CHASE

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Federal Housing Finance Agency
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Ladies and Gentlemen:

JPMorgan Chase ("Chase") is pleased to comment in response to the Federal Housing Finance Agency's white paper entitled "Building a New Infrastructure for the Secondary Mortgage Market" released on October 4, 2012 (the "Single Platform Proposal"). Chase applauds the Federal Housing Finance Agency ("FHFA") for placing the modernization of the Fannie Mae and Freddie Mac (collectively the "GSEs") securitization infrastructure at the forefront of its multi-year Strategic Plan. We support FHFA's dedication of its highest priority efforts to renovate, upgrade and standardize as much as possible the GSEs' securitization platforms.

Chase is the second largest originator and third largest servicer of residential mortgages in the United States, according to Inside Mortgage Finance, with an overall market share over 10%. As of the third quarter 2012, Chase was the second largest seller to Fannie Mae and the third largest seller to Freddie Mac. Our support of the GSEs historical housing mission and commitment to the GSEs long term health is vital to Chase's commitment to the US mortgage market.

FHFA's efforts should be focused on addressing narrowly defined, specific and immediate needs of the GSEs and its participating lenders, servicers and investors. Extending the scope of the GSE securitization platform enhancements to accommodate structured transactions, risk sharing and credit risk distribution capabilities through a completely different legal framework based on a model Pooling and Servicing Agreement ("PSA") are not immediate needs. Such ambitious goals would require long and risky development efforts before any benefits are realized and, therefore, should not be addressed as a first priority item.

Chase agrees that one of the FHFA's highest priorities should be to focus on building a common securitization platform that standardizes and improves the GSEs' operations and facilitates the efficiency of lender interactions with the GSEs. First priorities should include standardization of mortgage data inputs, loan on-boarding processes, data validation, data edits and data quality, with particular focus on reducing or eliminating duplicative activities that are not related to a GSE's distinct business needs or individual competitive posture relative to the other. GSE business processes relating to post-delivery operations and ongoing interactions of lenders and servicers with the GSEs, such as loan reporting and remittance management also should be part of the initial efforts to modernize the GSEs securitization infrastructure.

Developing advanced credit distribution capabilities to enable the GSE's to use deeper or different types of private mortgage insurance or issue securities with senior and subordinate classes should be deferred until a thoroughly modern, common securitization platform addressing the GSEs current business model is developed, tested and deployed. If FHFA wishes the GSEs to explore distribution of credit risk at this time, Chase believes that risk-sharing tools such as derivatives, re-insurance, credit swaps and certain synthetic issuances can help the GSEs effectively distribute credit risk within the GSE's current business model. Moreover, it would further the goals of FHFA's Strategic Plan to defer distribution of credit risk through advanced techniques until GSE guarantee fees are better aligned with the capital and credit costs in the private market.

While it would be prudent to include within the scope of the first phase of GSE infrastructure modernization preparatory efforts to enable the eventual expansion of current GSE risk sharing capabilities, facilitating the use of advanced credit risk distribution capabilities will require significant changes to contracting, operational, servicing, and disclosure requirements. These changes will likely take years to achieve and require a complete re-engineering of the GSE's current business process and technology infrastructure. Such an expanded scope will delay the immediate and much needed modernization and standardization of the GSEs current securitization platforms.

Focus First on Developing a Common GSE Front-end and Back-office Utility

Chase agrees that the functions generally identified in the Single Platform Proposal appear to offer reasonable targets for modernization efforts because they lend themselves to standardization while preserving each GSE's competitiveness relative to the other. One way to rapidly improve lender efficiencies, while preserving GSE competitiveness, would be to focus on modernizing GSE loan delivery and servicing interfaces with mortgage lenders and servicers. In particular, Chase believes that FHFA can build on existing GSE loan shipping and pooling functionality to speed enhancements to the lender-GSE interfaces. For example, embedding proprietary contract terms for each GSE in a common loan delivery interface and providing real time feedback and transaction confirmation should be a key initial feature for a single platform that can serve as a common GSE front-end and back-office utility.

