September 15, 2014

Federal Housing Finance Agency
Office of Policy Analysis and Research
400 7th Street SW, Ninth Floor
Washington, DC 20024

FHFA Strategic Plan: Fiscal Years 2015-2019: Request for Input

Dear Sir or Madam:

The Structured Finance Industry Group[1] ("SFIG") appreciates the opportunity to respond to the Federal Housing Finance Agency's ("FHFA") request for input on the proposed Strategic Plan: Fiscal Years 2015-2019 ("Strategic Plan"). SFIG's views are based on opinions from the members of its GSE Reform Task Force ("Task Force"). The Task Force is comprised of constituencies from all areas of the residential securities market, including investors, issuers, servicers, due diligence firms, law firms, trustees, accounting firms, rating agencies and other market participants.

Recently, SFIG separately submitted a comment letter to FHFA in response to its Request for Input on Fannie Mae and Freddie Mac (collectively, the "Enterprises") Guarantee Fees ("G-Fee Letter"). Additionally, SFIG also submitted a comment letter to the United States Department of the Treasury ("Treasury") in response to Treasury's request for comment on the private label securities market ("PLS") for residential mortgage backed securities ("RMBS") ("Treasury PLS Letter"). In the interest of brevity here, we will not repeat all of the material in the G-Fee Letter and in the Treasury PLS Letter, but would direct FHFA's attention to the other letters for more of our thoughts relating to the re-invigoration of the PLS market for RMBS and approaches to encourage private capital to invest in mortgage credit. SFIG's G-Fee Letter and Treasury PLS Letter (without related appendices) are both attached hereto as Exhibit A and Exhibit B, respectively.

In this comment letter, we will address specifically two of the "performance goals" listed in the Strategic Plan under "Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships" – "Performance Goal 3.2: Reduce tax payer risk from Enterprise operations," and "Performance Goal 3.3: Build a new single-family securitization infrastructure."

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[1] SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

Performance Goal 3.2: Reduce taxpayer risk from Enterprise operations.

FHFA summarizes this goal as follows:

> FHFA is focused on ways to bring additional private capital into the housing finance system to lessen taxpayer risk by reducing Fannie Mae and Freddie Mac's overall portfolio risk exposure. FHFA's objective is to shift risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit.

FHFA then describes three specific actions that are being undertaken with respect to this goal:

- The credit risk transfer transactions undertaken by the Enterprises for their single-family credit guarantee business, including those transactions that take the form of capital market executions via Fannie Mae's "Connecticut Avenue" and Freddie Mac's "Structured Agency Credit Risk" or "STACR" programs;

- The reduction in size of each Enterprise's retained portfolio as mandated by the Senior Preferred Stock Purchase Agreements with Treasury; and

- The strengthening of eligibility standards and master policies for private mortgage insurers.

SFIG's initial observation regarding the three items cited above, that are listed as "priorities" under this performance goal, is that they all seem to define the performance goal in terms of reducing "taxpayer risk" insofar as it is embedded in the Enterprises' existing book of business – the credit guarantee business and the retained portfolios.

While the listed priorities are all sound, SFIG believes that FHFA may be being too modest, and not fully taking advantage of its role as the nation's primary regulator of the housing finance market and the government agency most specifically charged with developing a framework for the future of that market.

To be more specific: SFIG strongly believes that the best way for the risk to taxpayers to be reduced is for the Enterprises to issue fewer guaranteed mortgage backed securities, and for there to be increased issuance of non-guaranteed PLS. The difficulties in achieving the second aspect of that plan – increased PLS issuance – are many, and we direct FHFA to our Treasury PLS Letter for our thoughts in that regard and our proposed responses to those difficulties.

As a consequence of the strength of our members' beliefs, SFIG would urge FHFA to approach performance goal 3.2 not just in terms of reducing the risk to taxpayers embedded in the current book of business, but of also exploring ways in which the assumption of further

taxpayer risk can be scaled back to be more in line with the Enterprises' pre-crisis level share of the nation's housing finance market.

Although SFIG believes that the nation is rightly indebted to FHFA and the Enterprises due to the way in which they carried out their fundamental statutory mandate of preserving mortgage market liquidity during the financial crisis, we believe that "reducing the Enterprise footprint" should also be a priority for performance goal 3.2.

SFIG, of course, is aware of, and acknowledges, that the future of the Enterprises is in large part out of FHFA's hands, and that fundamental decisions regarding the path forward have yet to be made by Congress. However, FHFA does have control over less fundamental but nevertheless very important actions and policy that could help reduce the future "Enterprise footprint" and thus lessen taxpayer risk.

The most readily-identifiable actions that are under the FHFA's control are the conforming loan limits and the level of G-Fees.

Conforming Loan Limits. SFIG believes that the principal lever at FHFA's disposal to reduce the "Enterprise footprint" and lessen taxpayer risk is a reduction in the conforming loan limits.

At the present time, mortgage loans not flowing into an Enterprise execution are of primarily two types: loans that would not be "qualified mortgages" under the Consumer Financial Protection Bureau's recently-adopted "ability-to-repay" rule, and so-called "jumbo" loans – loans with balances above the conforming loan limit. Said differently, almost all qualified mortgages that are within the conforming loan limits are flowing into Enterprise execution, and thus increasing taxpayer risk.

FHFA has direct control over the conforming loan limits, and SFIG believes that bringing the loan limits back to the $417,000 level (for most locations) would be the single most powerful action FHFA could take, on its own initiative, to lessen taxpayer risk. Similar to an increase in G-Fees (discussed below), however, SFIG is quick to caution that it is extremely difficult to predict the effect of one action taken in isolation, but we encourage FHFA to consider lower conforming loan limits as another element of performance goal 3.2.

G-Fee Levels. As we noted in our G-Fee Letter, other things being equal, a higher G-Fee would serve to make a PLS relatively more attractive as a funding option to a lender, simply because it makes execution through the Enterprises relatively less attractive. Thus higher G-Fees *tend* to encourage more PLS issuance, but the degree to which that tendency would be effective in isolation given overall conditions in the mortgage markets at the present time is unclear. As a general matter, however, SFIG supports higher G-Fees, especially on higher-balance loans, and we believe higher G-Fees would serve to encourage increased PLS issuance. This step is best taken in conjunction with other steps as part of an overall policy of seeking to re-invigorate the PLS market.

We offer two more suggestions for FHFA to consider in connection with performance goal 3.2: one very specific and one very general.

Our very specific suggestion relates to the treatment of the Connecticut Avenue and STACRs securities in the case of a real estate investment trust ("REIT").

SFIG is under the impression that although each of the Connecticut Avenue and STACRs issuances, to date, have been substantially over-subscribed, the spreads on these transactions have recently begun to widen. Although SFIG has no reason to believe that the execution on the risk-transfer transactions is in any danger of making those transactions uneconomical for the Enterprises, the broader the market for those transactions, the better the execution and the more successful those transactions will be at transferring risk.

Even though REITs are otherwise natural buyers of GSE risk-transfer securities, there are many technical rules, under both the federal securities laws as well as under the federal tax laws that result in the risk-transfer securities being less than ideal investments for REITs.

Under current law, the risk-transfer securities do not qualify as "qualified interests" for the so-called "55% Test," also known as the "whole pool test", under Section 3(c)(5)(C) of the Investment Company Act of 1940. The risk-transfer securities also do not qualify for treatment as "real estate assets" under the Internal Revenue Code's REIT rules. Both of these provisions act as disincentives for REITs to purchase securities issued in the risk-transfer transactions. We recognize that neither provision is under FHFA's jurisdiction, but we suggest that FHFA consider either structural changes to the programs or seeking other relief from the appropriate regulators with a view towards deepening the market for the risk-transfer securities.

Lastly, with respect to performance goal 3.2, we would like to return to our initial observation regarding the items listed by FHFA as perhaps being too modest of an agenda.

Our Treasury PLS Letter, as well as many of the other letters submitted by other commenters in response to Treasury's request for input, made note of the fact that "the government," broadly construed across many agencies, federal and state, and across different branches of government, is sending mostly mixed signals regarding the re-invigoration of the PLS market – which, as a broad theme, is the surest way to lessen taxpayer risk.

FHFA is, after all, the Federal *Housing Finance* Agency – the one agency specifically charged with maintaining liquidity in the nation's mortgage markets. FHFA's current position in this market is even more enhanced through its role as the conservator of the Enterprises. SFIG believes that FHFA should embrace robustly a position of advocacy for the re-invigoration of the PLS market, if not in fact lead that effort to resolve many of the regulatory issues identified in our G-Fee Letter.

Performance goal 3.3: Build a new single-family securitization infrastructure

FHFA summaries this goal as follows:

> Building a new infrastructure for the securitization functions of the Enterprises remains an important priority for FHFA. This includes on-going work to develop the Common Securitization Platform ("CSP") infrastructure and to improve the liquidity of Enterprise securities. Additionally, FHFA continues to work to build more accurate and uniform mortgage data standards used by both the Enterprises and other market participants.

With regard to the CSP in particular, FHFA adds that "[w]hile FHFA will require the Enterprises to build the new infrastructure for use by both companies, FHFA will also require that the CSP be adaptable for use by additional market participants in the future." FHFA also includes references to the development of a "single security" under this performance goal.

We note that FHFA has, in addition to the request for input to which this comment letter is responding, a second request for input specifically devoted to the proposed single security structure. SFIG expects to file a comment letter in response to that request for input, and we will, therefore, keep our comments here very brief.

