MAC X2401-064
One Home Campus
Des Moines, IA 50328-0001

wellsfargo.com

October 13, 2016

Federal Housing Finance Agency
Office of Financial Analysis and Modeling
400 7th Street, S.W.
Washington, D.C. 20219

Attn: Single-Family Credit Risk Transfer Request for Input

Dear Sir or Madam:

Wells Fargo is pleased to submit its response to the Federal Housing Finance Agency's ("FHFA") Request for Input on Single-Family Credit Risk Transfer ("CRT"). We thank you for the opportunity for public comment on this important market. The CRT market impacts nearly all lenders and servicers, an increasing number of investors, insurers and dealers, and countless other stakeholders that take an interest in the $4.2 trillion agency mortgage-backed securities market.[1] After three years of working with the Government Sponsored Enterprises (the "Enterprises") to build a promising and foundational CRT market, FHFA's release of this Request for Input ("RFI") naturally serves as an inflection point for all stakeholders to weigh in on how credit risk transfers should impact the housing finance market, and vice versa.

Wells Fargo Home Lending and Wells Fargo Securities have collaborated to develop the recommendations in this letter, which are very much in line with the principles outlined in the RFI. Some of these recommendations require legislation; others can be accomplished within the current authorities of FHFA and the Enterprises. Ultimately, we believe that the CRT programs should continue to be developed as a tool that supports a market-based view of credit. At the same time, and in the best interest of the housing market, FHFA and the Enterprises should facilitate a CRT market that is impartial to the size and type of participating lender and that demonstrates benefit for consumers and the public interest.

[1] CPR & CDR Technologies and Wells Fargo Securities (as of 10/12/16)

Section I: CRT should be a bridge to a more resilient housing finance market

Fannie Mae's Connecticut Avenue Securities ("CAS") and Freddie Mac's Structured Agency Credit Risk ("STACR") programs have provided a number of benefits to the housing market, including more transparency through robust disclosure and data, enhanced clarity of market pricing for credit risk, and broadened credit risk analysis through an expanding and diversified credit investor community. We believe these programs and other forms of CRT should continue to be used to strengthen risk management within the Enterprises and across the housing finance system.

Housing finance reform proposals released by Congress and industry professionals have demonstrated broad-based support for CRT programs to fund credit risk via private capital. We agree with this approach. Not only should risk sharing be a part of any comprehensive reform plan, but we believe continued progress in the CRT market will help bolster and shape such reform. Innovations by the Enterprises and direction provided by FHFA's Scorecard goals have paved a careful path for growth in the CRT market. The goals have increased the aggregate amount of originations subject to risk transfer, expanded the types of risk transfer structures and number of unique investors annually, and targeted a percentage of newly acquired loans for inclusion in risk transfer transactions.

Given the extent of the Enterprises' current role in the housing market, we believe that FHFA and the Enterprises should consider public goals that reflect the protection provided to the Enterprises, taxpayers, and the economy through CRT transactions. Other public metrics might reflect the risks listed in the RFI, such as the amounts and types of counterparty exposure and percentage of risk protection that is fully funded.

In the long term, Wells Fargo does not envision a CRT market in which the Enterprises are the only sponsors. Factors that may influence the amount of CRT issuance that remains with the Enterprises as sponsor include the certainty provided by the Enterprises with respect to representations and warranties, pricing of guarantee fees, and ongoing transparency through enhanced disclosures (including information that enables investors to compare all lenders, such as performing quality control ("QC") defect rates, repurchases, delinquency/loss rates and mark-to-market LTVs) and the dissemination of performance data. A truly resilient and efficient CRT market includes transactions from multiple sponsors that are driven by innovation, best execution and best-in-class risk management practices.