Enhancing existing GSE functionality to develop a common front-end and back-office utility would benefit the most from extending, throughout the entire GSE mortgage loan life-cycle, the use of uniform data requirements, standardized data definitions and common data validation processes. The GSEs have made important progress by incorporating data standards issued by the Mortgage Industry Standards Maintenance

Organization ("MISMO") and adopting the Uniform Loan Delivery Dataset ("ULDD"). FHFA and the GSEs should focus next on improving lender interfaces further by deepening the use of standardized data definitions and protocols, including the adoption of a single remittance date for both GSEs, throughout the mortgage loan life-cycle at both GSEs.

Focusing first on modernizing the GSEs' current data "plumbing" and processes through a single securitization platform presents significant strategic opportunities to:

- lower the costs of "dealing" with the GSEs and reduce error rates,
- enhance the GSEs ability to compete with each other,
- enhance loan-level disclosures on GSE securities, thereby improving the ability of investors to value and trade GSE mortgage-related securities,
- align GSE disclosure and reporting practices with industry –wide disclosure initiatives such as those advocated by the American Securitization Forum ("ASF") Project RESTART, and
- study how enhanced loan-level disclosures could be implemented in the future distribution of credit risk, without disrupting the current TBA market or distorting the trading of outstanding securities.

Our view is that the steps outlined above will help FHFA and the GSEs identify the complex legal, operational and regulatory challenges inherent in trying to evolve current GSE securitization practices from the issuance of fully-guaranteed, homogeneous securities to a credit-tranched regime. Moreover, this phased approach will help FHFA fully appreciate how the complexity of developing a credit-tranched GSE securitization model becomes exponentially more complicated by simultaneously pursuing development of a single securitization platform to accommodate the issuance of non-commoditized private label mortgage securities. Therefore, pursuing a narrow, phased approach is the best, if not only, way to meaningfully enhance the GSE securitization platforms in the next 12 to 24 months.

Chase also believes that many collateral management and trustee functions are ministerial in nature and should be harmonized as much as possible among the GSEs to increase efficiencies. To avoid duplication of systems and effort, lenders should not be offered the ability to "opt out" from a common collateral management and trustee framework. We recognize that adopting a common collateral management and trustee framework raises delicate competitive issues. Such a step also requires detailed consideration well beyond the scope of this comment letter, particularly because the structure of the trustee functions and certain collateral management functions within the current GSE securitization regime is incompatible with prevailing practice in the private securitization market.

Delivering a common front-end and back-office utility in the near term would enhance the GSEs' ability to compete with each other, implement proprietary data edits and provide consistent lender feedback. The efficiencies that can be realized by adopting an end-to-end common utility would immediately benefit mortgage borrowers, lenders, servicers and investors as soon as elements of a common utility can be implemented. The

Ginnie Mae securitization platform can provide a good reference point to identify potential process enhancements and review their potential benefits.

Defer Efforts to develop a New Legal Framework and Model PSA

From a contractual perspective, Chase believes that the FHFA should focus its efforts on aligning and streamlining the current Selling and Servicing Guides (collectively, the "Guides") rather than developing a new legal and operational framework to support a model PSA or trying to accommodate the issuance of residential mortgage-backed securities by private sector securitizers. Developing a model PSA is a laudable aspiration that will require re-engineering and rebuilding the current GSE securitization operation on a large scale. This would entail a very complex re-engineering effort that would consume vast resources and delay substantially the delivery of improvements to the GSEs' current securitization processes and lender interactions. Such a complex undertaking is not certain to be successful and unlikely to be deployed within a short time frame. Focusing on high-value and achievable enhancements to current GSE securitization processes and infrastructure is more likely to improve GSE and lender efficiencies and result in noticeable benefits to the mortgage market as a whole.