SFIG supports both the CSP initiative as well as the single security initiative of FHFA, provided that the end product is not disruptive to the to be announced ("TBA") or the dollar-roll markets, as these are the underlying mechanisms of both the benchmark pricing of the mortgage market, as well as of that market's liquidity.

At this point in the process, however, we would urge FHFA to keep the CSP initiative focused on the Enterprises, and not on the potential use of that platform by the "additional market participants" referred in the discussion of performance goal 3.3.

Although many of SFIG's investor members in particular have suggested that the PLS market would benefit from more consistency in terms of legal documentation, disclosure, the data that is supplied to potential investors, reporting, key servicing concepts such as "loss mitigation" and "net present value analysis," and many other aspects of the PLS market, it is also likely to be true that, by its very nature, the PLS market's products will continue to exhibit a fair level of product differentiation (at both the mortgage and at the security level).

One of the purposes of a private market is to enable each market participant to target a particular segment of that market. This is a different philosophy than that which prevails in the "rates" and "agency" market, where the drive is towards uniformity – the *common* securitization platform, the *single* security.

It may well be that there will be some, and perhaps many, common infrastructure elements of both the Enterprise and the PLS market in the future. A national electronic mortgage registry, as has been advocated by many, may be an example of such a useful, common

infrastructure element. Other elements – those specifically built around TBA's or dollar rolls, for example – may not translate outside of the Enterprise or broader "rates" and "agency" spaces.

SFIG sees no harm in designing the CSP with enough flexibility such that it could potentially be used outside the Enterprise/"rates"/"agency" markets, but we do not believe it would be productive at this time to try to anticipate the needs of the PLS market vis-à-vis the CSP.

We greatly appreciate the opportunity to provide input on the Strategic Plan. Please contact the undersigned at Richard.Johns@sfindustry.org or 202-524-6301 with any questions or comments.

Sincerely,

Richard Johns
Executive Director

Exhibit A

Guarantee Fee Letter

September 5, 2014

Federal Housing Finance Agency
Office of Policy Analysis and Research
400 7th St., SW, Ninth Floor
Washington, DC 20024

Fannie Mae and Freddie Mac Guarantee Fees: Request for Input

Dear Sir or Madam:

The Structured Finance Industry Group[1] ("SFIG") appreciates the opportunity to respond to the Federal Housing Finance Agency's ("FHFA") request for input on guarantee fees ("G-fees"). SFIG's views are based on opinions from the members of its Government Sponsored Enterprises ("GSE") Reform Task Force, which is comprised of constituencies from all areas of the residential mortgage-backed securities market, including issuers, servicers, investors, due diligence firms, law firms, trustees, accounting firms, ratings agencies and other market participants.

SFIG believes that there are two primary reasons to adjust G-fees, notably:

1) to effectively price the credit risk associated with a mortgage guarantee, including both the probability of borrower default and the associated change in payment to investors if such a default were to occur.

2) to incentivize the return of private capital to the mortgage market by creating or moving towards pricing equilibrium between the private label securities ("PLS") market funding level and the GSE funding levels.

SFIG's primary goal is to support securitization as an essential source of core funding for the real economy.[2] Our response is generally centered on the impact of adjusting G-fees to the PLS market.

[1] SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

[2] While SFIG's response to FHFA focuses on the short-term impact of amending G-fees, it should be noted that SFIG believes that maintaining the GSEs in conservatorship is not sustainable and meaningful legislative reform is required in order to create a viable and liquid housing finance marketplace.

PLS Market is an Essential Source of Funding for Mortgages

The PLS market provides three main benefits in an efficient and healthy secondary mortgage market:

1) Participants would be able to select from GSE, portfolio, or PLS market funding. SFIG believes that the ability to select from **all three** funding options would allow lenders to provide the consumer with the most competitive mortgage rate – a clear benefit to the real economy, both in terms of providing a low cost of funding but also as a means to diversify housing market funding alternatives and reduce reliance on tax-payer-supported mechanisms, which are currently pervasive.

2) The PLS market provides an outlet for product that the GSEs may not or cannot purchase, such as loans that exceed the conforming loan limit.

3) The PLS market provides a validation mechanism for GSE pricing of mortgage credit risk by making access to mortgage credit more efficient, reducing a potential risk of mispricing credit risk in mortgage origination, and limiting potentially excessive risk-taking by mortgage originators and the GSEs.

An Adjustment to G-Fee Pricing in Itself May Not be the Most Effective Method to Stimulate the Return of the PLS Market

SFIG believes that an increase in G-fees is an important step in returning private capital to the mortgage market, and could potentially stimulate supply to the PLS market. Ideally, in a perfectly efficient market, an immediate increase in G-fees would reduce the cost differential between the PLS market and the present GSE structure, thus providing an impetus for private capital returning to the mortgage market.

While such an increase in G-fees may *theoretically* incentivize an increased supply to the PLS market, there remain two key areas of concern:

1) Is the use of these measures likely to be a significant driver of such a swing in supply?

2) Can a "still recovering" PLS market digest any significant increase in supply?

Many, but not all, of our members believe that the PLS market is not sufficiently robust to absorb such a change due to the known structural issues and regulatory overhang that exist (See Appendix A for a further description). Additionally, beyond considerations related to the PLS market, we should remain cognizant of the current macro-economic environment and take great care in considering any action that may affect the cost to consumers and the overall recovery of the housing market.

Conversely, some of our membership, believe that stimulating supply to the PLS market will incentivize market participants to resolve structural issues. Additionally, they highlight that given

the current low-interest rate environment, which provides consumers with near-record low-cost funding, the impact of a G-fee increase may be negligible.

To avoid over-stressing the currently thin PLS market and to protect against the risk of creating unintended macro-economic consequences, while being mindful of credit availability, a different approach to setting G-fees (discussed below) might be more appropriate.

Decreasing Loan Limits May Be a More Efficient Stimulant to Restoring the PLS Market

A reduction in loan limits has a more direct impact on driving supply to the PLS market than an increase in G-fees, as it actually *prevents* the affected loans from being GSE-financed. When the time is right to incentivize that supply, the more efficient stimulant may therefore be the use of loan limits.[3] A decrease in conforming loan limits would not only serve as a more powerful tool for incentivizing a return of private capital but would also allow the GSEs to focus on borrowers at the lower loan limits who are in most need of lower cost financing.[4] However, it should be noted that due to the structural issues currently present in the PLS market, there is a possibility that ultimately certain loans will not be originated by some lenders (or, if originated at all, being done so at a higher interest rate) if there is no longer a GSE outlet and assuming portfolios are balance sheet constrained.

Suggested Approach to Potential G-fee Increases

SFIG would advocate that the FHFA should consider increasing G-fee pricing on a graduated basis based on loan balance limitations. The timing of these G-fee increases applied specifically to higher loan balances should be phased in so as to allow the PLS markets to digest the increased supply.

We recommend this approach be taken on a gradual and deliberate basis to strike a balance between stimulating the return of the PLS market and the risk of overloading both a fragile capital and real estate market. A multi-step approach whereby one set of G-fees exists for loans with a balance up to $417,000 and a second, higher set of fees exists for balances that exceed this more traditional loan limit may be workable as an interim step provided this step is "well telegraphed" to market participants and executed in a gradual fashion. This may also prevent G-fee increases from adversely affecting borrowers purchasing less expensive houses.

Simultaneously, as any potential increases take shape, we ask FHFA to urge regulators to reach resolution on many of the regulatory issues (see Appendix A) that continue to create an overhang in the PLS market and to support industry initiatives, such as SFIG's Project RMBS 3.0, to remedy any structural issues in the PLS market. It will be difficult for the PLS market to take on additional supply simply resulting from an increase in G-fees, without concurrently addressing these issues.

[3] The primary avenue to re-introduce the PLS market would be to create a market where the GSEs are not active: non-qualified mortgages and jumbo mortgage loans (loan size above the GSE conforming loan limit). Adjustable-rate mortgages, which are not eligible for delivery into TBA securities, could also be an area for private capital to participate.
[4] As SFIG has previously espoused in times of exigency, such as during a credit crisis, loan limits can be temporarily increased if governmental support becomes necessary.

SFIG Responses to FHFA's Questions

We have answered selected questions below, related primarily to our expertise within the PLS market.

1. Are there factors other than those described in section III – expected losses, unexpected losses, and general and administrative expenses that FHFA and the Enterprises should consider in setting g-fees? What goals should FHFA further in setting g-fees?

SFIG believes that consideration should be given to the operational advantages embedded within the GSE funding model over the PLS market. Unless that value is fairly priced into the G-fee, GSE execution will always have an inherent advantage over PLS execution. Specifically, the FHFA should take into account the pricing advantages that government guaranteed securities have over private markets (e.g. senior highly-rated PLS), derived from:

1) a higher degree of standardization (e.g. servicing agreements, contractual arrangements, representations and warranties);
2) scale efficiencies due to the higher volume of loans flowing through the GSEs;
3) credit spread advantages due to the government guarantee; and
4) lower embedded costs due to less onerous regulations.

While these advantages could be transparently priced to further level the playing field, any incremental fees should flow back directly to the taxpayer who ultimately provides such benefits, in lieu of either the industry or via the government.

