Easter, Stacy

From: Dorfman, Richard <(b)(6)@sifma.org>
Sent: Monday, July 23, 2012 8:45 AM
To: Powers, Michael J.; Greenlee, Jon
Subject: RE: Press Statement: SIFMA Statement on Eminent Domain and TBA Trading

Mike and Jon,

That you for your interest. The "San Bernardino" matter approaches a crisis in seriousness and impact. I would be pleased to speak to one or both of you.
Today only, working from home: (b)(6) my private business line.

Regards,

Richard

From: Powers, Michael J. [Michael.Powers@fhfa.gov]
Sent: Monday, July 23, 2012 8:36 AM
To: Greenlee, Jon
Cc: Dorfman, Richard
Subject: FW: Press Statement: SIFMA Statement on Eminent Domain and TBA Trading

Jon

Not sure you are aware of this-I received a lengthy voicemail from Richard Dorfman. You may want to give him a call
(b)(6) (b)(5)

Mike

From: Dorfman, Richard [mailto(b)(6)@sifma.org]
Sent: Thursday, July 19, 2012 1:02 PM
Subject: Press Statement: SIFMA Statement on Eminent Domain and TBA Trading

The following statement was issued this morning and is available at this
link: http://www.sifma.org/news/news.aspx?id=8589939537

Release Date: July 19, 2012
Contact: Katrina Cavalli, (b)(6) (b)(6)@sifma.org

SIFMA Statement on Eminent Domain and TBA Trading

New York, NY, July 19, 2012—SIFMA today issued the following statement on eminent domain and TBA trading:

Recent press reports have discussed SIFMA's consideration of the potential impact of a seizure of mortgage loans through an eminent domain process on the To-Be-Announced (TBA) market for Mortgage-Backed Securities (MBS). The reports correctly note SIFMA and its members' strong concerns with and objections to such proposed policies that involve the use of involuntary seizures under eminent domain powers. SIFMA's existing TBA trading practice guidelines do not currently contemplate such actions and their impact on the homogeneity of loans eligible for TBA delivery needs to be assessed. Therefore, SIFMA necessarily discussed this issue with its members.

The TBA markets are the most liquid, and most important secondary market for mortgage loans. The hundreds of billions of dollars of daily trading in this market, involving investors around the world, has for 30 years provided significant and tangible benefits to mortgage borrowers and mortgage lenders, and to the U.S. economy. Aside from being a conduit to draw massive amounts of global investment capital to the U.S. mortgage markets, the TBA markets also allow borrowers to obtain affordable rate locks as they shop for a home, and provide a critical risk management tool for mortgage lenders and servicers. The TBA markets are the benchmark for all mortgage markets in the country.

The fundamental concept that underlies TBA market is homogeneity. In the TBA market, buyers and sellers trade in a forward manner – that is, a trade executed on a given day may not settle for one, two, or even three months. Importantly, at the time of the trade, the identity of the mortgage-backed securities that will be delivered is not known. Rather, the counterparties agree on certain general characteristics of the pool, such as the issuer, coupon, term (15 or 30 years), and settlement month of the trade. This means that the collateral that falls into the various categories must be considered fungible. Investors must have confidence that, as a general matter, one MBS is interchangeable with another. Performance should be comparable, and risk factors should be similar.

SIFMA believes that protection of the integrity of this market is of utmost importance, and market participants share a similar feeling of responsibility to ensure the market works as efficiently as possible so as to provide maximum benefits to consumers, lenders, and other market participants. This is especially important given the general withdrawal of private mortgage funding that has been experienced over the last few years. During the crisis, if there were no TBA market, mortgage credit would have been significantly more constrained for borrowers.

The introduction of eminent domain creates a material and unquantifiable new risk factor. To the extent that a municipality exercised such power on mortgage loans, loans within that jurisdiction would present a new, unique, and unquantifiable risk factor that would destroy the homogeneity of those loans with loans in areas where such eminent domain powers were not exercised. These loans would exhibit unpredictable prepayment behavior, and stand apart from other loans. The ability of municipalities to exercise a call option on loans in mortgage-backed securities would meaningfully decrease the value of those assets. Therefore, SIFMA, based on discussions with its members, does not believe that such loans should be eligible for inclusion in TBA trading. SIFMA is issuing this statement today to introduce a policy regarding the interaction of eminent domain with TBA trading. Loans to borrowers residing in areas that municipalities have initiated condemnation proceedings to involuntarily seize mortgage loans through their powers of eminent domain will not be deliverable into TBA-eligible securities on a going-forward basis. In the event such seizures occur and this policy is activated, SIFMA would review the facts and circumstances of the situation periodically; should those facts and circumstances change, SIFMA would review its policy in light of those changes.

The exclusion from TBA trading would not exclude such loans from secondary markets, from securitization, or from global funding markets. Such loans could be securitized and funded by investors at levels that appropriately reflect the risk profile of the mortgage loan collateral, through the specified pool market and through other, non-government forms of securitization. This exclusion would protect the integrity of the TBA market that serves all residents of this country though its promotion of affordable and accessible housing finance.

For more information on the TBA market, please review SIFMA's TBA Fact Sheet.