Chase believes that concentrating efforts on modernizing and standardizing as much as possible the current Guides, while preserving each GSE's competitiveness relative to each other, is more likely to result in the prompt implementation of sensible enhancements to current lender and GSE interactions. In particular, focusing on the Guides offers a clear opportunity to align other FHFA and GSE initiatives that are highly valued by lenders and servicers, such as clarifying the legal framework relating to lender and servicer representations, warranties and related repurchase risks. Lender interactions with the GSEs also could be greatly improved if the revised Guides were to include clear protocols to promptly resolve repurchase requests. Many of these recommendations are outlined in the Housing Policy Council's comment letter discussing potential enhancements to the GSE's current representations and warranties framework, dated November 5, 2012.

The value of improving the current contractual requirements set forth in the Guides, particularly by providing greater certainty regarding the seller representations and warranties, would benefit most clearly mortgage borrowers who would be able to enjoy more predictable access to credit. Some of the proposed improvements to the Guides are straightforward and can be implemented relatively quickly. They include defining a materiality standard for breaches; providing for a clear causation requirement linking a default to an underwriting defect; and eliminating repurchase risk following a post-purchase loan review or after a reasonable period of continued borrower performance. Absent a detailed and clearly defined policy on materiality, lenders' uncertainty regarding repurchase risk will necessarily reduce the availability of mortgage credit.

Another improvement to the current legal framework set forth in the Guides would be to limit loan repurchases as a remedy. For most mortgages that fail to meet the GSE underwriting guidelines, except in cases triggering Charter-related violations, price adjustments are a preferable remedy to loan repurchases. Limiting repurchases as a remedy is a particularly sound policy when underwriting defects or loan-level data inaccuracies are immaterial. Assessing economic reparations in the form of loan price adjustments, guarantee fee adjustments, or even supplemental indemnities is a far more efficient and precise remedy than requiring a loan to be repurchased. Unlike loan repurchases, loan price adjustments, guarantee fees adjustments and supplemental indemnities, can be tailored based on the materiality of the alleged defect to reflect more closely a loan's potential diminution in value.

Equally as important, servicers should be insulated from repurchase risk arising from underwriting defects if the servicer acquired servicing or was not affiliated with the loan originator. Moreover, except in cases involving egregious breaches of the Servicing Guide requirements, repurchases should not be a remedy for servicing violations. Finally, FHFA and the GSEs can contribute further to expanding mortgage credit by clearly outlining in the Guides transparent and predictable processes to manage -- and complete-- post-purchase quality control reviews and resolve disputes.

Defer Development of Advanced Risk Sharing Capabilities

Chase supports developing a single securitization platform that would enable the GSEs in the long run to distribute credit risk to capital market participants. FHFA and the GSEs, however, should not abandon the current GSE Guide framework and should not focus development resources on an entirely new legal framework based on a model PSA arrangement, like the one used in the private mortgage-backed securities markets, to enable the distribution of credit risk. Attempting to develop a model PSA that enables the distribution of credit risk through the issuance of senior and subordinate securities will add significant complexity and risk delaying what should be the GSE's first priority – aligning GSE operations and modernizing their current business interfaces with lenders and servicers.

FHFA and the GSEs also should avoid dedicating resources to enhance the Guides to support distribution of credit risk through advanced risk sharing arrangements such as enhanced used of private mortgage insurance or offering securities with senior and subordinate capital structures. Enhancing the Guides to provide for such risk sharing capabilities and properly support the partial elimination of the existing GSE credit guarantees would require development of entirely new contractual, disclosure, securities law and regulatory compliance frameworks. To make such credit risk transfers attractive to capital market participants FHFA and the GSEs would have to dedicate extraordinary efforts to:

- materially change the current contractual framework relating to representations, warranties and repurchases,
- enhance investor transparency,
- augment credit investor due diligence opportunities, and

- address credit-tranche distribution, continuing disclosure and trading.