Notwithstanding the above, and understanding there are additional issues that inhibit growth of the PLS market, it must be recognized that in order to stimulate PLS, provide more diverse funding options and create long-term benefits to consumers and the real economy, some short-term stimulus may be required, which surpasses the principles of price transparency.

2. Risk to the Enterprises increases if the proportion of higher-risk loans increases relative to the proportion of lower-risk loans. This change in mix can occur if lower-risk loans are retained on bank balance sheets instead of being sold to the Enterprises, if more higher-risk loans are sold to the Enterprises, or if the overall mix of originated loans changes. What alternatives, other than risk-based pricing, should be considered? What are the pros and cons of each alternative?

The goal of returning private capital through the PLS market should be an important FHFA consideration. An increase in G-fees may facilitate the return of the PLS market, particularly if increases target higher balanced loans first. This approach would also be protective of consumers at the lower end of the housing market. However, given the issues that exist in the PLS market today, any G-fee increase, even on higher balance loans, should be done on a gradual basis, after careful consideration of the impact such increases on credit availability and pricing.

SFIG strongly believes in market transparency and recommends that any setting of new prices or pricing structures should be done in a transparent manner, to include important considerations such as the risk basis being priced (e.g., loan, security, vintage or entity). Moreover, we would expect other considerations, such as affordable housing goals and GSE funding advantages, to be transparently priced outside of the G-fee mechanism.[5]

3. Currently, target return on capital and the amount of capital largely determine required g-fees. What factors should FHFA and the Enterprises consider in setting target return on capital and amount of capital required? How should the Enterprises allocate capital across risk buckets?

SFIG believes that reform of the GSEs and the housing finance system is an important goal that requires a legislative solution. We do not believe that decisions made regarding appropriate target returns on capital and amounts of capital required to be held by the GSEs while in conservatorship should be interpreted as long-term recommendations for appropriate levels for guarantors operating in a restructured housing finance system.

The purpose of capital is to create a cushion against unexpected losses. Capital creates a buffer after loan-loss reserves, and prior to any government guarantee being drawn upon. SFIG favors a housing finance system where normal and unexpected losses are absorbed by a private for-profit enterprise, while extraordinary losses would cause a draw on a government guarantee that would be financed through the collection of guarantee fees.

SFIG views the GSEs' traditional capital thresholds (approximately ½ percent historically) as too low. However, we do not believe that there is any justification to increase that amount beyond a 4-5 percent capital level, which would have been more than sufficient to cover the GSE's portfolios in the aggregate during the credit crisis.[6]

Additionally, since the credit crisis, not only have industry losses diminished but underwriting standards have become more conservative, both in terms of risk appetite and risk assessment. The ability to create large markets consisting of subprime loans and loans with no documentation has been severely diminished through the implementation of the "Ability-to-Repay" rule.[7]

In our briefing book on the Housing Finance Reform and Taxpayer Protection Act of 2014 (the "Act") that passed the Senate Committee on Banking, Housing, and Urban Affairs, we highlighted several considerations in assessing the proper amount of capital for guarantors as contemplated in a future state. The Act would have required a guarantor to have 10 percent capital.

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[5] SFIG has testified that Congress should explicitly promote affordable housing through a stand-alone program not linked in any way to the operation of the secondary mortgage market, and should fund that program through separate legislative mechanisms. http://www.sfindustry.org/uploads/TestHousingReformSenBankCom_09_12_13.pdf, SFIG testimony before the Senate Committee on Banking, Housing, and Urban Affairs, September, 12, 2103, page 5.

[6] http://www.urban.org/UploadedPDF/412935-The-GSE-Reform-Debate-How-Much-Capital-Is-Enough.pdf, The GSE Reform Debate: How Much Capital is Enough? Laurie Goodman and Jun Zhu, Urban Institute, October 24, 2013, page 6.

[7] Ability to Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z), 12 CFR 1026.

SFIG believes that capitalizing a future housing finance system to withstand a 10 percent unexpected loss is not necessary and is substantially more of a buffer than is required given loss expectations and historical loss deviations. Higher capital requirements could impact homeownership rates in the United States. We would expect the cost of a 10 percent capital requirement to be passed on to borrowers, which could create mortgage rate increases of ½ percent or more. Any such increase would likely adversely impact the U.S. housing market and economy, by dampening homeownership demand.

SFIG believes a more appropriate capital requirement would be 4-5 percent. SFIG would also note that the FHFA has proposed capital requirements for mortgage insurance companies that will be based upon stress tests. The FHFA should consider setting appropriate required capital for G-fees in a consistent manner.[8]

FHFA also inquired about what factors should be considered in setting target return of capital. SFIG believes that achieving a market return consistent with those of private entities bearing similar risks (including banks, mortgage insurers and capital markets risk transactions) should be the primary driver in setting the target return of capital.

4. At what g-fee level would private-label securities (PLS) investors find it profitable to enter the market or would depository institutions be willing to use their own balance sheets to hold loans? Are these levels the same? Is it desirable to set g-fees at PLS or depository price levels to shrink the Enterprises' footprints, even if this causes g-fees to be set higher than required to compensate taxpayers for bearing mortgage credit risk and results in higher costs to borrowers?

There are other factors beyond increasing G-fees that will affect both issuer and investor decisions to return to the PLS market (see Appendix A). The inherent operational funding advantages that the GSEs maintain over private capital have grown larger since conservatorship. Raising G-fees to reflect a fully transparent risk-based pricing level will still leave overall GSE funding costs at a lower level to that of private capital.

We have refrained from commenting on whether there should be a long-term G-fee pricing adjustment or incentive to stimulate the PLS market, as we believe legislative reform is required in order to ensure a viable and liquid housing finance marketplace. However, as we stated in our responses to questions one and two, short-term stimulus may be warranted, and we would expect that any increase to G-fee pricing would be transparent.

SFIG also believes that an increase in G-fees is theoretically an important step in returning private capital to the mortgage market, and could potentially stimulate supply to the PLS market over the long term. In a normally functioning mortgage market, participants are able to select among GSE, portfolio, and PLS funding options that allow lenders to provide consumers with the most competitive mortgage rate.

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[8] http://www.fhfa.gov/PolicyProgramsResearch/Policy/Documents/PMIERs/PMIERs-Overview.pdf, FHFA Requests Input on Draft Private Mortgage Insurer Eligibility Requirements for Fannie Mae and Freddie Mac Counterparties, July 10, 2014.

Furthermore, any increase in G-fees should be initiated within higher loan limits first and followed on by a decrease in conforming loan limits to historical pre-crisis levels. Due to the structural issues in the PLS market, we believe any increase should be deliberate and telegraphed to the market, after careful consideration of the impact of increases on credit availability and pricing. A gradual approach to phase in increases to the G-fees over an extended period of time as the PLS market returns would be the appropriate approach given the recovering housing and mortgage markets.

5. If the Enterprises continue to raise g-fees, will overall loan originations decrease? That is, will Enterprise loans decline without a commensurate increase in private capital?

Any increase to the G-fee will theoretically affect the aggregate cost of home financing and loan originations in the short-term.

However, over the long-term, prior G-fee increases have not substantially impaired the availability of mortgage credit in the United States.

Specifically, we would add that if the increase in G-fees stimulates the return of the PLS market over the long term and creates more equilibrium between portfolio, PLS and GSE funding, then we believe such a change takes a step in the right direction towards building a sustainable funding infrastructure that any liquid housing market requires. When banks and other originators have confidence in a diverse set of funding tools, and financing is robust across all market participants, then consumers feel confident re-entering the market, and loan originations increase.

Consequently, SFIG believes that a measured increase in G-fees targeted to higher loan balances may be helpful in bringing market participants back into the PLS market. However, we are mindful that such an increase may result in higher interest rates for these loans, and of the need to limit any disruption in the housing and mortgage markets that may result. We anticipate any loan origination decrease would be marginal. It should also be noted that due to the structural issues currently present in the PLS market, there is a possibility that ultimately certain loans will not be originated by some lenders (or, if originated at all, being done so at a higher interest rate) if there is no longer a GSE outlet and their portfolio balance sheets are constrained. Therefore, we suggest any G-fee increases, even for loans with higher loan balances, be done on a gradual basis.

Over the long-term, SFIG believes that the ability to select GSE, portfolio or PLS market funding options would allow lenders to provide the consumer with the most competitive mortgage rate – a clear benefit to the real economy, both in terms of providing a low cost of funding but also as a means to diversify housing market funding alternatives and reduce reliance on tax-payer-supported mechanisms, which are currently pervasive.

6. Is it desirable for the Enterprises to charge higher g-fees on low credit score/high LTV loans if it causes these loans to be insured/securitized through FHA/Ginnie Mae rather than through the Enterprises?

SFIG believes that merely changing the destination of where loans are entering the secondary market is not impactful to the return of private capital. Since the GSEs are in government conservatorship, there is no substantial difference if a mortgage loan is going to a GSE or to Ginnie Mae. Both entities are controlled by the United States Government. Reducing the governmental footprint and introducing private capital is of greater import than the ultimate destination of a mortgage loan.

7. Is it desirable for the Enterprises to (a) charge higher g-fees on high credit score/low LTV loans if it causes these loans to be insured/securitized through PLS or (b) held on depository balance sheets, rather than guaranteed by the Enterprises?

