABLE OF CONTENTS** .....

EXECUTIVE SUMMARY .....2

ABBREVIATIONS .....4

BACKGROUND .....5

    Enterprises’ Role in the Secondary Mortgage Market .....5

    CSS and the Platform: Early History.....5

    CSS and the Platform: Recent History .....6

    CSS and the Platform: Current .....7

CSS’ SERVICES TO THE ENTERPRISES .....7

RISK CONSIDERATIONS.....8

CONCLUSION.....9

OBJECTIVE, SCOPE, AND METHODOLOGY .....10

ADDITIONAL INFORMATION AND COPIES .....11

## ABBREVIATIONS .....

CSP or platform	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
MBS	Mortgage-Backed Securities
OIG	Federal Housing Finance Agency Office of Inspector General
UMBS	Uniform Mortgage-Backed Securities

## BACKGROUND .....

### Enterprises' Role in the Secondary Mortgage Market

The Enterprises support the secondary mortgage market by purchasing mortgages that meet their underwriting standards from lenders. Typically, the Enterprises package those mortgages into MBS, which they sell to investors or temporarily retain in their own portfolio. The process of bundling mortgages into MBS is known as securitization. In 2021, a total of \$6 trillion in single-family MBS was administered on behalf of the Enterprises.

**Secondary mortgage market:** In the secondary mortgage market, the lender replenishes its funding source by selling mortgages to entities such as to the Enterprises, which bundle them into MBS for sale to investors. By contrast, the lender and borrower interact in the primary mortgage market.

Securitizing loans and issuing those securities involves several technology-dependent activities. For example, the Enterprises historically validated that loan-level data were formatted appropriately and then transmitted that data to the Federal Reserve Bank of New York to issue the securities. Once the loans were securitized, the Enterprises had ongoing responsibilities, such as collecting and reconciling monthly loan data, calculating and ensuring servicers remit proceeds to investors, and disclosing characteristics and performance of issued securities.

### CSS and the Platform: Early History

In 2013, FHFA publicly expressed concern that the Enterprises' systems for securitizing mortgages<sup>1</sup> were "outmoded," "in immediate need of being upgraded and maintained," and "not effective at adapting to market changes." Earlier in 2012, FHFA, as the Enterprises' conservator, had directed the Enterprises to develop a shared securitization platform: the CSP. At the time, FHFA thought that developing the CSP would be both more efficient and less costly than each Enterprise separately updating its own systems that issue and administer MBS.

Moreover, the Agency believed that in the long-term the platform would allow multiple entities to issue MBS, and not just the Enterprises. FHFA also envisioned that the platform would be able to accommodate various securities and mortgage types. FHFA thought the

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<sup>1</sup> OIG, [Status of the Development of the Common Securitization Platform](#), at 8 (May 21, 2014) (EVL-2014-008).

platform could effectively become a type of “public utility” that could service the secondary mortgage market in the future and “outlast the Enterprises as we know them today.”<sup>2</sup>

In 2013, FHFA directed the Enterprises to create and fund CSS, the entity that now operates the platform. On October 7, 2013, the Enterprises formed CSS as a jointly- and equally-owned affiliate. CSS was chartered to create, operate, update, and maintain the technology and business activities necessary to facilitate the Enterprises’ (and potentially other users’) issuance, sale, and administration of single-family MBS.

Less than a year later, FHFA changed the scope of CSS’ efforts, explaining that it believed developing the CSP for an undefined future housing finance system was risky and costly.<sup>3</sup> Rather than creating the platform for multiple market participants to issue MBS, in May 2014, the then-Director of FHFA reduced the scope of CSS’ work to developing the platform for the Enterprises’ benefit. At that time, FHFA said it would revisit the scope of CSP’s use in the broader market.

### **CSS and the Platform: Recent History**

After several years of development, CSS launched the platform on June 3, 2019. CSS uses the platform to administer the Enterprises’ combined MBS portfolio and issue the Enterprises’ MBS, including the single security, UMBS.<sup>4</sup> The UMBS structure is the same whether Fannie Mae or Freddie Mac issues the security.<sup>5 6</sup> In October 2021, the Agency reaffirmed its prior decision to limit CSS’ scope to issuing and administering Enterprise MBS only, stating its decision reduced costs for the Enterprises and allowed CSS to concentrate on the safety and soundness of the housing finance market.

