Via Electronic Submission

November 16, 2018

The Honorable Melvin Watt
Director
Federal Housing Finance Agency
Washington, D.C. 20219

Re: RIN 2590-AA94, Uniform Mortgage-Backed Security Proposed Rule

Dear Director Watt,

Thank you for inviting public input on the Federal Housing Finance Agency ("FHFA") *Uniform Mortgage-Backed Security* proposed rule. We appreciate the opportunity to provide comment, and we do so in the capacity as one of the largest investors in Fannie Mae ("Fannie") and Freddie Mac ("Freddie") (collectively, the "Enterprises" or "Agencies") mortgage backed-securities ("MBS") and non-Agency mortgage whole loans and securities ("RMBS") globally. As you may know, PIMCO is the largest active fixed income manager globally, and as of September 30, 2018, we manage $1.7 trillion of assets on behalf of millions of individuals and thousands of institutions globally; in all cases, we function in a fiduciary capacity and are legally obligated to act in the best interests of our clients.

As large market participants in the U.S. mortgage markets, we are deeply committed to the healthy functioning, liquidity and stability of markets, and are uniquely positioned to offer insights and feedback on the FHFA's Uniform Mortgage-Backed Security ("UMBS" or "Single Security") initiative and the FHFA's specific proposal to "promote aligned investor cash flows on current To Be Announced ("TBA")-eligible MBS."[1] Overall, we are concerned that the Single Security initiative continues to be a solution in search of a problem[2] and could significantly disrupt the large, liquid, well-functioning and economically vital U.S. residential mortgage market, ultimately leading to higher borrowing costs for homeowners and inadvertently providing a headwind to U.S. economic growth.

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[1] FHFA Uniform Mortgage-Based Security proposed rule, p. 1 (proposed Sept. 11, 2018) (to be codified at 12 CFR Part 1248) [hereinafter FHFA proposed rule].

[2] PIMCO Viewpoints, *Higher Mortgage Rates Are Likely With Proposal of 'Single Security*,' (Apr. 2017), https://www.pimco.com/en-us/insights/viewpoints/higher-mortgage-rates-are-likely-with-proposal-of-single-security; PIMCO Blog, *Uniform Mortgage-Backed Security Initiative ('Single Security'): Stop Throwing Good Money After Bad,* (Apr. 3, 2018), https://blog.pimco.com/en/2018/04/Uniform%20Mortgage%20Backed%20Security%20Initiative%20Single%20Security%20Stop%20Throwing%20Good%20Money%20After%20Bad.

In the proceeding letter, we aim to accomplish the following:

I. **Disabuse the erroneous assertions that the FHFA and others[3] have put forward that underpin the rationale for the Single Security initiative, including that market liquidity for these instruments will improve and competition will be enhanced.** In fact, as proposed, we view the FHFA's Single Security initiative as anti-competitive, disruptive for markets, and potentially bad for borrowers in the form of higher rates and less access to mortgage credit.

II. **Clarify that the Single Security is *not* essential for future housing finance reform, and indeed, would make more sense to be sequenced *after* housing finance reform.** Additionally, given the unnecessary operational costs involved and the uncertainty it creates, we assert that the **Single Security initiative is inconsistent with the President's Executive Order** regarding the core principles of financial regulatory reform issued in February 2017.[4]

III. **Recommend enhancements, and in some cases significant modifications, to the Single Security initiative to increase the probability of success should the initiative be pursued.** These recommendations revolve around alignment, namely reducing and enforcing against the differences in prepayment characteristics between Fannie and Freddie MBS, and around conversion, namely providing an incentive for holders of legacy MBS to convert into the new UMBS. Without addressing these significant design flaws, we, as stewards of the mortgage market and fiduciaries to our clients, do not plan to support UMBS for TBA-eligibility.

Again, we respectfully offer these observations and recommendations as one of the largest, longstanding participants in the mortgage market and as a fiduciary to thousands of institutions and millions of individual clients. We are committed to the stability and healthy functioning of markets, especially the critically important residential mortgage market, which is what informs our opinions set forth below. While we continue to urge policymakers to recognize the numerous downside risks and limited upside associated with the Single Security initiative as proposed currently, we nevertheless appreciate the opportunity to engage with the FHFA on this and other important housing finance issues.