After careful consideration of the impact of increases on credit availability and pricing, it is SFIG's view that higher G-fees should be charged on higher loan limit mortgage loans so as to incentivize delivery of such loans to the PLS market. Traditionally, prior to the credit crisis, loans with higher balances were the purview of the PLS market. Loans with high credit scores/low LTV's should be securitized by both the GSEs and the PLS market. Therefore, we believe a distinction should not exist based on credit characteristics. The distinction should be based on product characteristics such as loan balance.

11. Taking into consideration that FHFA has previously received input on state-level pricing adjustments, do the g-fee changes proposed in December 2013 have any additional implications that should be considered in deciding whether to price for the length of state foreclosure timelines, unable to market periods or eviction timelines? Are there interactions with other pricing components under consideration that FHFA should consider in making decisions on the state-level adjustments?

While we do not generally express an opinion on state-level pricing adjustments, we do want to raise an important issue that is also based on regional considerations. As FHFA is aware, several jurisdictions across the United States have introduced proposals to allow for the seizure of mortgages deemed to have higher balances than the value of the property, even if these mortgages are performing. SFIG strongly believes that the use of eminent domain to achieve this end is misguided and should not be supported in any way. Allowing the use of eminent domain to this end would send the wrong message to the secondary mortgage markets irrespective of whether a mortgage loan is in a GSE mortgaged-backed security or in a PLS. We ask the FHFA to participate in an inter-agency response among the Federal Housing Administration, Ginnie Mae, and the Veterans Affairs, to establish that governmental programs will not insure or guarantee refinancings or mortgage loans that were taken by municipalities that have adopted eminent domain proposals.

12. Are there interactions with the Consumer Financial Protection Bureau's Qualified Mortgage definition that FHFA should consider in determining g-fee changes?

There are numerous interactions between the G-fee changes and the qualified mortgage ("QM") standard. First, since the GSEs' loan programs have been automatically accorded QM status while the GSEs are in conservatorship, G-fee changes will clearly change the cost of credit for QM lending, and by extension, non-QM lending as well.

Furthermore, G-fee changes will also change pricing within the QM category as better/worse risk buckets are priced more or less granularly. In effect, FHFA can create both the implied credit risk component within the QM category as well as either relatively little differentiation within QM, or substantial risk based pricing within QM.

As set forth above, SFIG believes in housing finance reform. Accordingly, FHFA should also consider the impact of G-fees in a "post automatic qualification as a QM" world when the GSEs are no longer in conservatorship. For example, FHFA may allow the GSEs to offer interest-only loans after 2021, which may obtain favorable GSE pricing but not be, by definition, QM.

In short, the Consumer Financial Protection Bureau ("CFPB") sets acceptable lending standards within QM but the GSEs set the price for such loans and therefore are as important as the CFPB in the operation of QM. These implications should also be considered with respect to the PLS market, because Non-QM loans are a natural product for delivery to that market.

We appreciate the opportunity to comment on the proposed approach. Please contact the undersigned at Richard.Johns@sfindustry.org or 202-524-6301 with any questions or comments.

Sincerely,

Richard Johns
Executive Director

APPENDIX A

Why is Private Capital Absent from the Secondary Mortgage Market?

There are multiple elements that drive supply-demand market dynamics, with pricing being key among those elements. However, in the case of the PLS market, there are many other factors currently influencing the decisions of issuers to issue (supply) and investors to invest (demand). Issuance has been constrained by both structural issues and regulatory uncertainty. An outline of these road-blocks and their impact on the PLS market can be seen below.

Key Issues	Impact on the Mortgage-Backed PLS Market	
	Investor Viewpoint	Issuer Viewpoint
GSE Reform	Investors are unclear as to what the future state of mortgage finance will be and what level of private capital involvement is needed to fill any void left by the proposed retrenchment of the GSEs. In the meantime, the GSEs' market share continues to dominate the market.	Issuers are similarly unclear as to what the future state of mortgage finance will be and what level of private capital involvement is needed to fill any void left by the proposed retrenchment of the GSEs. In the meantime, the GSEs' market share continues to dominate the market.
Risk Retention	If a Qualified Mortgage does equal Qualified Residential Mortgage then investors may shy away from investing because neither the borrower nor the issuer have adequate "skin in the game." In addition to issuers retaining risk, many investors favor a "QM Plus" standard including some sort of down payment requirement and the absence of such in a final rule may impact investor appetite.	At this juncture it is still far from certain if a Qualified Mortgage will equal a Qualified Residential Mortgage. Issuers are hesitant to develop large scale programs because of the lack of clarity on how much risk they have to retain on future deals and the process for calculating the amount of risk.
Modifications	Investors are concerned that with the purchase of private-label securities, their investment may be subject to risk of being altered by regulators through governmental programs or mortgage settlements by state attorneys general.	
Eminent Domain	Investors are concerned about municipalities' proposals to seize "underwater" mortgages for the purposes of modifying borrowers' mortgages which would also alter their investment.	Issuers are similarly concerned about municipalities' proposals to seize "underwater" mortgages for the purposes of modifying borrowers' mortgages which would also alter their issuance.
US Implementation of Basel III	This regulation discourages the return of private capital by disincentivizing investment in private-label securities, as they are treated as illiquid under current proposals. Less investment in securities deemed illiquid fosters an environment of decreased market size and therefore decreased liquidity.	This regulation discourages the return of private capital by treating private-label securities in a lower tier than securities issued by the GSEs.
Regulation AB II[9]	It is unclear to investors what level of loan-level disclosure will exist for all transactions. Will Schedule AL's loan level disclosure apply to just public deals?	Regulation AB II includes changes to disclosure and reporting protocols, which will impact internal systems that are designed to automate creation of required loan-level fields. Work is needed by issuers to upgrade systems to comply. Manually inputting loan-level information, or outsourcing to third-parties, is not consistent with scalable and efficient funding. At this juncture, it is unclear if issuers will make the necessary investment in systems without clarity on whether PLS issuance volumes will increase.
Servicing Standards	A general concern that servicers' interests are not properly aligned with investors and a lack of transparency in servicer loss mitigation processes.	Issuers are unclear as to what servicing standards will exist in the future and whether the recent focus on specialty servicers means that broader changes are on the way.

[9] While Regulation AB II was adopted by the Securities and Exchange Commission ("Commission") on August 27, 2014, the Commission's adopting release stated that several proposals remain outstanding. For example, one remaining question is whether the rule will apply to Rule 144A transactions. There is no indication as to when these proposals will ever be further acted upon.

Transaction Parties and Investor Communications	Some investors feel they cannot obtain adequate information from certain transaction parties either due to difficulties accessing available reporting or the inadequacy of the reporting itself.	
Representations, Warranties, and Repurchase Governance	Investors have indicated that a mechanism to solve issues related to representations and warranties is a pre-requisite to returning to the market.	Issuers continue to explore frameworks that provide appropriate breach determination features while also offering certainty that a breach claim stems from a material loan defect rather than a borrower life or credit event. Additionally, rating agencies tend to have differing views on how to develop these frameworks.
Substantial Due Diligence	Investors are further concerned about the inability to rely on rating agencies to the same degree as prior to the credit crisis. For investors to purchase securities, a substantial amount of due diligence is required which is costly and impacts profitability of an investment.	Presently, 100% due diligence is generally required by investors and rating agencies prior to engaging in private-label securities transactions, which is not an operationally scalable and sustainable model for large volume, periodic issuers.
Pricing	Low cost deposits and "easy" access to GSE and Federal Home Loan Bank funding for issuers has suppressed PLS issuance volumes that many investors believe are required to attract a sufficiently deep and liquid investor base.	Low cost deposits and "easy" access to GSE funding and Federal Home Loan Bank funding for issuers do not make PLS issuance a sufficiently attractive funding alternative.

Exhibit B

Letter to Treasury regarding the Private Label Securities Markets

August 11, 2014

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Treasury's Request for Comment on the PLS Market

Dear Sir or Madam:

The Structured Finance Industry Group[1] ("SFIG") appreciates the opportunity to respond to the United States Department of the Treasury's ("Treasury") request for comment on the private label securities market ("PLS Market") for residential mortgage-backed securities ("RMBS"). The views expressed herein are based on opinions from members of SFIG's Residential Mortgage Committee, a committee focused solely on subject matter pertaining to the residential mortgage market, as well as SFIG's GSE Reform Task Force, and RMBS 3.0 Task Force and related working groups. These committees and groups collectively are comprised of constituencies from all areas of the industry, including investors, issuers, due diligence contractors, law firms, trustees, servicers, rating agencies, accounting firms, and others.

PLS Market is Necessary for Mortgage Liquidity

SFIG agrees with Treasury that the PLS Market is an important component of the housing finance system in the United States. Indeed, our primary organizational mission statement is that "securitization is an essential source of core funding for the real economy."

In an ideal mortgage market, increased optionality to choose best execution on a mortgage is desired. Where a truly healthy secondary residential mortgage market exists, participants should be able to choose among government guaranteed execution, a balance sheet portfolio execution, or a PLS Market execution, without significant regulatory or economic disincentives to any given execution that would impair that choice. Therefore, we concur with Treasury's conclusion that

[1] SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

the return of the PLS Market is of significant importance and applaud Treasury for their efforts to focus on this important initiative.

Moreover, the return of private capital is needed to reduce risk to taxpayers. The PLS Market has diminished since 2008 and increased government involvement has occurred in the mortgage market generally, ranging from regulation of the primary and secondary markets to the very large market share of new originations that are insured or guaranteed by the government.