Section II: Regulatory issues are hindering credit risk transfer; clarifications would encourage broader investor participation in CRT

The Enterprises' CRT programs have thus far proven to be effective distributors of risk that generally provide fully-funded protection for taxpayers, but FHFA and the Enterprises have challenging decisions to make as the CRT market continues to mature. Growing liquidity and investor confidence in the STACR and CAS programs has attracted interest across different

types of investors, including hedge funds, money managers and asset managers of varying sizes. However, bouts of market volatility during the programs' first years demonstrate the need to further develop this market and promote broader investment and increased liquidity to make it more resilient to broader economic changes. Among the most important are an expansion of the investor base to include more types with dedicated sources of capital (e.g., REITs and insurance companies), capital rules that better enable broker dealers to engage in market-making activities, and greater certainty with respect to the future of the CRT market (either as part of broader housing finance reform or separately).

More substantial REIT and insurance company participation would enhance liquidity and increase demand in the CRT market by adding long-term sources of capital that invest in mortgage credit risk. REITs currently invest in STACR and CAS securities in reduced quantities because of limitations on acceptable income and assets set forth in the IRS Code and the Investment Company Act. STACR and CAS securities likely only meet two of three REIT tax requirements, which may prevent REITs from owning the securities in anything but a limited, non-REIT account. Additional uncertainties with respect to the asset tests under the Investment Company Act also limit REIT participation. Additionally, the National Association of Insurance Commissioners ("NAIC") has not been able to provide ratings on CRT transactions in a manner that accommodates new-issue transaction timelines. This has kept insurance companies from any meaningful participation in the CRT market. We believe that regulatory and/or legislative fixes to these requirements would expand REIT and insurance company participation in STACR and CAS securities and create meaningful investment by more stable, long-term sources of capital.

Current capital rules inhibit broker dealers from making markets on meaningfully-sized positions in CRT securities, which hurts liquidity in the market and inhibits growth of the investor base. Investors will generally acknowledge that secondary liquidity for small-size STACR and CAS trades is strong, with a number of dealers making active secondary markets. However, when the size of the trade increases, liquidity is thinner, with fewer dealers making active secondary markets. This reduction in liquidity is largely tied to the current capital rules, as a dealer's ability and willingness to withstand high capital charges wanes as trade size increases. This phenomenon is supported by the daily transaction activity reported to the Trade Reporting and Compliance Engine ("TRACE") administered by FINRA. TRACE reports all trades and their sizes up to $5mm, but any trades above $5mm are reported as $5mm+ regardless of the actual size of the trade. In the last 12 months, there have been 7,126 total secondary trades in STACR and CAS securities, with only 16.3% of them involving a trade of $5mm+.[2]

The punitive capital treatment of CRT securities largely stems from the Simplified Supervisory Formula Approach ("SSFA") within the Basel III framework, which places more emphasis on the credit enhancement of the securities than the credit quality of the underlying loans. This

[2] Source: TRACE (data from 10/8/2015 to 10/7/2016)

causes securities backed by high quality loans to suffer from a capital perspective because they require less credit enhancement to be rated and sold. Ultimately, the capital charge under SSFA ends up being disproportionately high for the risk being assumed and inhibits secondary trading and market making activities. Furthermore, the next iteration of capital rules is the Fundamental Review of the Trading book, which may be even more punitive. Some thoughtful changes to the capital rules, such as consideration of the quality of the underlying loans, could provide greater incentives for broker dealers to make markets in CRT securities and help bolster the liquidity and depth of the CRT market.

We also believe that uncertainty relating to the future of the Enterprises leads to questions concerning how long the current CRT market will remain viable. Clarity with respect to housing reform and the future state and form of CRT will provide investors with meaningful certainty about the viability and liquidity of the market going forward, which will allow investors to allocate capital for the future. The fact that STACR and CAS are issued as unsecured corporate debt adds to this uncertainty because the financial wherewithal of the Enterprises becomes paramount. Revising restrictive CFTC rules for commodity pools would allow STACR and CAS to transition from corporate debt to a bankruptcy-remote, trust structure that could survive housing finance reform and an end to the conservatorship of the Enterprises.