I. **The assertions that the FHFA and others make that Single Security will increase liquidity and competition are misplaced; we are concerned that the opposite will happen – less liquidity and less competition – making the marketplace worse off, increasing rates to homeowners, and slowing the economy.**

[3] *See, e.g.*, Laurie Goodman and Jim Parrott, *A Progress Report on Fannie Mae and Freddie Mac's Move to a Single Security*, Urban Institute (August 2018) [hereinafter *A Progress Report on Fannie Mae and Freddie Mac's Move to a Single Security*].
[4] Presidential Executive Order on Core Principles for Regulating the United States Financial System, (Feb. 3, 2017), https://www.whitehouse.gov/presidential-actions/presidential-executive-order-core-principles-regulating-united-states-financial-system/ [hereinafter, the Executive Order].

Despite claims otherwise, we do not believe Single Security will enhance liquidity.

The FHFA and others have repeatedly claimed that one of the benefits of creating a new, uniform mortgage-backed security would be to increase liquidity in the mortgage market by unifying the two markets.[5] Indeed, the FHFA most recently claimed that "combining the two markets in a single UMBS market would increase the liquidity in Fannie Mae TBA-eligible MBS by adding roughly $1.3 trillion to tradable supply and . . . would result in better execution." The FHFA goes on to assert that it "believes that the benefits of increased liquidity and improved execution will flow through to borrowers."[6] While these claims may seem reasonable in theory, in practice, we believe that the opposite may occur from the roll-out of the UMBS: liquidity would not only fail to improve, but would actually decline. In fact, Fannie Mae identifies this risk in its recent 10-Q filing: "the Single Security Initiative could contribute to declines in the liquidity or market value of our Fannie Mae MBS."[7]

It is important to note that the current MBS market is *already* liquid: indeed, it is the second most liquid, well-functioning market worldwide, to U.S. Treasuries,[8] meaning *successful* implementation of UMBS would provide little to no benefit to borrowers or investors. Importantly, one of the reasons why the current MBS market *is* so liquid is due to the standardization and homogeneity associated with the TBA market, and as such, the heavy adoption of the TBA market by a broad group of investors. The FHFA, in its proposal, cites a Federal Reserve Bank of New York report from 2013 that underscores this exact point: increased homogeneity and standardization associated with the TBA market has increased liquidity and provided a lower rate for homeowners.[9]

The Single Security will likely lead to an increase in stipulated trading and less liquidity in the TBA market.

While the FHFA argues that TBA liquidity will be enhanced by the advent of the UMBS, we believe that the opposite could occur: the new UMBS will be viewed as less fungible and less homogenous, and therefore investors will be more inclined to eschew regular TBA trading, preferring instead "stipulated trading," which would reduce liquidity and potentially cause higher note rates for borrowers.

Why do we believe that investors may move to stipulated trading, thereby reducing liquidity? Primarily because investors do not view Fannie and Freddie MBS as interchangeable. Indeed, notwithstanding the fact that both bear an implicit government guarantee, Fannie and Freddie MBS are materially different; they tend to have different "prepayment" speeds – a key risk factor for investors that is generally based on the profile of the borrower and pricing

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[5] *FHFA Strategic Plan: Fiscal Years 2018-2022*, p. 13 (Jan. 29, 2018); FHFA proposed rule, p. 15.
[6] FHFA proposed rule, p. 15.
[7] Fannie Mae First Quarter 2018 Form 10-Q, p. 98 (Mar. 2018).
[8] James Vickery and Joshua Wright, *TBA Trading and Liquidity in the Agency MBS Market*, FRBNY Economic Policy Review, p. 3 (May 2013) [hereinafter *TBA Trading and Liquidity in the Agency MBS Market*].
[9] *TBA Trading and Liquidity in the Agency MBS Market, supra note 8, at p. 7*.

differences between Fannie Mae's and Freddie Mac's buyup/buydown ratios, which result in different weighted-average coupons (WAC).

As the FHFA knows well, Freddie MBS is usually less desirable for bondholders because of the higher prepayment speeds, and therefore typically trades at a discount. (This is, of course, one of the prevailing reasons why the FHFA is pursuing the Single Security initiative in the first place.[10]) Laurie Goodman and Jim Parrott from the Urban Institute emphasize this point: "Historically, investors have viewed the enterprises' securities very differently because of differences in their payment schedules, prepayment speeds, and liquidity."[11]

And yet, the Single Security initiative assumes that these longstanding differences between Fannie and Freddie securities will simply fail to continue and that investors will somehow be indifferent between the two. Despite the hope that the FHFA can ensure "alignment" between Fannie and Freddie MBS to mitigate these differences (which we will discuss shortly), we believe that many investors, such as PIMCO, who serve in a fiduciary capacity to their clients, may not accept delivery of the UMBS, fearing that they may receive poor performing securities (e.g., Freddie MBS); instead, they will simply stipulate trades to ensure they can get the specific type of securities they want. Additionally, guidance that has been provided around the IRS Rule 817(h) all but guarantees that there will need to be more stipulated trading in the proposed UMBS world, as investors struggle to meet diversification tests.