Today, nearly all new residential mortgage production is insured or guaranteed, either through the Federal Housing Administration ("FHA") and the Veterans Administration ("VA") as well as Ginnie Mae, or through Fannie Mae and Freddie Mac (collectively, the "GSEs") which are in government conservatorship and backstopped by Treasury. The GSEs have conducted, on a limited basis, credit risk transfer transactions to aid the return of private capital; however, the amount of private capital remains very low relative to the height of issuance in the PLS Market (even when the GSEs' credit risk transfer deals are considered along with the amount of PLS being issued). SFIG believes that over the long term this extensive governmental involvement is not sustainable and may present a risk to taxpayers.

Recent events suggest that government involvement in the mortgage market may continue for an extended period of time. Both the House Financial Services Committee and the Senate Committee on Banking, Housing, and Urban Affairs have passed legislation to wind down the GSEs over a five year period. However, even if consensus can be reached on reform efforts in the near future, it is likely that the current GSE structure will continue in the medium term as policymakers agree that any transformation to a new housing finance system should include a lengthy transition period. Therefore, it is fair to assume that the status quo of the GSEs operating in conservatorship will continue for the medium term future, even if reform legislation passes.

SFIG's RMBS 3.0 Project

As discussed in detail below, we believe that PLS issuance has been constrained by a number of factors, including the need to address structural issues. By "structural issues" we mean elements of the structure of an RMBS transaction for which it is perceived that improvements and a movement towards best practices and consistent standards are needed to encourage the return of the PLS Markets in size. By "structure" we mean the transaction documentation setting forth the rights of the transaction parties and investors, as well as disclosure at the time of offering and ongoing reporting.

SFIG believes that any effort to solve for the structural issues in the PLS Market must be an industry-led effort. However, we understand and appreciate the keen interest of the Treasury in assuring that the structural issues are addressed satisfactorily, and that key issues of contention are resolved. As Treasury is aware, SFIG has introduced RMBS 3.0 to solve for many of these structural issues in the PLS Market. We believe that our organization is ideally suited to lead this effort in the private sector.

RMBS 3.0 is designed to analyze and, where possible, create solutions to the impediments in the post-crisis RMBS market. The overall approach for RMBS 3.0 is to:

1. Promote standardization where possible, in a manner that reflects widely agreed upon best practices and procedures.

2. Clarify differences in alternative standards in a centralized and easily comprehendible manner to improve transparency across RMBS transactions.

3. Develop new solutions to the challenges that impede the emergence of a sustainable, scalable and liquid post-crisis RMBS market.

4. Draft or endorse model contractual provisions, or alternative "benchmark" structural approaches, where appropriate to reflect the foregoing.

RMBS 3.0 consists of approximately 200 individuals participating across three work-streams—Representations, Warranties, and Repurchase Enforcement; Due Diligence, Data, and Disclosure; and Role of Transaction Parties and Bondholder Communications. Over the course of over 200 hours of meetings and calls to date, RMBS 3.0 comprehensively reviewed the related historical posture, industry positions, and current points of debate and discussion on various aspects of the RMBS market.

On August 6th, SFIG released the First Edition of its RMBS 3.0 Green Paper[2]. A product of the RMBS 3.0 Task Force, the Green Papers present preliminary recommendations to address issues integral to the restoration of responsible growth in the PLS Market.

In the First Edition release, SFIG issued Green Papers on the following subjects:

- Fraud Representation
- Regulatory Compliance Representation
- Objective Independent Review Triggers and Make-Whole Provisions
- Underwriting Guidelines Disclosure
- Due Diligence Extracts to Investors
- Role of Transaction Parties and Bondholder Communication

This release constitutes the first collection of such Green Papers, and SFIG anticipates release of future Green Papers on an approximate quarterly basis. RMBS 3.0 may issue updates or revisions to preliminary recommendations on an incremental basis as the project works towards addressing each issue on the agenda.

As the RMBS 3.0 project approaches its end and definitively addresses every discreet subject area, each Green Paper will become a final White Paper recommendation. These White Papers may be subject to further revision as both mortgage products and securitization products and practices develop. This is a routine expectation for any growing market, and underscores the importance that the White Papers and Market Standards maintain the flexibility of being industry driven and do not become embedded into hard-coded regulation.

[2] Please see our initial Green Paper, released on August 6, 2014, attached hereto as Exhibit A.

We believe that this background is helpful to understanding our responses to the questions asked by the Treasury. We look forward to continuing to share our progress on this critical industry initiative with the Treasury and other policymakers.

We respectfully submit that our work to date on RMBS 3.0 is a strong indication that market participants can come together and solve the structural issues facing the PLS Market today, in a way that provides both full transparency and the ability to further evolve towards best practices over time, and in a way that will better serve the market as compared to additional regulations.

Scope of Commentary

As is the case with RMBS 3.0, this comment letter seeks to address only new issuance of PLS backed by newly or relatively recently originated residential mortgage loans, and does not purport to comment on other types of residential mortgage transactions such as legacy RMBS transactions, seasoned loan RMBS transactions or re-performing/non-performing RMBS transactions.

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SFIG Responses to Treasury's Questions

1. *What is the appropriate role for new issue PLS in the current and future housing finance system? What is the appropriate interaction between the guaranteed and non-guaranteed market segments? Are there particular segments of the mortgage market where PLS can or should be most active and competitive in providing a channel for funding mortgage credit?*

The housing finance system in the United States must be assessed holistically. We believe that the broad policy objectives in defining the roles of the government guaranteed and PLS market segments should include the following:

- Reducing the percentage or market share of new originations that are backed by a federal guarantee. This will reduce risk to taxpayers, and allow expansion of the PLS Market to robust levels.

- Ideally, the percentage of new originations backed by a government guaranty would be reduced to a level within the range that was experienced in the late 1990s to early 2000s, prior to the loosening of credit standards in the run up to the credit crisis. This level would allow for a meaningful portion of new originations to be funded entirely by private capital, which we view as essential to a healthy PLS Market.

- The guaranteed segment should be designed to expand as needed in times of economic stress, in order to maintain liquidity and access to credit. By the same token, during times of stability, the guaranteed segment should shrink and the PLS segment should be allowed to expand.

- Preservation of a functioning "to be announced" forward delivery ("TBA") market for the guaranteed segment is an essential goal.

SFIG believes that for certain products such as conforming balance 30 year fixed-rate mortgages that are eligible for delivery into the TBA market, a government guarantee is necessary to maintain a strong and vibrant market. Any housing finance reform proposal should preserve access to the TBA market in the guaranteed segment, so homeowners have the ability to lock in their rates on a forward basis in a cost effective manner.

However, for other mortgage products, such as adjustable-rate mortgages, access to the TBA market is not essential and the PLS Market could provide an alternative execution. Furthermore, we believe that higher balance mortgage loans are the natural purview of the PLS Market. Historically, prime quality loans that exceeded the conforming loan limits established for purchase by the GSEs were the mainstay of the PLS Market.

Given the new "qualified mortgage" definition promulgated by the Consumer Financial Protection Bureau ("CFPB") as part of the Ability to Repay Rules[3], a PLS Market may also exist for loans that fall outside the definition of "qualified mortgage" but are still prime or near-prime quality loans. For example, loans where the borrower has a debt to income ratio of over 43 percent, or

[3]Ability to Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z), 12 CFR 1026.

interest only loans, may be suitable for securitization in the PLS Market, if the borrower has demonstrated an ability to repay the loan.

Notwithstanding the foregoing observations about loan types that may be more suitable for one or the other market segments, we do not believe that the market should be segmented along product lines. Rather, for all residential mortgage loan types, there should be a healthy and thriving PLS Market offering an alternative execution that is competitive with either a GSE execution, or holding in a bank portfolio. Such a diversity in funding channels will maximize the availability of capital for the housing finance system, which over time should improve access to credit, hold down the cost of credit, facilitate price discovery for such credit and minimize systemic risk to taxpayers.

2. *What are the key obstacles to the growth of the PLS market? How would you address these factors? What are the existing market failures? What are necessary conditions for securitizers and investors to return at scale?*

In the PLS Market, there are many factors currently influencing the decisions of issuers to issue (supply) and investors to invest (demand). The volume of PLS backed by new originations has been constrained by three main factors: regulatory uncertainty and intra-regulatory conflict, structural issues, and economics (pricing).

SFIG believes that the industry must drive the solution of structural issues, by building consensus among industry participants. We do believe that a regulatory "quarterback" is necessary to drive the resolution of the regulatory issues presently in play. We believe Treasury is uniquely positioned to fulfill that role. Pricing is an economic driven factor which will ebb and flow, however, solving for the structural and regulatory issues could potentially make pricing and the asset class as a whole more attractive to investors.

a. Regulatory Uncertainty

Numerous pending regulatory proposals remain unresolved, and the resulting regulatory uncertainty is adversely impacting both the issuance of and the investment in PLS. A governmental quarterback is needed to resolve these issues and coordinate both regulations and enforcement actions among the various regulators. If Treasury were to fill this void and coordinate the various regulations, a major issue in the PLS Market could be addressed. Timing and uncertainty of regulations is one factor. Equally important is the fact that the final regulations themselves should not create disincentives for market participants to enter the market. Several current regulatory proposals may do precisely that, and there are additional government actions that further contribute to uncertainty as discussed below.