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<sup>2</sup> FHFA, [Strategic Plan for Enterprise Conservatorships](#), at 13 (February 21, 2012).

<sup>3</sup> For a fuller discussion of FHFA’s decisions regarding CSS and the platform, see OIG, [Special Report on the Common Securitization Platform: FHFA Lacked Transparency and Exercised Inadequate Oversight over a \\$2.13 Billion, Seven-Year Project](#), at 2 (March 29, 2019) (OIG-2019-005).

<sup>4</sup> OIG, [Fannie Mae and Freddie Mac Uniform Mortgage-Backed Securities](#), at 2 (March 4, 2020) (WPR-2020-001).

<sup>5</sup> Historically, each Enterprise issued its own unique security, backed by that Enterprise’s single-family fixed-rate mortgages. According to FHFA, the market for Fannie Mae securities was more liquid than the market for Freddie Mac securities, resulting in Freddie Mac subsidizing its guarantee fees on its securities. FHFA anticipated that a common security would reduce or eliminate the cost to Freddie Mac (and, ultimately, the taxpayers).

<sup>6</sup> For the remainder of this paper, we will use the term “MBS” to refer to all Enterprises’ securities that CSS issues and administers.

## CSS and the Platform: Current

Although CSS issues and administers MBS for the Enterprises only, it still processes large volumes of securities. In 2021, CSS processed payments for 30 million mortgage loans on the platform. From the platform’s inception through September 30, 2022, CSS issued approximately \$12.6 trillion in Enterprise MBS.

CSS is a relatively small company, compared to the Enterprises,<sup>7</sup> and a Board oversees its operations.<sup>8</sup> CSS is headquartered in Bethesda, Maryland, and maintains a second location in Pasadena, California. It employed more than 360 personnel in 2021. In 2021, the Enterprises contributed \$152 million of capital to CSS.

As an affiliated entity of the Enterprises, CSS falls under FHFA’s supervisory jurisdiction. FHFA follows the same examination process for CSS as it does for the Enterprises. The Agency provides to the CSS Board of Managers a Report of Examination that assigns examination ratings and communicates the principal examination conclusions and findings for the supervisory cycle. FHFA derives its composite rating of CSS mainly by assessing CSS’ operational and management risk (discussed later in this paper).

## CSS’ SERVICES TO THE ENTERPRISES .....

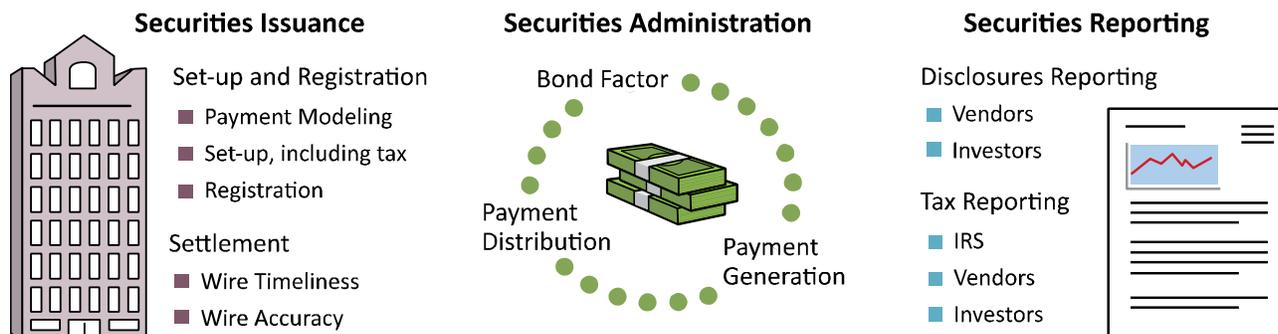
CSS provides various services to the Enterprises as part of issuing and administering their MBS portfolios. CSS’ core business services to the Enterprises are divided into three main areas: issuance, administration, and reporting. Figure 1 illustrates these services.

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<sup>7</sup> For comparison purposes, in 2021, each Enterprise employed more than 7,000 employees and operated with a budget of between \$2.6 billion and \$3 billion.

<sup>8</sup> CSS’ Board of Managers currently consists of an independent Board Chair, the CSS CEO, and Enterprise representatives.