Without these fixes, the CRT market may struggle to avoid the bouts of volatility it has experienced in the past, as the market has generally widened out commensurate with moves in the corporate credit markets. While the correlation is not perfect, there has been a strong relationship between the pricing of the different tranches of STACR and CAS securities and the investment grade and high-yield corporate markets, as applicable (see **Table 1** below). Anecdotally from investors, and based on the current performance data for STACR and CAS deals, this volatility likely had little to do with the perceived credit risk of the securities (see **Table 2** below for an example of STACR performance compared to legacy origination vintages). Rather, investors focus their attention on changes in corporate credit spreads to influence their pricing decisions in the STACR and CAS market. While it is likely that the corporate debt markets will always remain a relevant data point for investors to consider in their overall analysis, resolving some of the impediments to liquidity outlined in this section, including crystalizing the future housing market and taking appropriate measures to ensure robust investor and dealer participation, may result in the CRT market being viewed as a standalone market with its own distinct fundamentals that are more directly tied to mortgage credit risk.

Table 1 – Comparison of CRT Pricing to Corporate Credit Spreads[3]

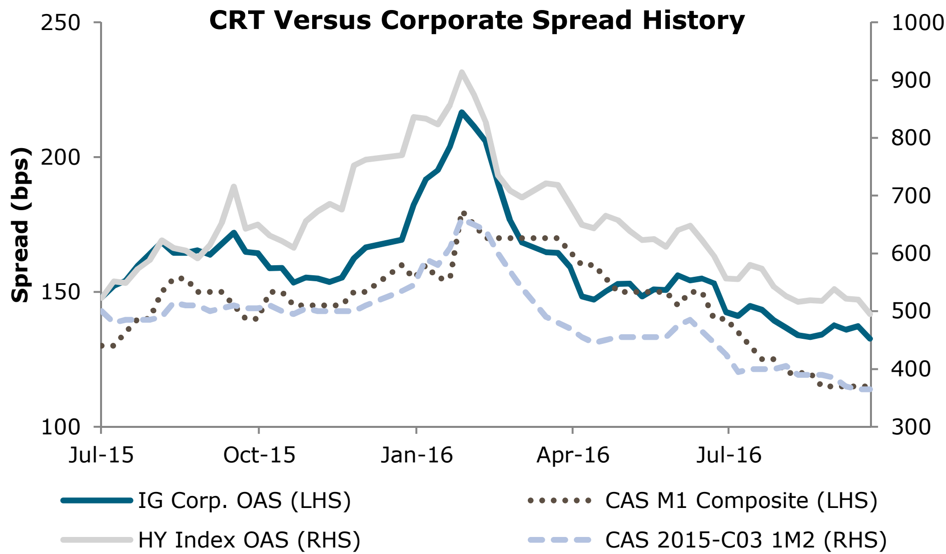
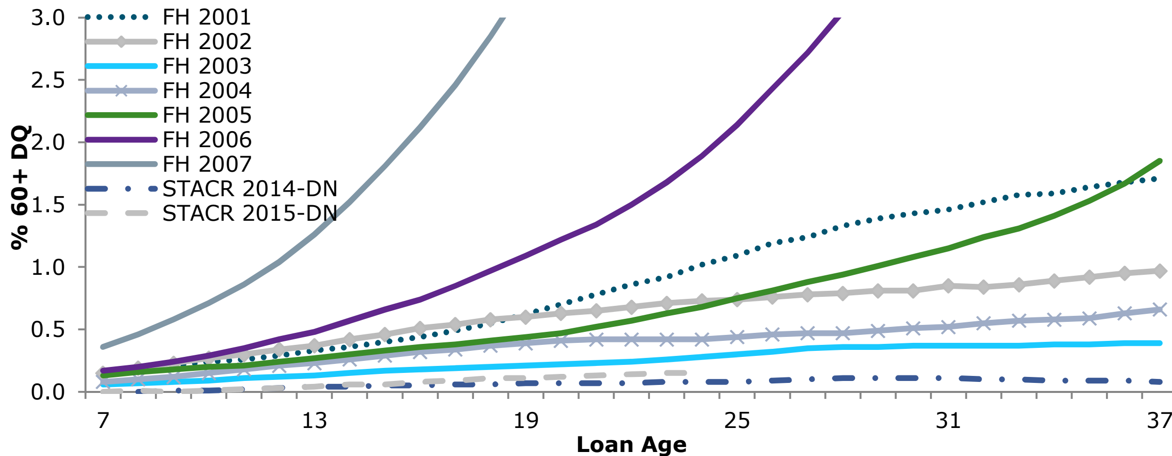


