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December 3, 2012

Federal Housing Finance Agency
Office of Strategic Initiatives
400 7th Street, S.W.
Washington, DC 20024
Via Email: SecuritizationInfrastructure@fhfa.gov

RE: Building a New Infrastructure for the Secondary Mortgage Market

Dear Sirs/Madams:

LTVtrade respectfully requests your consideration of comments on the Federal Housing Finance Agency (FHFA), request for Industry Comment on the FHFA whitepaper, *Building a New Infrastructure for the Secondary Mortgage Market.*

LTVtrade believes that FHFA is in a very difficult position working as conservator to resolve the financial problems associated with Freddie Mac and Fannie Mae -- while at the same time working without clear Congressional direction to manage a future path for the Enterprises and the housing finance industry. FHFA's task, while formidable, is critical to the health of the American economy. Americans have seen their collective wealth tied to housing plummet since 2008 and according to CoreLogic, by the end of the second quarter of 2012, 10.8 million, or 22.3 percent, of all residential properties with a mortgage were in negative equity. And when one considers near-negative equity mortgages as well (5% or less of equity), the percentage increases to 27.0 percent.

Despite FHFA's laudable intentions, we believe that FHFA's intent to build and operate a new secondary market infrastructure is incongruent with objectives outlined in the Obama Administration's February 2011 report to Congress on Reforming America's Housing Finance Market. The report, prepared by HUD and the Treasury, emphasized the importance of bringing private capital back into the mortgage market and of reducing taxpayer risk. American entrepreneurs are leading the way in developing a number of trading platforms for loans and mortgage assets which can support the securitization process, but FHFA's intent to build and operate a

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securitization platform will displace private efforts and starve nascent efforts of needed investment capital. Therefore, while we appreciate and respect FHFA's desire to seek public input on various issues related to the development of an FHFA-built securitization platform, we believe the very premise of whether or not FHFA should build and operate this infrastructure should first be made available for public comment.

The Federal Housing Finance Authority (FHFA) was created in 2008 by law as an <u>independent agency</u> and <u>unified regulator</u> with power to oversee Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks. FHFA's Independent Agency status is important as it insulates FHFA from short-term political pressures.

While there seems to be bi-partisan consensus that the government's role in the housing sector should be reduced, FHFA efforts under this plan will further <u>expand</u> the government's <u>operating</u> role in housing finance sector rather than shrink it, and in doing so will further crowd out the opportunity for private actors or private initiatives to take hold in the marketplace.

In countries around the world and in other sectors, there is vast experience with structuring the role of national government authorities as it relates to regulation, policy making, and the provision of certain services. When power is concentrated in a single government agency for policy-making, regulation, and acting as owner or operator of a national service, the result is usually poor service, inefficiency, a lack of competition, and minimal innovation. We believe FHFA's plans are a step backward as they further consolidate power over a critical sector of the US economy within a sole entity, FHFA itself.

Instead, as primary regulator, we believe FHFA should commit to separating secondary market operational functions such that they can be performed solely by the private sector. By doing so, FHFA can set policies in the public interest without conflicting concerns based on its role as owner or manager of any new entities. Furthermore, by maintaining a separation between the regulator and operator functions, FHFA could focus on standard-setting and could implement policy in an objective and impartial manner. FHFA's commitment would also boost market confidence which is usually higher in sectors whereby the operators are independent from the regulators -- and this promotes increased private investment. Finally, in a scenario where FHFA does not act as operator, private entities would be able to make rational economic decisions about servicing the market without conflicting concerns of government ownership.

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FHFA has cited the need for its direct involvement from the current lack of any private infrastructure capable of securitizing $100 billion a month in mortgage transactions. However, given the near monopolistic structure of the industry today, no private party would step forward to build such an infrastructure without knowing that demand would follow. If certainty were provided that such an infrastructure would be used, private sector actors would leap at the opportunity and could build such an infrastructure in less than a year -- or even just a few months.

As an alternative to proceeding down the path of designing, building, AND operating the new secondary market platform, FHFA could license one or more private sector entities or consortia with the authority to build and operate such a platform. Any number of criteria could be used to select the operator. For example, small banks and credit unions have expressed concern about reforms of the secondary market and the fear of being locked out or put on a non-competitive playing field with larger institutions. FHFA could solve that concern by requiring that the private entity include a consortium of small institutions within its ownership structure. To attract private investment capital to support the build and operation of any such private platform, FHFA could mandate the Enterprises conduct a certain percentage of their business activity over the privately operated infrastructure. This percentage could change over time and be based on competitive performance.

To summarize, rather than build and operate a secondary market platform, we believe FHFA should:

- Commit to not building and operating any additional secondary market infrastructure.
- As the unified regulator for the housing finance sector, catalyze private sector participation in a new secondary market infrastructure.
- License one or more private entities with exclusive authority to build and operate this infrastructure.
- Mandate that a certain percentage of Enterprise business be conducted over these privately operated platforms.

The benefits realized by the industry and the American taxpayer to licensing competitive operators should be numerous. These actions will:

- Expand potential services
- Increase efficiency through competition
- Decrease reliance on taxpayers

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- Stimulate innovation
- (Possibly) generate government licensing revenue

While licensing revenue should be a minor consideration, removing the taxpayer burden for shouldering the cost of building such an infrastructure should be a major consideration in any approach.

As FHFA contemplates the merits of licensing a securitization or secondary mortgage market function to private entities, there is an immediate opportunity for FHFA and the Government Enterprises to catalyze the formation of a private secondary market in loan trading. There are innovative technologies in the marketplace today that can exist as a meta-layer solution on top of the existing housing finance infrastructure. With their vast holdings of mortgage loan inventory, the Agencies and Enterprises could, through the mere commitment to use such infrastructure, launch an effective and wide scale pilot-program that would unlock both small and large sources of private capital. This combination would foster the development of a private sector secondary market for loan trading and set the stage for such assets to later be bundled and securitized. We strongly believe that by deploying such innovation available in the marketplace today, the Agencies and Enterprises can maximize value to taxpayers and increase private investment in the housing market.

LTVtrade thanks FHFA for the opportunity to provide input on an issue of critical importance for our nation's future economic health.

Sincerely,

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