Stipulated trades are not ideal: they are much more difficult for dealers to hedge, difficult to trade short positions, and do not have the standardization benefits of outright or dollar roll TBA trading that we discussed above, meaning a larger stipulated market will be by definition less liquid, more fractured and less flexible relative to today's market. The current Agency MBS market is characterized by a distribution of greater than 90% TBA trading and a small percentage is stipulated.[12] We would not be surprised to see a decrease in regular TBA trading and an increase in the stipulated market – in other words a decrease in liquidity – an outcome that would make the market, investors and borrowers unequivocally worse off than they are today.

Conversion is critical to the success of Single Security in terms of improving liquidity– and yet, it is not inevitable.

In addition to our concerns about an increase in stipulated trading, we are also concerned that investors will fail to exchange or convert their existing securities into the new UMBS, further stymieing the FHFA's goal of enhanced liquidity. Despite our prior recommendation to the FHFA,[13] the FHFA has not included any sort of incentive for investors to exchange their legacy MBS holdings to the UMBS, meaning investors like PIMCO, who value certainty and predictability, will likely simply choose to keep the legacy securities. Doing so – i.e., not converting the legacy securities into the new UMBS – will inevitably lead to a trifurcated market

[10] FHFA proposed rule, p. 4.
[11] *A Progress Report on Fannie Mae and Freddie Mac's Move to a Single Security,* supra note 3, at p. 5.
[12] Pengjie Gao, Paul Schultz and Zhaogang Song, *Liquidity in a Market For Unique Assets: Specific Pool and TBA Trading in the Mortgage Back Securities Market,* p. 8 (Aug. 2014).
[13] *See* Comment Letter from PIMCO to The Honorable Melvin Watt, Director, FHFA, p. 7 (Oct. 27, 2017).

(legacy Fannie, legacy Freddie, and the UMBS) with smaller floats, not a unified market with more tradeable supply as the FHFA has claimed.

We have seen this before with the introduction of the Freddie "Golds" program, and yet, we are not heeding the lessons learned from that experience. In 1990, Freddie Mac introduced its new Freddie Gold PC program, an effort to try to improve investor demand and liquidity (similar to the goals of the Single Security), and while the new security was more attractive for investors in many respects (e.g., timing of cash flows, an enhanced guarantee), investors did not convert their legacy Freddie securities, instead preferring the seemingly less attractive security, because there was insufficient incentive to do so given the uncertain prospective liquidity of the new security. This led to a trifurcated market for several years, and in many ways, the reduced liquidity we see today among Freddie securities is a byproduct of this introduction.

Indeed, the New York Fed uses the introduction of the Golds program as a cautionary tale:

> The history of the TBA market illustrates that the consequences of changes to market structure are unpredictable and sometimes negative . . . . Freddie Mac's decision to alter the timing of payments to MBS holders was poorly received by market participants, contributing to a negative spread between Freddie Mac and Fannie Mae MBS that persists more than twenty years later.[14]

We urge the FHFA to carefully consider past experience and the negative impacts that have resulted to markets and liquidity in such similar scenarios.

Will the Single Security produce more competition? We see the Single Security initiative as anti-competitive.

Another rationale for the introduction of the Single Security is the notion that the advent of the UMBS will promote competition. The FHFA's proposal advances this idea proffered by Laurie Goodman and Jim Parrott at the Urban Institute "that moving to the UMBS would remove Fannie Mae's liquidity and pricing advantage, thereby boosting competition between Fannie and Freddie Mac with potential benefits to mortgage rates and the availability of mortgage credit."[15]

There are several issues with this assertion. Most glaringly, it assumes that Freddie and Fannie do not currently compete. This is simply not the case. While it is true that Fannie has a larger market share with originators and more investor-demand, it is merely because Fannie provides better, more tailored customer service and produces bonds with more desirable performance characteristics. It is not because Fannie has an embedded, structural advantage. Indeed, in the 1980s, Freddie actually had a higher securitization market share than Fannie, as they were more active issuers of Agency MBS. Since then, however, Fannie has been a more active issuer providing better service and a better securitization product; in other words, Fannie and Freddie are competing on a level playing field, and Fannie is simply winning.