Table 2 – Comparison of Loans in STACR versus Legacy Freddie Origination Vintages[4]



Section III: Enterprise counterparty risks and the lack of clarity regarding lender and servicer liabilities with mortgage insurers must be resolved

Counterparty risk and uncertainty regarding lender and servicer liabilities with mortgage insurers ("MIs") is not a new debate, but is an important one to have publicly. The

[3] Source: TRACE, Yieldbook, Wells Fargo Securities
[4] Source: CPR & CDR Technologies, Freddie Mac

Enterprises' Charters require that mortgage insurance (or its equivalent) be secured on loans where borrowers have a low down payment. In this way, MIs currently play a role in broadening access to credit by insuring the risk on loans with LTVs greater than 80%. However, there are important risks and uncertainties that have limited the effectiveness and reliability of mortgage insurance. When the Enterprises purchase a loan, they take on the MIs' counterparty risk of paying legitimate claims in full, while the lender remains exposed to the risk of loss if the MI rescinds a policy or denies a claim in full due to an origination defect. Similarly, the servicer is exposed to the risk of loss if the MI denies a claim in full or curtails the claim amount for a servicing defect.

As a result, the extent to which MIs will pay future claims resulting from borrower defaults is a source of uncertainty for lenders, servicers, investors and the Enterprises. This uncertainty and resulting risks are magnified when considering the relatively small number of MIs that exist and the fact that the Enterprises and the MIs are exposed to a correlated risk (i.e., the mortgage market).

As discussed below, while initial steps have been taken to address these risks, more work is required. Additionally, it is important to note that the capital markets have yet to opine on these risks since the Enterprises generally assume the MI counterparty risk in the STACR and CAS deals. This decision has enabled the STACR and CAS deals including higher-LTV loans with mortgage insurance to obtain similar credit enhancement and pricing to deals including lower-LTV loans without mortgage insurance.

There have been two recent changes intended to address some of the counterparty risk and uncertainties that exist. First, FHFA's release of PMIERs (which became effective in 2015) focused on the MIs' "ability" to pay through more transparent capital requirements and general approval standards. However, PMIERs did not solve for the MIs' "willingness" to pay claims (i.e., rescissions, claim curtailments). Furthermore, PMIERs and its financial components were constructed in the environment in which primary mortgage insurance (with standard Enterprise coverage levels) is the main use of mortgage insurance for new originations. As a result, we believe PMIERs needs to be reviewed, or separate capital standards should be defined by FHFA and the Enterprises, to further minimize counterparty risk if the MIs are expected to broaden their participation in an expanded CRT market. Historically, MI premium price increases have occurred quickly and frequently during times of increased defaults, and premiums could be subject to swift adjustments in the future as well. In addition, MIs are utilizing reinsurance to obtain capital relief and to meet PMIERs' financial components today. While this is an attractive and efficient way to raise capital, future reinsurance may not be readily available or at a reasonable premium when defaults emerge. Thus, MIs may have to seek other outlets for transferring risk, including the capital markets, if they are to engage in front-end CRT through the expanded use of mortgage insurance.