**FIGURE 1. CSS' SERVICES TO THE ENTERPRISES**



Source: OIG analysis of FHFA information.

First, to issue the Enterprises' MBS, CSS must set up and register the securities and support those securities settling. As part of security set-up and registration, CSS confirms that future payments will be consistent with the securities' disclosures and registers the securities with the Federal Reserve Bank of New York. CSS also holds responsibility for all functions and activities to support MBS transactions occurring timely and accurately. CSS issued more than \$4.5 trillion in MBS in 2020, and it issued approximately \$4.8 trillion in MBS in 2021. The company completed approximately 136,000 transactions in 2021.

Next, CSS administers the MBS after issuance by calculating investor payments<sup>9</sup> and facilitating distribution of those payments. CSS calculated investor payments on more than one million securities in 2021 (based on monthly averages).

Finally, CSS reports on the securities' performance to various parties. CSS supports disclosures to vendors and investors and reports tax information on the securities to the Internal Revenue Service, vendors, and investors. CSS provided 64,000 tax-related statements in 2021 for the outstanding MBS it administers.

## RISK CONSIDERATIONS.....

FHFA's composite rating of CSS is based primarily on its examination of operational risk and management risk.<sup>10</sup> Operational risk is defined as risk of loss from inadequate or failed systems, internal processes, people, or external events. Management risk encompasses the

<sup>9</sup> CSS uses factors to calculate payments to investors. A factor is a number that represents the percentage of the original MBS balance outstanding as of a given date.

<sup>10</sup> FHFA's examination rating system is named "CAMELSO," whose individual components are Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk. In this paper, we discuss the two CAMELSO risk areas related to CSS: operational and management.

risk of loss from deficits in the capability and willingness of the Board of Managers and senior management to identify, measure, monitor, and control CSS’ risks, and to ensure that its operations comply with relevant regulations and laws.

FHFA reports that CSS’ operational risk includes, among other things, information technology, information security, third-party relationships, oversight and execution of business processes, and business resiliency. The magnitude and complexity of the data and technology involved in CSS operating the platform increases the operational risk inherent in its business activities. With respect to management risk, as defined above, FHFA examines the performance, oversight, and risk management practices of CSS’ Board of Managers and its senior management. Recognizing these risks, CSS employs various strategies to mitigate both operational and management risks.<sup>11</sup>

Not only does the scope of CSS’ operations pose inherent risks to CSS, those risks also affect the Enterprises due to their reliance on the company. In particular and as mentioned above, information security threats pose a risk to CSS, and by extension to the platform it uses to issue the Enterprises’ MBS. According to FHFA, CSS is the largest issuing agent and administrator of all MBS, holding approximately 75 percent of total market share in 2021. The Enterprises acknowledge that a failure in CSS’ information systems could prevent the issuance of new MBS, inhibit payments to investors on existing securities, and ultimately adversely affect the value and liquidity of Enterprise MBS.

## CONCLUSION.....

CSS serves as a critical part of the Enterprises’ role in the secondary mortgage market. The magnitude and complexity of the data and technology involved in operating the platform presents a high level of inherent risk. Board and senior management shortcomings could also increase management risk. The company’s importance is underscored by the Enterprises’ dependence on CSS for securities issuance and administration combined with the adverse effect on the secondary mortgage market if CSS fails to fulfill its role. As one of the entities under FHFA’s purview, and because of CSS’ significance to the Enterprises, we have forthcoming work on CSS.<sup>12</sup>

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<sup>11</sup> A more fulsome discussion of CSS’ risk mitigation strategies is beyond the scope of this white paper. Other OIG work will address additional aspects of CSS’ operations and FHFA’s attendant oversight.

<sup>12</sup> See OIG, [FHFA-OIG FY 2023 Annual Plan](#), at 9 (October 6, 2022).

## OBJECTIVE, SCOPE, AND METHODOLOGY .....

The objective of this white paper is to provide an overview of CSS, its role in the secondary mortgage market, and related risks. To achieve this objective, we reviewed internal FHFA and CSS documents, as well as publicly available documents. We requested and reviewed information from the Agency.

We provided FHFA with the opportunity to respond to a draft of this white paper. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this white paper.

## ADDITIONAL INFORMATION AND COPIES.....

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