Comparison of Delivery vs. Payment (DVP) and Delivery vs. Free (DVF or Free)

This document compares the “Delivery vs. Payment” (DVP) and “Delivery vs. Free” (DVF) methods for delivering MBS to Fannie Mae and the delivery of funds to the Lender. Lenders choose the DVP or DVF method of delivery for securities. The industry standard and preferred method of delivery is DVP.

	Delivery vs. Payment (DVP)	Delivery vs. Free (DVF)	Considerations
Description	**Delivery vs. Payment (DVP)** is a settlement mechanism/method in which the transfer of securities and associated payment occur simultaneously. This ensures that the final transfer of the security occurs if, and only if, the final transfer of the associated payment (or other assets) occurs.	**Delivery vs. Free (DVF)** is a settlement mechanism/method in which the transfer of securities occurs for free (without the simultaneous exchange of associated payment). The payment is sent via a separate wire	Under DVP, the lender is paid immediately. Under DVF (free), the lender gets paid later (typically the same day), although same-day funding is not guaranteed.
Issuance of MBS	Security is delivered to Lender’s Custodian Bank from Fannie Mae. Fannie Mae is the issuer.	Security is delivered to the Fannie Mae Capital Markets Pricing and Sales Desk (CMPSD) directly from Fannie Mae. Fannie Mae is the issuer. This is commonly referred to as a *free* delivery but may also be referred to as an Original Issue (OI).	All MBS are sent free from issuer. Under DVP, the *original issue (OI)* security is sent from the issuer to the custodian bank via DVF (free), and the custodian bank delivers the security to the investor (CMPSD) via DVP. Under DVF (free), the security is sent directly to the CMPSD free. Therefore, the term *original issue (OI)* is more commonly used to describe a DVF (free) delivery as the investor receives the OI security instead of the custodian. *Note, the use of OI to describe a DVF (free) delivery is generally used within Fannie Mae. Market participants would likely describe it simply as a free delivery.*
Delivery into MBS Trade	Security is delivered to Fannie Mae Capital Markets Pricing and Sales Desk (CMPSD) from Lender’s Custodian Bank.	Security has already been delivered directly to Fannie Mae CMPSD from Fannie Mae’s issuer account.	DVP – trade is settled immediately after delivery of security. DVF (free) – trade is **not** settled immediately after delivery of security; funds are separately wired later that day or early the next day.

	Delivery vs. Payment (DVP)	Delivery vs. Free (DVF)	Considerations
Delivery Method	Upon delivery, the securities are automatically debited from the sender's securities account and credited to the receiver's securities account, and simultaneously, the corresponding funds are debited from receiver's funds account and credited to the sender's funds account.	Upon delivery, the securities are automatically debited from the sender's securities account and credited to the receiver's securities account. However, there is no corresponding simultaneous funds transfer – thus the securities are delivered free (DVF). The payment is sent via a separate wire, typically the same day after 3:00 p.m. ET.	Simultaneous payment and delivery are the keys to DVP. In DVF, the lender delivers securities to Fannie Mae's CMPSD and then waits for payment.
Example	Fannie Mae is newly issuing a mortgage-backed security (MBS) on behalf of Lender A. Fannie Mae (issuer) delivers the security (MBS) to Lender A's Custodian Bank. Lender A has also entered into a trade to sell $100,000 par (trade amount) of a mortgage backed security (MBS) for today's settlement to Fannie Mae's CMPSD (as the investor) at a price of 101 ($101,000 in proceeds). When Lender A delivers the security (via a clearing bank that is a participant of the Fedwire Securities Service) to the Fannie Mae CMPSD account via DVP, the security is automatically debited from Lender A's account at the clearing bank and credited to Fannie Mae's CMPSD account for $100,000 in par, and simultaneously, the corresponding funds (proceeds) are debited from Fannie Mae's CMPSD account and credited to Lender A's account at the clearing bank for $101,000.	Fannie Mae is newly issuing a mortgage backed security (MBS) on behalf of Lender A. Fannie Mae (issuer) delivers the security (MBS) directly to the CMPSD. Lender A has also entered into a trade to sell $100,000 par (trade amount) of a mortgage backed security (MBS) for today's settlement to Fannie Mae's CMPSD (as the investor) at a price of 101 ($101,000 in proceeds). Upon delivery, the security is debited from Fannie Mae's issuer account and credited to Fannie Mae's CMPSD account for $100,000 in par. Because the securities were delivered for free (DVF), the corresponding funds ($101,000 in proceeds) are sent via a separate cash wire to the lender or warehouse bank per the instructions provided by the lender after 3:00 p.m. ET, typically on the same day. **Funding typically occurs on the same day, but Fannie Mae does not guarantee same-day funding.*	• See example graphics in previous two columns (top of next page). The first movement from the issuer is always free. This movement is the original issue (OI). o Under DVP, the second movement is the custodian sending the security to Fannie Mae's CMPSD and Fannie Mae's CMPSD sending payment back in the same transaction. o Under DVF (free), the CMPSD receives the security from the issuer, generally in the morning but sends the cash in a separate wire after 3:00 p.m. ET, typically on the same day. *Note: Funding typically occurs on the same day; however, Fannie Mae does not guarantee same-day funding.* • Many warehouse institutions have a cut-off time – commonly prior to 3:00 p.m. ET – to receive funds in order to credit a lenders account. If funds are received by the warehouse lender after the cut-off time, the lender may incur an additional day of warehouse

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		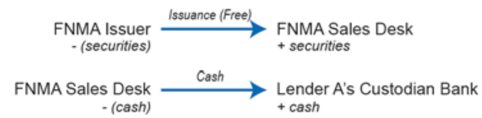	funding costs.
Advantages	• Immediate availability of funds for the Lender • Industry standard • Preferred delivery method for MBS • Security and reliability through custodian/lender/Fannie Mae relationship • Real-time processing • May reduce warehouse funding expense	• Potential avoidance of nominal cost due to lack of custodian relationship	• Although there may be nominal costs associated with contracting with a custodian, the lender benefits from reduced operational and financial risk. • Lenders may already be contracting with an entity that would act as a custodian without additional charges, such as their warehouse facility. • May reduce warehouse funding expense by delivering cash wire to warehouse facility ahead of their daily cut-off time (commonly prior to 3:00 p.m. ET.)
Disadvantages	• Potential for nominal cost due to maintaining a custodial relationship	• Risk of not being funded the same day • Risk of receiving funds late in the day • Risk of incurring additional warehouse funding costs due to warehouse lending cut-off times.	• DVP eliminates risk of not being funded the same day as the payment is sent at the same time the pool is delivered. • Under DVP, the lender – not Fannie Mae – determines when funding will occur. When the lender delivers the pool, Fannie Mae simultaneously sends the payment.

