

U.S. DEPARTMENT OF THE TREASURY

Press Center



U.S. Treasury Department Seeks Public Comment On The Development Of A Responsible Private Label Securities Market

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WASHINGTON – As Secretary Jacob J. Lew announced earlier today, the U.S. Department of the Treasury is inviting the public to comment on the role of the private residential mortgage-backed private label securities (PLS) market in the current and future housing finance system. In particular, Treasury is seeking comments from investors, securitizers, and other market participants and stakeholders as a basis for facilitating the development of market practices and standards that would be necessary to support a safe and sustainable PLS housing finance channel of significant scale and liquidity to improve the overall efficiency of the U.S. housing finance system.

We are already working with the regulators to put in place reforms that will improve underwriting standards, increase risk retention, and help ensure sound market practices, which we believe will address the flaws in the securitization and lending practices that played a role in the financial crisis. As this framework comes into place, we believe that an expanded role for the PLS channel can responsibly broaden access to mortgage credit for qualified borrowers who are not being served today, while helping protect taxpayers by shrinking the government's footprint in the housing market.

Treasury views the development of a healthy and responsible PLS market as an important component of a reformed, safe, and sustainable housing finance system that will complement the enactment of comprehensive housing finance reform legislation consistent with the President's core principles released last August. Treasury would like to engage the public in a discussion of key challenges, potential solutions, and appropriate processes to encourage private capital to play a larger role in taking mortgage credit risk outside of government-supported channels.

Comments are requested from all interested parties, including market participants, stakeholders, community groups, and industry observers with specific recommendations for reviving the new issue PLS market as a safe and sustainable source of financing for mortgage credit. Investors are encouraged to discuss their current role in the new issue PLS market, particularly the factors contributing to their decision to invest or not. Securitizers are encouraged to discuss their role in the new issue PLS market today, particularly factors contributing to their decision to actively issue PLS or not.

Interested persons must submit comments electronically through the Federal eRulemaking Portal at <http://www.regulations.gov> by August 8, 2014. Electronic submission of comments allows the commenter maximum time to prepare and submit a comment, ensures timely receipt, and enables Treasury to make them available to the public. Treasury encourages the early submission of comments.

This effort is consistent with the Obama Administration's commitment to openness and transparency and the President's Open Government Initiative.

Treasury is seeking public comment on the following questions:

1. What is the appropriate role for new issue PLS in the current and future housing finance system? What is the appropriate interaction between the guaranteed and non-guaranteed market segments? Are there particular segments of the mortgage market where PLS can or should be most active and competitive in providing a channel for funding mortgage credit?
 - *Comments could address: the role of the government in the mortgage market; access to mortgage credit; cost of mortgage finance; capital available for this type of investment; the source of loans for securitization; product and structure innovation; types of mortgage products; and borrower characteristics.*
2. What are the key obstacles to the growth of the PLS market? How would you address these factors? What are the existing market failures? What are necessary conditions for securitizers and investors to return at scale?
 - *Comments could address: structural, operational, economic, regulatory, loan level data, other disclosures, and legal challenges.*
 - *Challenges may include methods of investor protections; desire for standardization; secondary market liquidity and size; underwriting standards; origination volumes; servicing practices; credit ratings; and risks arising from borrower default.*
3. How should new issue PLS support safe and sound market practices?
 - *Comments could address: underwriting standards; transparency and disclosure requirements; borrower protections; alignment of interests; and regulatory oversight.*

4. What are the costs and benefits of various methods of investor protection? In particular, please address the costs and benefits of requiring the trustee to have a fiduciary duty to investors or requiring an independent collateral manager to oversee issuances.
- *Comments could address: willingness of parties to accept a fiduciary duty; capital requirements and sufficiency; fiduciary duty as a means of addressing conflicts of interest; and alternative methods of investor protection.*
5. What is the appropriate or necessary role for private industry participants to address the factors cited in your answer to Question #2? What can private market participants undertake either as part of industry groups or independently?
- *Comments could address: methods of achieving agreement around establishment of industry-wide standards; or development and adoption of a limited number of structural options from which securitizers can choose.*
6. What is the appropriate or necessary role for government in addressing the key factors cited in your answer to Question #2? What actions could government agencies take? Are there actions that require legislation?
- *Comments could address: suggested role in facilitating resolution of issues impeding the return of an active PLS market; actions that are required from government agencies; and actions that require legislation.*
7. What are the current pricing characteristics of PLS issuance (both on a standalone basis and relative to other mortgage finance channels)? How might the pricing characteristics change should key challenges be addressed? What is the current and potential demand from investors should key challenges be addressed?
- *Comments could address: amount and sources of demand for new issue PLS; cost of funding and capital; appropriate parties or processes to address the current pricing of PLS issuance; pricing in other mortgage financing channels.*
8. Why have we seen strong issuance and investor demand for other types of asset-backed securitizations (e.g., securitizations of commercial real estate, leveraged loans, and auto loans) but not residential mortgages? Do these or other asset classes offer insights that can help inform the development of market practices and standards in the new issue PLS market?
- *Comments could address: relevant terms, standards, and covenants; key differences in underlying assets; comparisons of structural features; documentation; alignment of interests; relative value, relative risks, and required returns; and examples of other asset classes' emergence and growth over time.*
9. Is there any additional information regarding the PLS market not already addressed that you would like to provide?