Second, the MI Master Policy was updated in late 2014 to standardize MI servicing procedures and timelines as well as to provide baseline rescission underwriting relief after 36 timely payments. However, the Master Policy update did not address the alignment of origination *and* servicing defects between lenders, servicers and the MIs. Before the expanded use of mortgage insurance in risk transfer, we believe that additional work needs to occur to further define the contractual relationship among lenders, servicers and MIs, as follows:

> As it applies to the origination process, lenders and MIs need to agree on the definitions of key terms and the interpretation of underwriting guidelines in order to avoid subsequent disputes on rescissions and claim denials for origination defects. The 2014 Master Policy update did not resolve uncertainties involving several critical processes, such as reaching agreement on the applicable underwriting guidelines (e.g., Enterprise guides and interpretation of guidelines). Other outstanding questions include: what constitutes a loan origination defect; when a remedy/rescission for a defect will occur; and the use of appropriate QC reviews to demonstrate alignment. A contractual understanding of these terms and processes should be agreed on at the time of origination, and should continue in place for the duration of the loan. Additionally, we also believe that there are opportunities to develop enhanced rescission relief or incentives for lenders that demonstrate high quality manufacturing processes and controls that consistently produce high quality loans. Furthermore, the expanded use of the Enterprises' tools (e.g., AUS and collateral tools) and loan datasets can be used to promote the origination of high quality loans and the creation of new opportunities that decrease lender uncertainty and increase alignment among all parties.
>
> In servicing, similar uncertainties and critical processes must be resolved among MIs, the Enterprises and servicers to avoid subsequent disputes on claim denials and curtailments for servicing defects. Other outstanding questions include: agreement on the applicable servicing guidelines (e.g., Enterprise guides and interpretation of guidelines); what constitutes a servicing defect or servicer negligence; when a remedy (e.g., curtailment, denial) for a defect will occur; and the use of appropriate QC reviews to demonstrate alignment early in the default servicing cycle. Currently, each party has differing views, leading to unnecessary demands, appeals and supplemental MI claim-processing delays and costs. As a result, improvements to the existing claims filing and payment calculation process should be developed to create an efficient, consistent and timely claims-paying process to the Enterprises, investors and servicers. A well-defined, transparent and scalable claims-paying process will allow the MIs, Enterprises and servicers to agree on the timing and actual claim amount paid.

The expanded use of mortgage insurance in front-end CRT can only be discussed and evaluated once the items listed above are resolved, and clearer definitions are provided regarding the potential structures and use of "Deeper MI". Without a clearer definition, obstacles that may exist for front-end CRT with lender-facing mortgage insurance include: considerations of the Homeowner's Protection Act, state laws, Enterprise mortgage insurance

cancellation requirements and potential new borrower disclosures. The Enterprises could also engage MIs directly, which would create additional considerations. Regardless of the potential structure, MIs, the Enterprises, lenders and servicers will need to evaluate and assess operational impacts to their origination and servicing systems required to support the expanded use of mortgage insurance in front end CRT.

Section IV: CRT should be used to differentiate loan quality for lenders and investors and to provide benefits to borrowers

The progress demonstrated by FHFA and the Enterprises in CRT has brought us to a place where we should now consider how CRT can impact the primary market as a whole, including consumers. We support the continued prioritization of a level playing field in CRT and believe additional risk transfer structures that provide feedback to lenders, and greater transparency to CRT investors, about each lender's loan quality should be pursued. Since the financial crisis and at the direction of FHFA, the Enterprises have launched a joint effort known as the Uniform Mortgage Data Program (the "Program") to enhance data quality, clarity and standardization. Under this Program, the Enterprises now gather more information from lenders through the submission of new data sets that include uniform closing, loan delivery and appraisal reporting. Additional data sets, such as the Uniform Closing Dataset and Uniform Residential Loan Application, will include many more specific data points that can be used to provide greater certainty to lenders regarding potential repurchase risk. Some of these points may also be helpful to include in CRT disclosures to investors.