Regulation AB II

Proposed revisions to Regulation AB (these rules as revised, "Regulation AB II") have been outstanding for over four years. There is significant uncertainty as to what disclosure and periodic reporting will be prescribed under the final Regulation AB II, particularly as to the loan-level data fields. The specifics of the loan-level data fields to be disclosed, as well as the medium for disclosure (EDGAR vs issuer website), are still pending as are the other terms of the revisions. The Securities and Exchange Commission ("SEC") on February 25, 2014 re-opened the comment period for Regulation AB II to take comments on privacy issues and concerns posed by the loan-

level data requirements. In our April 28, 2014 comment letter to the SEC, we discussed the necessity for interpretive relief protecting both issuers and investors from liability under various privacy laws, especially under the Fair Credit Reporting Act ("FCRA").[4] As presently contemplated, we believe that a regulatory conflict exists between the proposed Regulation AB II and the FCRA, which can only be resolved by coordinated action between the SEC and the CFPB (which administers the FCRA). We believe Treasury can play a helpful and constructive role by engaging with the SEC and CFPB to resolve this conflict in a way that permits the finalization of the Regulation AB II requirements without undue risk of inadvertent privacy law violations. Given the significant costs and lead time required for issuers to develop systems to comply with these new requirements, this issue has very significant practical consequences. The current uncertainty is a clear hindrance to market development.

To the extent that investors and issuers, acting together, can propose specific fields for loan-level disclosure that they believe is necessary in the market, we believe those proposals should be given serious consideration by the regulators. To that end, on February 18, 2014 SFIG submitted a separate comment letter to the SEC with a proposal for suggested loan-level data fields for residential mortgages, which were determined by our issuer and investor members working in concert. However, the privacy law issues referenced above need to be addressed prior to implementing any suggested approach. We would call out the clear paradox of the current situation, where investors and issuers have actually agreed to a level of granular disclosure that goes above and beyond current regulatory proposed levels – however, issuers are not able to provide and investors are not able to access this agreed upon information safely due to conflicts in regulations issued by different regulatory bodies.

Furthermore, Regulation AB II will require substantial changes to disclosure and reporting protocols, which will impact internal systems that are designed to automate creation of required loan-level fields. Without final rules, necessary work to upgrade and modify systems to conform to the new requirements cannot be started. Manually inputting loan-level information, or outsourcing to third-parties, is not consistent with scalable and efficient funding. This concern is further exacerbated by the possibility of having to design and create a new issuer website for the purpose of disclosing loan-level data in compliance with applicable privacy laws. We note that the February 25th re-opening of the comment period by the SEC regarding this issue did not contain actual proposed rules for this issuer website, and that there is therefore very little clarity around what this aspect of Regulation AB II will ultimately require. Moreover, given the great length of time that has passed since the April 2010 proposal and the July 2011 partial re-proposal of Regulation AB II, we are very concerned that going directly to final rulemaking on revisions of this scope would not be appropriate.

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[4] In the case of many asset classes we believe that the proposal increases the likelihood that, taken in conjunction with other publicly available data, some previously anonymized data may be re-identified or de-anonymized, which possibility in turn gives rise to certain risks:

- Issuers may be subject to privacy law constraints and in fact could be deemed a credit reporting agency;
- Users of the data, including investors, may be subject to a lesser degree of privacy law considerations regarding both the use and disposal of information;
- All participants within the data "chain", by their very association with the data may, in the case of hacking or inappropriate use of data, be subject to reputational risk – such risk being associated not just with the industry participant, but also with any easily associated corporate parent, subsidiary or affiliate; and
- Borrowers may suffer harm if their data is re-identified and is used improperly.

US Implementation of BASEL III

Under the proposed implementation of the Basel liquidity coverage ratio ("LCR") rules for banks in the U.S., GSE securities are treated as high quality liquid assets ("HQLA") up to a 40% cap and with a 15% haircut. In contrast, PLS do not qualify at all as HQLA. (The final Basel LCR includes private-label RMBS rated AA or better as a liquid asset with a 25% haircut.) Historically, the private-label RMBS market has provided the best execution for sale of mortgage loans by customizing investments for a wide base of investors with different profiles with respect to credit risk and market risk. For example, mutual funds may prefer to invest in securities with a much shorter duration than what would be provided by a pool of whole mortgage loans and public employee retirement funds and pension funds may prefer to invest in securities that will mature years in the future, when the pension obligations are owed to retirees.

Failure to give banks, historically a significant investor base for private label RMBS, "liquidity credit" for RMBS in their LCR calculations could further impede the return of private capital to the residential mortgage market. Again we would highlight the clear conflict among various elements of the policymaking bodies – there are clear calls for the facilitation of return of private capital to the PLS Market being delivered by both the Administration and Congress, while simultaneously the Joint Agencies are in the process of establishing an LCR rule that establishes a regulatory "illiquid" stamp on that same market.

Risk Retention

Lack of finality regarding the risk retention rules mandated under the Dodd-Frank Act is creating ongoing uncertainty in the market. Capital markets operate most efficiently when they have certainty as to the regulatory regime that applies to them. One of the main open issues in these rules affecting PLS is the definition of "qualified residential mortgage," which relates to an exemption from the risk retention requirements. At this juncture it is still far from certain if "qualified residential mortgage" will be defined as equal to the definition of "qualified mortgage" under the Ability to Repay Rules, or if additional requirements will be added (such as a maximum loan-to-value ratio). As indicated in our October 30, 2013 comment letter on the re-proposed risk retention rules, SFIG members have differing views on this question. Issuers are hesitant to develop large scale programs because of the lack of clarity on how much risk they will have to retain on future securitizations, and the process for calculating the amount of risk. There are many other elements of these rules that remain uncertain as well.

Furthermore, if the definition of "qualified residential mortgage" for risk retention purposes is equal to the "qualified mortgage" definition, then investors may shy away from investing because in many investors' view neither the borrower nor the issuer have adequate "skin in the game." Many investors favor a "QM Plus" standard including some sort of down payment or maximum loan-to-value ratio requirement, such that the borrower would have to have significant equity in the property in order for the loan to be exempt from risk retention. The absence of such a provision in the final rule may impact investor appetite.

On the other hand, many issuers and originators, as well as other stakeholders in the housing finance system favor the alignment of the definition of "qualified residential mortgage" for risk retention purposes with the "qualified mortgage" definition. This approach offers simplicity, and

helps assure access to credit by avoiding the layering of a down payment requirement on top of the other requirements for a "qualified mortgage."

As mandated by the Dodd-Frank Act, the risk retention rules must be concurrently promulgated by six different agencies. In driving this rule proposal to a final resolution, it may be that Treasury can provide an informal quarterbacking role.

Servicing Standards, Modifications and Settlements

Issuers are unclear as to what servicing standards will be mandated in the future and how the CFPB may modify and enforce its Mortgage Servicing Final Rules[5]. It is also unclear whether the recent regulatory focus on specialty servicers signifies that broader changes are on the way. Furthermore, investors have a general concern that servicer's interests are not properly aligned with investors, and perceive a lack of transparency in servicer loss mitigation processes.

Investors are concerned that with the purchase of private-label securities, the performance on their investment may be subject to increased risk, including risk of loss of principal and risk of increased volatility of cash flows, as a result of government established loan modification programs or other borrower relief, or by further changes in rules that affect loan servicing procedures. Investors are also concerned that, without there being any one agency maintaining a broad oversight role of how all regulatory and enforcement developments in the aggregate are affecting the PLS market and associated security values for new issuances, these risks may not only be prevalent but also be impossible to quantify.

Investors are also very concerned about the pattern that has been observed to date, under which when a given loan servicing institution enters into a consent order or settlement agreement with state attorneys general or other state or federal agencies, a specified amount of "borrower relief" may be required to be provided in the form of principal reductions or other accommodations for loans that may be in legacy PLS securitization trusts.

These concerns can create a general reluctance on the part of investors to re-enter the PLS Market, unless future PLS transactions contain provisions that address these types of risks to investors.

Accordingly, we believe that a transparent and consistent approach needs to be agreed among market participants for future PLS transactions that will address contractual obligations and rights pertaining to such settlements and enforcement orders. SFIG intends to address this issue and work towards a resolution for future PLS offerings, as part of RMBS 3.0.

In general, the RMBS 3.0 project, while recognizing there may not always be a "one-size-fits-all" approach seeks to, among other things, increase transparency, create consistency of approach and where possible standardization of documents, to clarify roles and responsibilities, and to remove areas of ambiguity. Specifically investors believe, at a high level, that RMBS 3.0 should adopt recommendations for future PLS transactions which would be transparent in the delineation of servicing standards for trust assets – including a focus on how these servicing standards, inclusive of loss mitigation and principal forgiveness practices, may be impacted indirectly by settlements

[5] Real Estate Settlement Procedures Act (Regulation X) and Truth in Lending Act (Regulation Z) Mortgage Servicing Final Rules, 12 CFR 1024, 1026.

and enforcement actions with an aim to minimizing the risk of unintended consequences creating losses for investors.

Part of the RMBS 3.0 works-stream will be focused on ensuring a broad overview to market place and regulatory and enforcement authorities of how all governmental actions in the aggregate are affecting confidence in new PLS issuance. We would expect to engage Treasury during this process to discuss how this may be best effected.

Recognizing there is much discussion to be had within the RMBS 3.0 Task Force, SFIG commits to including this high-priority issue among the issues to be addressed leading up to our second release of RMBS 3.0, scheduled for November 2014.

