THE WAKEFIELD COMPANY, LLC

Making It Happen

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Chief Executive Officer

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Federal Housing Finance Agency
Fourth Floor, 1700 G Street, NW
Washington, DC 20552
Attention: Comments/RIN 2590-AA43, Mr. Alfred M. Pollard, General Counsel
Submitted: http://www.regulations.gov and RegComments@fhfa.gov

RE: Comments to Federal Housing Finance Agency Regarding Proposed Regulations for Credit Risk Retention
12 CFR Part 1234, RIN 2590-AA43

Dear Mr. Pollard,

I am submitting this letter in response to Federal Housing Finance Agency's request for comments (RIN 2590-AA43) regarding the proposed regulations for credit risk retention in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act").

Since September of 2008, when Fannie Mae and Freddie Mac (GSEs) were placed in conservatorship, my firm has been planning for a future which assumes a diminished role for the GSEs. As we have recently witnessed, taxpayer support for the GSEs has undeniable, adverse consequences. Our planning has involved close engagement with non-bank private secondary market investors (PSMIs). We define the non-bank PSMI community to include: life and property and casualty insurers; public and private pension funds; real estate investment trusts; and, fixed income money managers and mutual funds. As of year end 2010, this PSMI community managed $27.9 trillion of assets. Of that total, $4.45 trillion was invested in mortgages and Agency/GSE securities.

Historically, the PSMI community invested in residential mortgages for the following reasons.

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- The yield premium over comparable term U.S. Treasury securities.
- Low delinquency rates.
- Asset type and geographic diversification.
- Liquidity provided by various securitization structures.

Since the 2008 financial crisis, PSMIs have substantially reduced their investments in residential mortgages. Having suffered substantial economic losses in their residential mortgage portfolios, many members of the PSMI community have lost confidence in: the infrastructure that produces mortgages; the Wall Street firms that aggregate mortgages and issue mortgage-backed securities; the rating agencies; and, the ability of mortgage servicers to effectively service loans and follow due process in foreclosing on loans. While it may take considerable time to restore PSMI confidence in the mortgage industry's operational effectiveness, it is critical that the QRM/QM regulations consider the PSMI community perspective so that there is no regulatory impediment which limits their investment in residential mortgages. If the GSEs are wound down, PSMI capital will be essential to restore vitality to the nation's housing sector.

PSMIs have many mechanisms to deploy when investing in residential mortgages. One of the options is to purchase mortgages on a whole loan basis. This option is attractive because a PSMI can acquire a mortgage and not have to pay a guarantee fee which typically ranges from 20 – 25 basis points. In addition, PSMIs can enter into whole loan servicing agreements which do not require that the servicer advance delinquent principal and interest payments as is the case when mortgages have been securitized. In a securitized structure, the servicer is paid a fee in the range of 25 – 40 basis points. Absent the obligation to advance delinquent principal and interest payments and depending on the original principal balance of a loan, servicer compensation can be reduced to 5 – 15 basis points on whole loans owned by PSMIs. Therefore, if a PSMI chose to acquire mortgages in whole loan format versus a securitized structure, the yield advantage would range from 40 – 50 basis points, a meaningful premium. **This reality gets to the core of my first comment.**

The proposed QRM risk retention requirements do not make any distinction between newly originated loans and those that have seasoned in the portfolio of a PSMI. This constitutes a serious flaw in the proposed QRM risk retention requirements. Securitization of mortgages that have seasoned in a PSMI portfolio for a specified period, say a minimum of one year, involves a significantly lower risk profile than securitization of unseasoned mortgages.

Given the lower risk profile of seasoned loans, they should be exempted from the proposed QRM risk retention requirements if they meet the following conditions.

- Loan origination date is at least one year prior to the date the loan is placed into a securitized pool.

- The loan has been current at all times between the origination date and the date the loan is placed into a securitized pool.
- The borrower made at least a 5% cash down payment and the loan has private mortgage insurance which provides coverage down to a minimum of an 80% loan-to-value ratio or the borrower made a minimum of a 20% cash down payment.
- The underlying collateral is an owner-occupied, one-to-four family dwelling.

My second comment relates to the QRM down payment requirements on purchase-money and refinance mortgages. Financial crises tend to produce shortsighted decisions that ignore longer term reality. Requiring a minimum down payment of 20% on purchase-money mortgages and a 25% equity position on refinance mortgages ignores the constructive and proven role that private mortgage insurance (PMI) has performed in allowing millions of Americans to attain and maintain homeownership.

While the GSEs have failed, PMI companies remain despite the billions of dollars in claims that they have paid to lenders. As monoline insurers with no taxpayer support, PMI companies have done a far better job of pricing for the risk they incur than have the GSEs. Taxpayer support, whether implicit or explicit, provides an irresistible temptation to emphasize transaction volume versus risk management. As we have witnessed, this temptation has saddled taxpayers with an economic loss that is projected to exceed $200 billion. While the PSMI industry has suffered financially, the financial impact on the American taxpayer has been zero.

My second comment urges the regulatory establishment to lower down payment requirements to 5% on purchase-money mortgages and equity retention to 10% on refinance transactions provided that PMI coverage is required to reduce the lender's exposure to an 80% or less loan-to-value ratio.

Thank you for your consideration. Hopefully, the QRM/QM regulations will stimulate PSMI interest in returning to the secondary mortgage market while recognizing the role of PMI to expand the access to mortgage credit.

Sincerely,

K. Terrence Wakefield
Chief Executive Officer
The Wakefield Company, LLC