We believe FHFA and the Enterprises should evaluate opportunities to use this information to measure each lender's origination quality with the goal of developing incentives that align a lender's interest in producing quality loans with their ability to provide benefits to borrowers. The benefits may arise, in part, due to the reduction in cost directly associated with the proven ability of a lender to consistently deliver quality loans and data to the Enterprises. Additional benefits about origination quality at delivery, such as lenders' compliance with Enterprise guidelines, data quality (including the amount of variation or dispersion in key loan-level data attributes), and loan file quality (including complete and well-documented evidence of the underwriting decision), may also be realized through increased disclosures to, and improved pricing from, an expanded CRT investor community.

At a minimum, we suggest that FHFA work with the Enterprises to develop metrics for monitoring loan quality by lender, including those without delegated authority, that could be translated to cost savings for borrowers. Metrics should also be designed to share with CRT investors in order to increase investors' confidence in each lender's quality. For example, metrics could be benchmarked against monthly results and trends across all CRT lenders/servicers. We also believe appropriately designed incentives to encourage investment in robust loan manufacturing processes that produce high quality loans can support the FHFA's mandate to level the playing field while also allowing lenders to compete based on origination quality.

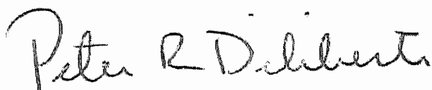
This type of quality monitoring could be utilized in multiple CRT structures. STACR and CAS transactions could disclose information about the quality and performance of collateral per lender (although disclosure concerning lenders that contribute very small percentages may be operationally difficult). Front-end risk transfers can be structured to isolate lender collateral and allow CRT investors to differentiate lender quality and performance over time. Alternatively, lenders unable to source enough collateral on their own could partner with a third party aggregator or directly with an Enterprise to achieve scale. Wells Fargo believes these types of ideas should be pursued to determine how lenders' loan quality impacts investor decisions and how incentives can be created to ultimately benefit borrowers and strengthen the Enterprises' risk management and oversight required to ensure their safety and soundness.

Conclusion

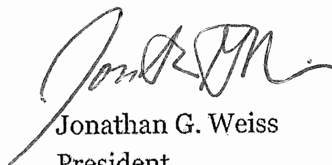
Wells Fargo believes that the CRT program is a critical bridge to a more sustainable housing finance system. The Enterprises and FHFA have demonstrated considerable innovation in risk management through the development of risk transfer structures during the program's initial three years. We hope to work with FHFA and the Enterprises to support continued strengthening of liquidity and issuance of risk transfer through diversity of investors, originators and transaction structures. Greater certainty regarding MIs' willingness and ability to pay claims must also be resolved before the CRT market can support the broader use of mortgage insurance as another vehicle for transferring risk to private capital investors. Certain regulatory changes would reduce ambiguities and encourage broader investor interest in a more robust CRT market over the long term. Wells Fargo strongly believes a level playing field among lenders, in particular one in which lenders can compete on origination quality, can benefit borrowers. We urge FHFA and the Enterprises to incentivize borrower benefits within the CRT program. Successful resolution of the priorities discussed above will remove uncertainty and help bolster the housing and mortgage market for all industry participants and consumers.

Thank you for your time and consideration. We look forward to our continued work together.

Sincerely,



Peter R. Diliberti
EVP, Head of Capital Markets
Wells Fargo Home Lending



Jonathan G. Weiss
President
Wells Fargo Securities

Appendix: RFI Questions

Front-End CRT proposals

A1: *Are there credit risk transfer principles that FHFA should consider in evaluating front end credit risk transfer transactions that are not listed in the CRT principles section? Similarly, are there significant risks that FHFA and the Enterprises should consider in evaluating credit risk transfers structures that are not included in the Enterprise Risks section? Please also provide any comments or views about the principles and risks described in the RFI.*