Eminent Domain

Investors are concerned about municipalities' proposals to seize performing but "underwater" mortgages for the purposes of refinancing borrowers' mortgages to the detriment of PLS investors. Several municipalities have put forth these proposals, including Richmond, California. Several others such as Newark, New Jersey and San Francisco, California are reviewing proposals. This threat of forcing artificial losses onto a PLS trust is highly problematic for investors.

These proposals involve the wrongful use of eminent domain power by a municipality to seize performing but "underwater" mortgage loans (where the current property value is less than the outstanding loan amount) from PLS trusts at a steep discount to the property's current market value (for example, at 75-80% of current value), and then refinancing the property into a high loan-to-value ratio FHA loan (with a balance of 95-97% of current value) that is then sold for cash. The municipality nets a hefty profit by flipping the loan in this manner, and splits the proceeds with a private entity that is promoting these programs. We note that this proposal could not be viable without the active participation of the FHA in refinancing these loans.

The PLS Market needs a clear position from the federal government that this misguided program is not a valid form of borrower relief, but rather is a gross abuse of eminent domain powers to confiscate the property of PLS investors for the benefit of private profiteers. But this has not occurred to date. Again, this is an illustration of a gap in the regulation of the housing finance industry in that there is no federal regulator acting as an advocate for the PLS investor that has called out these proposals for what they are.

We ask Treasury to coordinate an inter-agency response among the Federal Housing Finance Agency ("FHFA"), FHA, the Government National Mortgage Association, and the VA, to establish that governmental programs will not insure or guaranty refinancings of mortgage loans that were taken by eminent domain in municipalities that adopt proposals of this type.

b. Structural Issues

As discussed under "SFIG's RMBS 3.0 Project" above and in our initial Green Paper published August 6, 2014 and attached as Exhibit A, there are numerous structural issues facing the PLS Market that need to be addressed and resolved in order for the market to return to scale. We believe these issues can be best resolved by market participants, not by regulation.

For a comprehensive listing of the various structural issues that have been identified by SFIG, please see the "RMBS 3.0 Master Agenda" beginning on page seven in the attached Green Paper.

SFIG's RMBS 3.0 seeks to reduce substantive differences within current market practices through an open discussion among a broad cross-section of SFIG membership. Where possible, participants seek to identify either a single or a range of potential best practices. RMBS 3.0 initially focuses on the following key work-streams: 1) representations and warranties, repurchase governance and other enforcement mechanisms, 2) due diligence, disclosure and data issues, and 3) the roles and responsibilities of various transaction parties, and bondholder communications.

In order to drive toward industry consensus positions as much as possible, SFIG will release and socialize preliminary proposed benchmark standards periodically through an interim series of "Green Papers" on an approximate quarterly basis. Exhibit A constitutes the first such "Green Paper." Please see "SFIG's RMBS 3.0 Project" above for a discussion of how our Green Papers will be finalized in the form of White Paper recommendations, subject to further revision and evolution over the course of the project.

SFIG believes that any effort to solve for the structural issues in the PLS Market must be an industry-led effort with government assistance on key issues of contention. We believe that our organization is ideally suited to lead this effort in the private sector, and we are highly confident that this effort will be successful.

c. Economics

At present, in addition to regulatory and structural issues, economics frequently do not support a PLS Market functioning efficiency. First and foremost, access to GSE guaranteed execution for GSE eligible loans makes an alternative PLS issuance unattractive at yield levels that are required by investors. Nearly all newly originated mortgages are flowing into the GSEs, creating a lack of depth and an absence of liquidity in the PLS Market.

The most obvious ways to reduce GSE market share are to raise guarantee fees, to reduce the conforming loan balance limits, or to tighten underwriting criteria for GSE loans. The FHFA recently solicited comment on future increases in the GSE guarantee fees, and we will be submitting a comment letter shortly. We advocate a combination of raising guarantee fees and reducing the conforming loan balance limits, but in a gradual way over time so as to minimize borrower hardship and avoid disrupting the national housing finance market. We believe that any guarantee fee increases should be directed at the higher end loan limits. Such an approach should also be well telegraphed in advance to the market, much as the Federal Reserve does with interest rate adjustments. Of course, these changes alone will not result in an increase in PLS Market activity, unless the other areas of concern discussed above are addressed.

Another pricing issue in the current environment is the access to bank deposits for funding on bank balance sheets. Given the relatively low volume of new originations that potentially could go into PLS, the bank whole loan bid is very competitive relative to a PLS execution. However, as bank balance sheet capacity begins to be filled, we would expect a PLS execution to become more competitive – indeed, as market issuance and liquidity improve, market spreads may tighten and further enhance pricing competition.

Of course, the use of short term liabilities in the form of bank deposits to fund long term assets such as mortgage loans exposes a bank to significant interest rate risk, which could be mitigated by instead funding with a term securitization in the PLS Market.

3. *How should new issue PLS support safe and sound market practices?*

   It is critically important that the PLS industry engage in a deliberative process, including issuers, investors and all other categories of market participants, to drive towards consensus on a range of best practices going forward to address structural issues in the PLS Market. To name just a few of these issues, structural improvements are needed in these areas: representation and warranty content and duration; representation and warranty enforcement mechanisms: additional disclosure about underwriting standards; improved transparency about pre-offering due diligence consistent with applicable legal constraints; roles and responsibilities of transaction parties; access to loan level data; and bondholder communications.

   Market participants should act together to reach consensus on how to address these structural issues. These issues should be resolved through dynamic, market-driven solutions, not by hard-coded regulations. SFIG is leading and facilitating this process through its RMBS 3.0 project.

4. *What are the costs and benefits of various methods of investor protection? In particular, please address the costs and benefits of requiring the trustee to have a fiduciary duty to investors or requiring an independent collateral manager to oversee issuances.*

   We recognize that the fiduciary duty question is an important topic of discussion within the PLS Market. We have focused on this topic as one of the key items in our agenda for our work-stream on the role of the transaction parties and bondholder communications as part of RMBS 3.0. We intend to focus on this in the next several months by bringing together key members to address this issue, and we appreciate Treasury's leadership in helping to facilitate this discussion. Prior to discussing a standard of care in RMBS 3.0, SFIG believes it is prudent to define best practices on the specific obligations that transaction parties have in a transaction.

   A related structural issue is developing representation and warranty enforcement mechanisms, with specific procedures and timelines, and express provisions imposing duties on transaction parties. The ultimate objective is to develop structural features in PLS that will encourage broad investor participation while not creating undue burdens on other transaction participants.

5. *What is the appropriate or necessary role for private industry participants to address the factors cited in your answer to Question #2? What can private market participants undertake either as part of industry groups or independently?*

   As discussed above, SFIG believes it is uniquely positioned to address the structural issues that are hindering the PLS Market, and is actively engaged in moving this effort forward through its RMBS 3.0 project. SFIG has both the depth and breadth of knowledge to address the issues of import in the PLS Market due to the diversity of our membership and the knowledge base which we bring. We think that for true solutions, the structural portion must be led by market participants. We welcome the opportunity to continue a dialog and partnership with Treasury regarding the ongoing progress of RMBS 3.0. We also wish to stress that SFIG cannot, and would not want to, create legally enforceable standards. While the adoption of the recommendations of RMBS 3.0 is

voluntary, we strongly believe that a set of common "best practice" standards that are driven by industry participants will be more successful than those dictated by regulation. Not only does a market driven approach allow the industry to engage in determining a solution or range of solutions that are extremely intricate in their nature, but it also avoids a scenario where the market is "frozen" in regulation. An industry standard should create more flexibility and be able to evolve as markets develop.

The project also aims for increased transparency in the practices of participating members. Accordingly, we encourage issuers to either adopt one or more of the "alternative benchmark" RMBS 3.0 standards or utilize alternative approaches in a manner that increases transparency and promotes a better functioning marketplace.

6. *What is the appropriate or necessary role for government in addressing the key factors cited in your answer to Question #2? What actions could government agencies take? Are there actions that require legislation?*

As discussed above, we believe the PLS Market would benefit greatly if Treasury coordinated the various regulatory agencies that impact securitization and helped drive the open regulatory proposals to conclusion, and also to oversaw the impact of government action generally on securitization with a focus on advocating for investors' interests. In this regard, we are not suggesting that Treasury side with one specific constituency in the PLS Markets, but rather that Treasury oversee the effect of government action on securitization in a way that will promote investors' confidence in the PLS Market, which in turn will benefit all market participants as well as consumers and the economy generally.

Furthermore, resolution of GSE reform would be a very important development. On a long term basis, the path forward for the PLS Market cannot be clear without knowing what the federal government's role in the housing finance system will be, either through the GSEs or through a successor system. Until GSE reform is resolved, on a long term basis it will be impossible to know the approximate market share of the guaranteed sector and the approximate cost of a guaranteed execution. These issues bear directly on long term business planning for PLS Market participants.

Resolution of Regulation AB II, risk retention, and GSE reform would also be strong catalysts to the return of the PLS Market. SFIG believes that the government can lead a coordinated approach on these efforts.

We also advocate that government be mindful of the potential negative effects of excessive regulation. Consistent with this, as noted above, we believe that regulators should enable PLS Market participants to solve the structural issues needed to bring about RMBS 3.0. Even so, the cumulative effect of all of the various regulatory initiatives adopted or pending that affect the PLS Market is quite substantial.

