

October 13, 2014

Federal Housing Finance Agency
Office of Strategic Initiatives
400 7th Street, S.W.
Washington, D.C., 20024

Re: Proposed Single Security Structure

Dear Sir or Madam

The American Bankers Association (ABA)¹ appreciates this opportunity to offer comments on the request for input by the Federal Housing Finance Agency (FHFA) on the development of a single security structure for use by the government sponsored enterprises Fannie Mae and Freddie Mac currently under conservatorship of the FHFA.

As FHFA notes in the proposal, the development of a single security structure is a necessary first step in a multi-year process to build a common securitization platform. Given the importance of securitization, and the “to be announced” (TBA) market for lenders of all sizes in the mortgage market, it is essential that market participants, both in the primary and secondary market, come to consensus on the necessary features of a structure.

Broadly, FHFA has identified the necessary structural elements and key features, and has posed a series of questions to which we provide ABA’s views below.

1. What key factors regarding TBA eligibility status should be considered in the design of and transition to a Single Security?

The TBA market for the Fannie Mae MBS is the most liquid mortgage market worldwide. Although Freddie Mac PCs also trade in the TBA market, there are distinct differences that make Fannie Mae MBS a more desirable security as it is often traded more frequently and at a better price. As such, it is imperative that the Fannie Mae MBS be maintained and, hopefully, enhanced by the transition to a Single Security. The proposed structure has promise to achieve this, in large part by replicating the existing features of the Fannie Mae MBS, including a payment delay of 55 days; pooling prefixes; mortgage coupon pooling requirements; minimum pool submission amounts; general loan requirements, such as first lien position, good title, and non-delinquent status; seasoning requirements; and loan repurchase, substitution and removal guidelines.

¹ The American Bankers Association represents banks of all sizes and charters and is the voice for the nation’s \$13 trillion banking industry and its 2 million employees. The majority of ABA’s members are banks with less than \$185 million in assets. Learn more at www.aba.com.

It is necessary to have completed market consensus surrounding these features as well as fungibility, and disclosure regimes. Without market agreement, investors might treat legacy Fannie Mae MBS and Freddie Mac PCs differently – defeating the purpose of a Single Security. Other than giving the new security the payment features of a Fannie Mae MBS and the disclosure features of a Freddie Mac PC, the information provided by FHFA gives little insight as how the two different securities will be combined to a Single Security. It could be beneficial for FHFA to provide additional information highlighting the features of the combination as well as a timeline outlining the potential multi-year implementation schedule in order to combat potential disruptions to the TBA market.

2. What issues should be considered in seeking to ensure broad market liquidity for legacy securities?

It will be imperative for FHFA to consider smaller institutions when ensuring broad market liquidity for legacy securities. Currently, many larger banks can enter the market with their own securities, but smaller banks are faced with more difficult challenges as they often provide loans for aggregation across many institutions. We urge FHFA to consider the impact of a Single Security transition on securities made up of loans aggregated from smaller institutions. The transition must ensure that pooling of loans will continue for all lenders, and that the legacy securities are not negatively affected in their future tradability. Additionally, we applaud FHFA's foresight to include the multiple-lender pool under the Single Security. However, we urge the FHFA to consider the same challenges outlined above when moving from a market duopoly to a monopoly.

3. As discussed above, this is a multi-year initiative with many stakeholders. What operational system, policy (e.g., investment guideline), or other effects on the industry should be considered?

In addition to those issues outlined by FHFA's proposal, current legislation and regulation impacting the primary market must be considered as part of the implementation of the Single Security. The FHFA must consider the impacts of QM, QRM (when implemented) and the so-called "QM patch" (and the implications of the patch eventually going away). Also upcoming changes to HMDA and the TILA-RESPA Integrated Disclosure should be considered. While these rules likely will not have a direct impact on the Single Security development, they will impact the primary market through a potential decrease in loan generation and should be part of the FHFA calculation going into the next few years. We note too that it is widely believed that transitioning to a Single Security will reduce borrowing costs for lenders and homeowners. However, FHFA must include in its calculations the possibility that moving from a duopoly to a monopoly will reduce primary lenders' ability to negotiate the best purchase prices between Fannie Mae and Freddie Mac which could increase borrower costs.

4. What can be done to ensure a smooth implementation of a Single Security with minimal risk of market disruption?

As noted above, it is widely believed that a Single Security could improve trading flexibility and efficiency while improving overall liquidity in the market. In order to achieve these benefits without causing a market disruption, FHFA must ensure legacy Fannie Mae MBS and Freddie Mac PCs have no trading value disparities in the new market. As such, FHFA claims legacy Fannie Mae MBS will be fungible with the new Single Security and will provide a tradable option for legacy Freddie Mac PCs. Additionally, FHFA may want to consider explicitly making both Fannie Mae MBS and Freddie Mac PCs tradable under the Single Security to ensure greater parity. Even further, FHFA may consider mandating such a trade for all existing Fannie Mae and Freddie Mac securities. However, this is only advised after extensive consultation with market participants and broad agreement of the acceptability of the Single Security.

Again, we appreciate this opportunity to provide input on this important topic. As a next step in the process, and to further consensus, ABA recommends that FHFA consider hosting roundtable discussions with both primary and secondary market participants to share views, express concerns and expand upon the concepts presented by FHFA.

If you wish to discuss any of the input provided herein in greater detail, please contact the undersigned.

Sincerely,

A handwritten signature in black ink that reads "Robert R. Davis". The signature is written in a cursive style with a large, prominent "R" at the beginning.

Robert R. Davis