[14] *TBA Trading and Liquidity in the Agency MBS Market*, supra note 8, at p. 15-16.
[15] FHFA proposed rule, p. 17.

Not only does the Single Security initiative fail to promote competition, it could actually prove to be *anti-competitive*. Currently, investors, such as PIMCO, can differentiate between Fannie and Freddie using the price of the MBS in the secondary market; for instance, if investors do not like bonds that Freddie produces, they can simply buy bonds from Fannie and vice-versa. The out-of-favor bonds will cheapen, and Freddie will be more inclined to fix the outstanding issues to make the bonds more appealing.

Under the Single Security proposal, however, this ability to police Fannie and Freddie and differentiate on price to ensure each entity is delivering the best product to the marketplace is lost since there will only be one security and TBA investors will have to take what they get under UMBS delivery. Without the market as the enforcer, Fannie and Freddie would lose their incentive to compete on the quality of their product, which could lead to a "race to the bottom" effect (e.g., they both start making and selling undesirable bonds). This would likely lead to a lower quality security for investors and importantly higher note rates for the borrower.

In other words, moving to a Single Security – only one security - actually *reduces* the competitive forces that exist today and could very well lead to a race to the bottom given investors can no longer differentiate on price and quality of the instrument they are buying.

II. Claims that Single Security is a necessary pre-cursor to housing finance reform are misplaced; comprehensive housing finance reform should come first. Additionally, given the unnecessary operational costs and regulatory uncertainty, Single Security initiative is not consistent with the President's Executive Order issued February 2017.

Housing finance reform should come first to maximize chances of conversion and success.

The Urban Institute claims that "[a]lthough a single security is not a sufficient condition for evolving the system beyond Fannie Mae and Freddie Mac, it might be a necessary one."[16] Again, we see no evidence supporting its hypothesis.

We would argue the opposite: given the manifest liquidity and healthy functioning of the mortgage-backed security market today and the real chance of significant disruption from the rollout of the Single Security initiative, the FHFA should put the effort on hold and wait for Congress and/or the White House to advance *comprehensive* housing finance reform – an issue that each chamber of Congress and the White House have indicated is a priority. We believe that a delay is warranted since many of the issues that the Single Security proposal is trying to address would be addressed in housing finance reform, especially if the existing implicit full faith and credit guarantee becomes explicit for Fannie and Freddie. Indeed, rolling out a new security with a full faith and credit guarantee would render it definitively superior to existing Fannie and Freddie securities, meaning that investors would be much more inclined to convert into the new security, thereby increasing the chances that a uniform security could lead to enhanced liquidity.

[16] *A Progress Report on Fannie Mae and Freddie Mac's Move to a Single Security*, supra note 3, at p. 2.

In sum, we believe it makes much more sense that a uniform security should be contemplated on the heels of housing finance reform, not prior to it.

The Single Security initiative seems antithetical to President Trump's Executive Order on financial regulation as it is likely to lead to more uncertainty, increased costs, and more harm to the functioning of markets.

On February 3, 2017, President Trump issued an "Executive Order on Core Principles for Regulating the United States Financial System,"[17] which among other things, sought to "foster economic growth and vibrant financial markets," to "make regulation efficient, effective, and appropriately tailored," and "restore public accountability within Federal financial regulatory agencies and rationalize the Federal financial regulatory framework."

We assert that the FHFA's Single Security initiative achieves none of the above. For the asset management industry and its clients, the change to the Single Security is expensive, time-consuming and distracting. It requires a significant investment in infrastructure and systems upgrades to allow for UMBS trading and to enhance current stipulated trade capabilities. It will require (in PIMCO's case) hundreds of employees and entail thousands of hours of time among our portfolio management, operations, trading, compliance, legal, analytics and our client-side personnel to adapt to this change. It will require updating thousands of contracts for clients on whose behalf we trade Agency MBS and countless hours of client education. It further will require the handling of unforeseen and/or unresolved issues, such as those regarding the application of IRS Rule 817(h) and its impact on diversification in certain client portfolios.[18] And again, for what? An initiative that has asymmetric risks.

III. Should the FHFA proceed with the Single Security initiative, it must greatly narrow its definition of "alignment" and it must focus on ensuring that market participants exchange their legacy MBS into the new Single Security. Without *enforceable* alignment and broad conversion, one should expect to see reduced liquidity and higher borrowing rates.