We would highlight here the contrast between the state of regulatory play in the US versus that in the EU. Since the mortgage crisis of 2007 and the subsequent credit crisis of 2008 both Europe and the US have to a large degree followed similar regulatory paths, with the proposal and/or implementation of rules around enhanced investor disclosure, risk retention, credit rating agency regulation, swaps regulation, and accounting treatment, in addition to common prudential regulatory initiatives around bank liquidity and capital requirements. In certain of those cases,

European regulators have enacted regulations prior to adoption in the US, where a number of key regulatory initiatives are still in development (see our response to Question #2). However, the most noticeable difference over the past several months has been the clear realization among European policymakers that, following a burst of relatively restrictive regulatory actions, more now needs to be done to improve the functioning of the private securitization market in the European Union. In fact, a joint discussion paper by the Bank of England and the European Central Bank recently requested market feedback on a series of proposals to do just this.

We would fervently hope, especially in cases where rules have yet to be finalized, that the US regulators take heed of the current approach in Europe and look now to ways, appropriate to our markets, in which regulatory initiatives can enhance and facilitate an improved functioning of the PLS Market. We believe Treasury could serve a tremendously useful role in ensuring that "calm heads prevail" among various agencies and stakeholders in these discussions, thereby preventing inadvertent regulatory impediments that can create negative market spirals, chilling existing or recovering markets and then requiring further regulatory action to remediate.

7. *What are the current pricing characteristics of PLS issuance (both on a standalone basis and relative to other mortgage finance channels)? How might the pricing characteristics change should key challenges be addressed? What is the current and potential demand from investors should key challenges be addressed?*

For loans that are GSE eligible, given current guarantee fee pricing and the costs of PLS issuance, PLS execution is for all practical purposes never competitive with a GSE execution.

For loans that are not GSE eligible, the PLS execution competes directly with the whole loan execution. In the current environment, factors that bear significantly on PLS pricing vs whole loan pricing include: the relatively high cost of securitization, the relatively low volume of non-GSE eligible new originations, the thin investor base for PLS, and the balance sheet capacity of whole loan bidders including banks, private equity funds and REITs. In addition, past and ongoing litigation as well as government enforcement actions continue to have a chilling effect on participation in new issues in the PLS Markets, which has at least an indirect effect on pricing. At any given time, depending on market dynamics, the whole loan bid may be superior to the PLS execution.

In the event that regulatory uncertainty is resolved and structural issues are addressed as discussed above, the investor base for PLS may broaden thereby improving the PLS bid.

Higher volumes of new originations eligible for PLS execution could also improve the PLS bid for several reasons: economies of scale that reduce the cost of securitization, the using up of available bank balance sheet for funding whole loans, and the fact that the investor base for PLS is considerably broader than that for whole loans.

8. *Why have we seen strong issuance and investor demand for other types of asset-backed securitizations (e.g., securitizations of commercial real estate, leveraged loans, and auto loans) but not residential mortgages? Do these or other asset classes offer insights that can help inform the development of market practices and standards in the new issue PLS market?*

In the time preceding the financial crisis, a significant portion of lending for credit card and auto loans came directly from banks and their finance company affiliates where there is greater uniformity and standardization among product lines, as compared to the mortgage market where a significant portion of originations came from mortgage companies that, while licensed by state authorities, were not regulated as financial institutions. Underwriting standards for mortgage originations in the pre-crisis era were consequently much less standardized. For some other asset classes, such as credit card and auto, originators have maintained consistent origination channels and standardized underwriting criteria over a sustained period.

Borrowers in many cases demonstrated their willingness and motivation to apply limited funds to pay credit card and auto loans, as opposed to making further payments on a mortgage loan where the terms were burdensome or the property was underwater. As a result, mortgage loans originated using the less standardized criteria in the pre-crisis mortgage market defaulted at record levels, while historical performance for auto and credit card assets remained relatively strong throughout the crisis.

In this regard, we cannot overstate the importance of maintaining the current strong underwriting standards for the continued recovery of the PLS Markets. Originators have already adopted and continue to maintain strong underwriting standards, and recent vintages are performing at normal levels, far better than the default levels of pre-crisis vintages. Moreover, steps have been taken to assure that a collapse in underwriting standards will not occur again. Some of the most significant issues in pre-crisis vintages were caused by "no documentation" or "limited documentation" underwriting, and by loan products with risky features that gave rise to payment shock and negative amortization. The CFPB's Ability to Repay Rules, which are in force, apply to all originators (not just regulated financial institutions) and strongly discourage these practices from re-emerging in the future, although the assignee liability provisions of these rules create significant risks to investors that must be carefully managed.

Aside from credit quality of the underlying assets, there are other reasons why PLS may appear riskier to investors than other types of ABS such as credit card and auto loan ABS, including:

- Term to maturity: while home loans mature over a twenty to thirty year period, auto and credit card loans typically mature over three to five years. The shorter duration for credit card and auto loans can present lower prepayment risk to investors.

- Issuer longevity: long standing, tried and tested master trust structures lend to investor comfort. Most credit card securitization programs have been in existence for multiple decades and have highly experienced servicers and originators. The very long history of frequent disclosure of collateral composition and performance by most credit card issuers also contributes to investors' comfort.

- Foreclosure timelines: many would-be PLS Market participants are deterred from investing by timelines and compliance issues in foreclosure proceedings, that impede the ability to liquidate collateral in a manner not present in other asset classes such as auto. In contrast, when an auto borrower defaults, repossession and sale of their vehicle can occur relatively swiftly and efficiently.

- Transaction structure: credit card and auto loan ABS structures are designed primarily to provide funding rather than credit risk transfer, and these structures typically operate in a manner that aligns the interests of the issuer and investor.

- Collateral transparency: There are various characteristics of commercial mortgage backed securities such as a relatively small number of loans in each pool and more extensive disclosure of each loan that provide a high degree of transparency and have been sufficient to encourage investor participation in this asset class.

- Regulatory uncertainty: the factors referenced under our response to Question #2 that affect PLS, including changes in servicing standards, servicing settlements, and eminent domain.

As a result, investors may perceive investing in PLS as being subject to a wider range of risks that are difficult to quantify, as compared to ABS backed by other asset types.

It is also important to consider the availability of other funding sources in determining incentives for a loan originator to issue to the market. If we look at specific asset classes, each asset class may be faced with different incentives to issue:

- Captive auto finance companies in the US are not banks and do not have the broad funding options that banks may have. Consequently, ABS is an extremely cost effective funding solution and it should be no surprise that auto ABS has therefore proven to be perhaps the most resilient ABS market in the US.

- Credit card companies, in contrast to autos, are obligated to carry bank status. As such, they have broader access to other funding sources, specifically deposits. Once off-balance sheet accounting treatment was eliminated forcing banks to hold reserves against losses for which they had no contractual obligation to cover, deposits became the more cost effective funding solution. The loss of off-balance treatment was a major economic disincentive to securitization, exacerbated by spreads widening. While most issuers recognize the benefits of maintaining a presence in the market, there has been a general tendency to favor deposits as the cheaper funding source over recent years. It should, however, be noted that if potentially draconian assumptions around liquidity of deposits in proposed LCR rules present themselves, attitudes of issuers may swing back to look more favorably on ABS. To comply with LCR requirements, many banks need to issue term financing and ABS has become a more viable funding tool. With this consideration, spreads have begun to tighten making ABS more economically appealing.

A major distinction between RMBS and these asset types is that there is no program for issuing government insured securities backed by these asset types. Therefore, the private markets are unfettered for these asset types, and the markets demonstrate continuously that there is investor demand for properly structured asset backed securities, backed by high quality assets.

A similar argument may be applied to student loans, where the recent elimination of FFELP origination in favor of loans being owned by the Department of Education, leaves the student loan ABS market in a position where legacy government guaranteed loans are being securitized on a far smaller scale. However, there is recent growth in non-guaranteed "private" student loan ABS issuance.

9. *Is there any additional information regarding the PLS market not already addressed that you would like to provide?*

It is often said that the PLS Markets are not "ready" to resume in scale, and that therefore GSE dominance must be maintained for the near term. SFIG believes that this is a fallacy.

There are a number of active PLS issuers and new securities are being issued each month, demonstrating that there is a market today for PLS backed by newly originated, high quality mortgage loans. While volumes may be low, the fact that these new securities can be successfully placed indicates that the PLS Market is indeed operating.

An important factor in the current environment however is the fact that volume is so low that any given issuer needs to satisfy only a few investors in order to sell out the new inventory. Many potential investors remain on the sidelines and given the thin market, PLS issuers are not compelled by market forces to move more swiftly towards uniform practices that will have a broader appeal to investors.

We believe that as GSE market share declines and higher volumes of new originations become available for PLS execution, PLS issuers will be able to bring new issuance to market and reach a broader investor base by moving rapidly towards adoption of best practices that are accepted by a wide range of investors. Under this scenario, PLS issuers would in effect be forced to adopt some variation of best practices that has broad appeal. This is why our RMBS 3.0 project is so important. Through this project SFIG will help the PLS Markets rapidly ramp up, as GSE market share declines.

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We appreciate the opportunity to comment on the PLS Market. Please contact the undersigned at Richard.Johns@sfindustry.org or 202-524-6301 with any questions or comments.

Sincerely,

Richard Johns

Executive Director