Wells Fargo believes that FHFA should encourage the Enterprises to pass through benefits from their CRT programs to lenders and borrowers. As addressed above, we believe any benefit should be directly related to the quality of each lender's loan manufacturing and delivery processes to ensure the Enterprises only acquire quality loans. Since a portion of the Enterprises' cost includes administrative expenses associated with managing the operational oversight of their lenders/servicers, there should be a reduction in the cost and potentially credit risk, associated with a lender's proven ability to originate and deliver quality loans for sale to the Enterprises. For example, a lender's proven ability to consistently provide accurate loan-level data inputs at delivery to each Enterprise should provide a high level of confidence and thus a corresponding reduction in cost associated with the credit and counterparty risk of the lender and its loan quality. Furthermore, the ability of the Enterprises to provide incentives based on quality, not volume, will allow all lenders to compete based on their ability to produce high quality loans and share the benefits with their borrowers. We encourage FHFA to work with the Enterprises to identify appropriate incentives and origination quality metrics that can be used to provide feedback to lenders and greater transparency to CRT investors, through the publication of a lender quality scorecard. We believe increased transparency is important to both lenders and CRT investors and may be used to differentiate origination quality over time as credit expands and investors experience more variable housing and economic cycles.

Additionally, several principles that FHFA lists are primary contributors to a liquid market, (i.e., scalable, repeatable, broad investor base), but liquidity is not explicitly described as a principle or a goal for the CRT market. We believe CRT transactions should endeavor to achieve liquidity with each type of transaction that is completed, allowing for improvements over time. This is not to say that new pilot transactions should not be tested and programs in their infancy should be abandoned. Rather, liquidity as a goal should guide the Enterprises in structuring deals and appropriately signaling issuance plans to investors. Liquidity will impact pricing and repeatability, and is easily influenced by perception, so we recommend using a few metrics to measure it, including trends in bid/ask spreads, the number of broker dealers making active markets, and the size of CRT trades that cause price changes across the market.

A2: *How would proposed front-end credit risk transfer structures meet and balance the CRT principles and Enterprise risks outlined in the RFI?*

FHFA defines "front-end" CRT transactions as those "in which the arrangement of the risk transfer occurs prior to, or simultaneous with, the acquisition of residential mortgage loans by an Enterprise" and "back-end" CRT transactions as those "in which the arrangement of the risk transfer occurs after the acquisition of residential mortgage loans by the Enterprises." We agree with those definitions and believe the distinction between the two is meaningful, in particular if there is a significant amount of time between when the Enterprise acquired the loans and when the CRT transaction takes place. In the current CRT market, the Enterprises engage in certain activities (i.e., third party due diligence reviews, quality control reviews, further loan aggregation, etc.) after acquiring loans that are necessary to execute the STACR and CAS transactions. This transaction preparation period provides a benefit to investors because they are not exposed to early payment defaults and delinquencies or to loans with origination defects identified by the Enterprises' quality control reviews, and because the loans begin to show performance history.

However, the Enterprises take on 100 percent of the credit risk on the acquired loans during this period and are exposed to the risk of broader economic changes and macro events. It should be noted that the Enterprises have done a very good job reducing the amount of time that is required to execute STACR and CAS transactions (from 10+ months down to 5-8 months), but this period of risk still remains. If it is desirable to reduce this risk, front-end capital markets transactions could be used to complement existing back-end CRT transactions in order to reduce the total amount of risk that is on the Enterprises' balance sheets at any given time.

Back-end transactions provide market participants feedback on the implied cost of credit. However, front-end capital markets transactions occur closer to the origination period of the loans, which limits the time during which changes in credit spreads and interest rates can occur in the market. Further, the STACR and CAS transactions are modeled as "aggregator" transactions, in which the loans from many lenders are pooled together under agency guidelines and the benefits of the transaction accrue to the related Enterprise. Front-end capital markets transactions, in which the execution risk is either shared between the lender(s) and the Enterprises or borne solely by the lender(s), allow investors to assess the origination quality and provide direct market feedback to lenders who can use any potential pricing benefits to help more borrowers gain access to mortgage credit.