Real, enforceable alignment.

As we discussed above, the advent of the Single Security will preclude market forces from exerting the influence over Fannie and Freddie they do today to ensure that the quality of the securities offered does not suffer. In order to avoid a "race to the bottom," the FHFA must be vigilant about monitoring and minimizing any dispersion and ensuring that performance does not degrade in unison over time. While the FHFA appears to understand the importance of alignment of the prepayment characteristics of Fannie and Freddie MBS to the viability and workability of the Single Security initiative,[19] the proposed rule, in its current form, would not

[17] *See* Executive Order, supra note 4.
[18] *See SIFMA Comments on December 4, 2017 Update on the Single Security*, p. 3 (Dec. 19, 2017); https://www.sifma.org/wp-content/uploads/2017/12/SIFMA-Comments-on-December-4-2017-Update-on-the-Single-Security.pdf.
[19] FHFA proposed rule, p. 18 "FHFA recognizes that market participants will need to accept the fungibility of the UMBS, regardless of which Enterprise is the issuer, in order for the secondary market to realize the potential liquidity benefits."

be sufficient to ensure alignment "as to not induce UMBS investors to make stipulated trades."[20]

Regarding alignment, we believe the following recommendations should be considered:

1) **Significantly narrow the definition of "alignment"** to make it more consistent with what drives pricing in the TBA market, specifically have it reference the cheapest to deliver decile.

As proposed, the 3% conditional payment rate ("CPR") trigger for "misalignment" on the given cohort[21] is too high to be limiting, i.e., to be effective, given how large and diverse a cohort it would reference. The proposed trigger would fail to identify meaningful discrepancies between Fannie and Freddie securities (therefore leading to a lower likelihood of success of the Single Security). Indeed, it would be similar to setting the speed limit at 250mph – so high that it is not practical since cars cannot travel that quickly, while at the same time, not making the roads any safer.

A better and more practical approach would be to narrow the cohort to be consistent with the reality of what drives pricing in the TBA market – namely the cheapest to deliver bonds. Specifically, alignment should be tracked relative to the bottom decile of production (i.e., the 10% of the pool that is the most susceptible to refinancing) on a rolling three month average and should exclude specified pools, which are not typically delivered into TBAs. This would be a much more narrow – and accurate – definition of alignment and would be a significant step to ensure that alignment is more effective.

2) **Measure alignment on an absolute basis to avoid "race to the bottom."**

Mere alignment of current prepayment speeds is not sufficient, however. Indeed, under the current proposal, if Freddie Mac securities are already performing poorly, Fannie Mae creating equally poor performing securities would be theoretically acceptable by the FHFA as they would be "aligned," but every participant would be made worse off: the marketplace would receive lower quality securities and prospective buyers would face higher mortgage rates. In order to avoid this dynamic where all bonds perform poorly, prepayment speeds should be measured in absolute terms.

For example, if Fannie Mae 5% TBA pools with a 50-basis point refinance incentive (i.e., the borrower can refinance into a 50bp or .5% lower mortgage rate) historically prepay at 20% CPR and the 5% Gold PCs with the same 50-basis point refinance incentive prepay at 24% CPR, they would be "misaligned" under the FHFA's proposed rule. Conversely, a case in which both Fannie Mae 5% UMBS and Freddie Mac 5% UMBS with a 50-basis point refinancing incentive prepay at 50% CPR, the FHFA's proposed rule would consider these "aligned."

This is clearly an absurd outcome in that everyone – investors and borrower – are worse off in the latter "aligned" scenario vs. the former "misaligned" one. And yet, this is not only *not* rectified in the FHFA's proposed rule, it is actually incentivized. This would be best addressed by mandating identical pricing and monitoring pooling practices such that characteristics that

[20] FHFA proposed rule, p. 9-10.
[21] As defined in the FHFA proposed rule, p. 10.

are likely to drive future prepayment performance (e.g., WAC, credit scores, loan-to-value) are similar to each other and historically consistent.

3) Create a meaningful form of reimbursement for market participants when misalignment occurs.

We believe if investors are harmed through the misalignment of securities, investors should have the ability to be reimbursed for their losses, a practice for which there is precedent.[22] Investors should be able to verify they were harmed and verify they are the record holder "as of" before receiving compensation.

4) To maximize full alignment, require selling guides for Fannie and Freddie to be uniform, thereby requiring the two to compete purely on customer service and eliminate any real source of prepayment differences.