In addition, we believe that it would be very challenging to distribute credit risk to private investors without developing an entirely new legal and operating framework to segregate important functions currently performed by the GSEs, such as securities trustee, master servicer, investor reporting and third party oversight. The sum total of these efforts would delay significantly the delivery of any enhancements that can benefit the GSEs core business and operations in the near future.

The GSEs Do Not Lack Options to Distribute Credit Risk

Chase believes that certain risk-sharing arrangements, such as those using credit derivatives, reinsurance arrangements, credit "swaps" and certain synthetic transactions can be handled within the existing GSE legal framework with relatively minor contractual and disclosure enhancements that will not take resources away from the timely delivery of a common and modern securitization platform. By comparison, distributing credit risk through enhanced use of private mortgage insurance or issuing senior-subordinate securities will require significant changes to the GSEs current legal, operational, securities and regulatory framework, including expanded data and disclosure requirements, and substantial changes to address master servicing functions and the role of the trustee. As discussed above, developing a completely new legal and operating framework to support the issuance of credit-tranched securities while transitioning to a single securitization platform without disrupting trading in outstanding GSE securities or the TBA market, is an ambitious undertaking that has no guarantee of success. Such a comprehensive reengineering of the GSEs securitization, legal and operating framework will be a time-consuming, complex and resource-intensive effort that is highly unlikely to yield results within 12 to 24 months.

Accommodating Private Securities Issuances Should Not be a Primary Goal

The scope of any redesign of the GSE legal framework to promote alignment of the Fannie Mae and Freddie Mac securitization platforms should focus exclusively on the benefits to the current GSE business model. Pursuing development of a securitization platform that could, in the distant future, accommodate the issuance of non-commoditized, multi-class private mortgage securities is highly speculative and should not be a primary FHFA or GSE priority.

Even if influencing the non-agency MBS market is not a first order goal of the FHFA's efforts to develop a single GSE securitization platform, successful improvements to the current Guides and GSE securitization platform would, in the long run, influence developments in the non-agency market. In fact, many current practices in the private mortgage securitization market developed by reference to GSE practices. We do not see why this will not be the case again if FHFA thoughtfully manages the redesign of the current GSE securitization platforms.

Importantly, the ability of GSE securitization practices to influence future developments in the private securitization market will be enhanced to the extent that FHFA and the GSEs adopt data standards and contractual requirements, including model representations and warranties and dispute resolution protocols, that are consistent with those being considered by ASF's Project RESTART and the Securities and Exchange Commission. To this end, the comment letters submitted by ASF and the Securities Industry and Financial Markets Association ("SIFMA"), provide useful outlines detailing the complexities inherent in transforming the current GSE securitization platforms into a single securitization platform able to accommodate credit-tranched issuances of non-commoditized residential mortgage-backed securities by the private sector.

Conclusion

Chase strongly agrees that developing a modern, common GSE securitization infrastructure is a critical priority for FHFA and the GSEs at this time. This effort is more likely to succeed if its scope is limited to streamlining and improving the existing GSE legal and operating framework in ways that reasonably can be delivered within 12 to 24 months. FHFA and the GSEs should first address the standardization of data, processes, functions and contract terms in those areas where standardization can provide the greatest benefits while fostering, not limiting, GSE competition. Project scope should be limited to focus on those functions that enhance existing core GSE securitization operations, protect the TBA market and improve loan-level disclosures. FHFA and the GSEs should defer for a later time the development of new operational capabilities to distribute credit risk, particularly re-engineering the current GSE securitization legal framework into a model PSA. By aligning its efforts with the activities of other regulatory and industry initiatives, FHFA and the GSEs are more likely to develop solutions that could influence future developments in the private mortgage securitization market.

Chase welcomes this opportunity to support the FHFA and GSE efforts to define goals that will help improve as soon as possible the efficiency of GSE operations and lender interactions with the GSEs. We believe that the FHFA's Single Platform Proposal is the beginning of a promising dialogue among the GSEs, FHFA and the mortgage industry that will help set the stage for a longer term transformation of the US mortgage market.

Sincerely,

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