A3: *In considering proposed front-end credit risk transfer transaction structures, how should FHFA and the Enterprises manage the counterparty risk involved in these transactions?*

Please refer to our discussion of counterparty risk set forth above under Section III. Additionally, FHFA and the Enterprises can manage counterparty risk by focusing on

appropriate capital requirements for MIs and/or requirements that a sufficient percentage of the transferred risk is fully-funded by the MI. If fully funding the risk is too onerous for the MI, FHFA could mandate that the risk is offloaded by the MI into the capital markets through a back-end or contemporaneous CRT transaction.

A4: *In developing their credit risk transfer programs, the Enterprises have used pilot transactions to evaluate new credit risk transfer transaction structures. As FHFA considers proposed front-end credit risk transfer structures, one option is for the Enterprises to engage in pilot transactions. If approved by FHFA, what issues or characteristics should be tested in pilot transactions?*

We believe that both a level playing field for all lenders and additional front-end capital markets structures that provide information to investors about loan quality should be pursued in pilots. While STACR, CAS, ACIS and CIRT remain a majority of the CRT program volume, new pilot programs should be focused on broadening the investor base, incentivizing quality origination, offloading risk before it hits the Enterprises' balance sheet and exploring capital markets aggregation facilities for lenders that do not have sufficient balance sheets to otherwise participate in CRT. Focus should be put on deals demonstrating pricing benefits that can be passed onto borrowers through all types of lenders. Thought has to be put into whether deals are repeatable, but it is just as important for investors to understand the intentions and the major factors in the decision-making process for a new pilot because investors have limited resources to devote to one-time, exploratory transactions. While market participants should not expect the most efficient results the first time a pilot is marketed, FHFA and the Enterprises should commit to a sufficient number of transactions within a pilot program in order to evaluate its long-term viability.

Equal playing field for all lenders

B1: *What credit risk transfer strategies work best for small lenders? Why?*

B2: *Do other types of front-end credit risk transfer work better for small lenders than collateralized recourse transactions? How so?*

We strongly believe that a CRT market that allows all lenders to participate and earn similar benefits is best for the housing market in the long term. There have been many suggestions for new aggregation models that can accommodate more small lenders in front-end risk transfers and help to level the playing field. We hope that meaningful conversation and negotiation will occur among a greater number of lenders, the Enterprises and FHFA, and that those discussions will be able to produce scalable pilot transactions that benefit all lenders. We believe that additional outreach, education or a collaborative forum or working group specifically meant for this purpose could be fruitful, and we would gladly support and participate in these efforts.

Guarantee Fee Impacts and Tradeoffs

C1: *How should FHFA and the Enterprises incorporate information learned through the pricing of credit risk transfer transactions into the practice of setting both the level of and frequency of changes in the Enterprises' guarantee fees?*

C2: *Should FHFA and the Enterprises maintain the policy of taking a longer-term view of setting guarantee fees in an effort to provide greater liquidity and stability in the housing finance market? Would a change in this practice impact market liquidity and borrower access to credit? If so, how?*

As discussed in Section II, the current CRT market has been impacted by volatility in the corporate credit markets, which has generally been unrelated to the credit risk of the underlying loans. If the CRT market is permanently established through housing finance reform and the investor base is broadened to include REITs, insurance companies and other investors with longer-term, stable sources of capital, the impact of broader economic changes will lessen. Until that time, only the Enterprises will be able to smooth out guarantee fees to promote stability for lenders and borrowers.

We do not think the housing finance industry is well-equipped for constantly changing guarantee fees, but there should be continuous oversight and review of such fees. We encourage more transparency in how and when FHFA and the Enterprises review their pricing levels and related pricing methodologies, which should continue to occur at least annually. These reviews should also take into account the pricing levels of CRT transactions executed by the Enterprises as well as any competition emerging from private-label CRT transactions.