The most straightforward way to ensure alignment would be to require uniform selling guides/lender letters for Fannie and Freddie. Assuming that pricing is the same (which ignores that Agencies engage in differential buy-up and buy-down pricing, since it is not prohibited by the FHFA), the only real source of dispersion in prepayment speeds should be at the product level. These discrepancies are the most meaningful and the hardest to regulate, outside of the ability to enforce discipline through differential securities pricing (which as mentioned above, the Single Security initiative does away with). Not only would unifying the selling guides eliminate prepayment differences, it would also force Fannie and Freddie to compete on what they have indicated they are competing on - customer service.

Conversion is necessary for the success of the Single Security effort.

In our view, one cannot overstate the importance of conversion (or exchange) to the new UMBS in order to ensure the program's effectiveness: if market participants do not convert, the new market will be less liquid, bond prices will be lower, and note rates to homeowners will be by definition higher than they are today. At the same time, we fear that unless investors have a direct and explicit incentive to convert to the new UMBS, the ultimate result will be a larger stipulated Fannie Mae market, a small and illiquid UMBS market and effectively an orphaned Freddie market.

We believe the FHFA should consider a mechanism that would incentivize investors to convert and therefore increase the chances of success of the Single Security initiative. That conversion mechanism should include the following features:

1) A *sufficiently large* incentive to convert: Any incentive to convert must provide sufficient incentive for a large number of market participants to convert.

[22] *See* News and Announcements, Fannie Mae, *Updated pool list related to Fannie Mae announcement regarding removal of loans from certain Mortgage-Backed Securities (MBS) pools*, (Apr. 11, 2017), http://www.fanniemae.com/portal/funding-the-market/mbs/news/2017/loan-removal-update-041117.html.

2) **A *temporary* incentive to convert:** If the incentive to convert is indefinite, market participants will choose to wait, opting to convert later or not convert at all.

A general framework for determining the incentive to convert should be the cost of the *lack* of conversion, which we would define as the cost associated with the market moving primarily to a stipulated market in which transaction volumes would decrease and borrowing costs would increase. In this scenario, we estimate the cost associated with a lack of conversion to be an immediate cheapening of MBS of approximately 15-30bps with a persistent longer-term cheapening depending on how fractured the market becomes. This translates directly to mortgage rates, increasing rates to would-be borrowers immediately by 15-30bps each year at a minimum (in other words, simply moving to UMBS would cost borrowers upfront an annualized roughly $1.8 billion in higher interest costs). These estimates are based upon specified pool markets, where bonds trade below their theoretical OAS value due to lower liquidity and less efficient financing relative to the dollar roll market.

We maintain that payment for conversion to investors should be sufficient to offset perceived differences in the potential quality of UMBS deliverable and converting to a less liquid market. We estimate that buyside participants would need at least approximately 12-24/32s to convert to the UMBS. If the FHFA were to announce an incentive for early conversion, the price of Freddie securities would likely immediately rise to reflect the future date incentive. Announcing the incentive fee early allows Freddie to discontinue payments of the market adjusted pricing ("MAP") fees from the date of the announcement until the date of implementation; this makes the incentive "self-funding" from a MAP fee savings between now and conversion date. As mentioned above, the incentive to convert should be offered to market participants only on a temporary basis, thereby forcing faster conversion and ensuring a smoother transition.

Conclusion

As large market participants that are stewards of the assets of millions of individuals and thousands of global institutions, we care deeply about the stability and functioning of markets; as one of the largest buyers and traders of residential mortgage-backed securities on behalf of our clients, we *particularly* care about the Agency MBS market. As we have outlined above, we believe the Single Security is a solution in search of a problem: the Agency MBS market is already deeply liquid and well-functioning, and Single Security offers only asymmetric risks to this healthy and economically-important market (i.e., significant downside with limited upside).

In order for Single Security to work effectively, we believe it needs to be: 1) sequenced after housing finance reform, which would lead to a much higher chance of success and would only require the market to transition once; 2) ensure real, enforceable alignment between Fannie and Freddie securities; and 3) incentivize conversion into the new Single Security. Overall, PIMCO's view is straightforward: unless Single Security is definitively better for the market and for our clients than what exists today, we cannot support the inclusion of UMBS into the TBA market. If the FHFA improves the Single Security, creating something that is more optimal than what the existing market offers, we would gladly support its inclusion into the TBA market.