

## THE HOUSING FINANCE CONUNDRUM

### The Need for a Holistic Approach

JANUARY 2013

# BLACKROCK®

Housing was a central protagonist in the 2008 financial crisis and remains an important touchstone for the US economy today. Data points in housing and employment are among the key indicators that all Americans — from Washington to Wall Street to Main Street — look to for signs of sustainable economic recovery. Encouragingly, recent market trends are positive in residential housing: home price indices are rising, sentiment is improving and mortgage rates are at all-time lows. Still, it is clear there is much work to be done to restore not only the US housing market, but the financing mechanisms that helped the sector thrive for decades.

Since 2008, numerous initiatives have been aimed at redefining and re-energizing the US housing market and the financing that supports it. Various workstreams have resulted in programs to help struggling homeowners, settlements related to mortgage lending and servicing practices, proposed rules regarding mortgage securitization, efforts to reform the credit rating agencies, and discussions on the future of the housing agencies. Some of these measures have been helpful; some have not. Given the implications for the still-healing housing market, and the broader economy, we believe it is time to step back and take a comprehensive look at what has been achieved and what still needs to be done, and to approach those objectives with a clearly defined and cohesive plan. In the process, it is important to coordinate and synchronize housing policy and financial services regulatory and enforcement policy. Only in this way is it possible to set housing finance on a long-term path that is in the best interests of all participants in the mortgage market, including homeowners, originators, mortgage servicers and investors, who have long supported the market through investment in mortgage products.

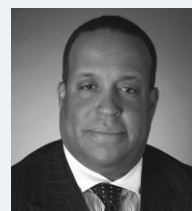
In this ViewPoint, we review some of the programs and proposals related to housing finance, and identify important issues for attracting investors to those assets that support this vital economic sector. BlackRock favors initiatives that protect investors, reduce the financial burden on homeowners and promote economic recovery. Some of our recommendations for comprehensive reform that considers the interests of all parties are summarized below.

### BEST PRACTICES FOR HOUSING FINANCE REFORM

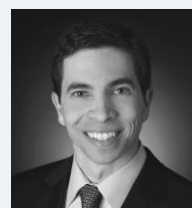
- ▶ Clarity of legal structure and investor rights.
- ▶ Retain the presence of a government guarantee.
- ▶ Ensure transparency from loan origination through securitization.
- ▶ Establish flexible forms of credit risk retention.
- ▶ Identify and manage conflicts of interest.
- ▶ Establish national mortgage-servicing standards.
- ▶ Judiciously reduce the scale of government's role and normalize private capital presence in housing finance.



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## ABOUT BLACKROCK

BlackRock, one of the world's leading asset- and risk-management firms, manages assets on behalf of institutional and individual clients worldwide. Within our \$1.2 trillion fixed income practice are significant client holdings in securitized assets, including roughly \$92 billion in agency mortgage-backed securities (MBS), \$6 billion in non-agency residential MBS and \$17 billion in commercial MBS. As an investor in mortgage securities for our clients, BlackRock understands the importance of residential mortgage servicing and of the key relationships, responsibilities and interplay of interests between the borrower, the servicer, the guarantor and the investor. We believe it is important to preserve the integrity of the MBS markets, which are vital to the adequate flow of capital to the mortgage market.

Data cited as of September 30, 2012

## Where We've Been

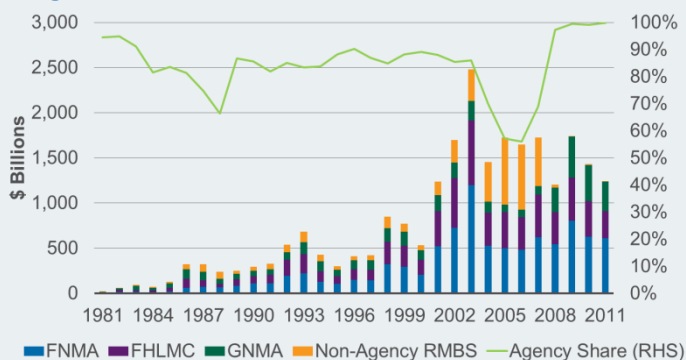
For many years, US homebuyers enjoyed the lower financing rates that resulted from the securitization of mortgage loans. Strict underwriting standards, combined with the mortgage insurance of the Federal Housing Administration (FHA), the guarantee of Ginnie Mae, and the backing of the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, facilitated the creation of a liquid secondary market for mortgages. Capital flowed into the sector from insurance companies, mutual funds, pension plans, sovereign wealth funds and other investors around the world who were attracted to the high-quality assets backed by US mortgage loans. Many of these same investors expressed a strong interest in "private-label" (i.e., non-government-guaranteed or non-agency) mortgage products. Because private-label mortgage securities did not come with the government backing of Ginnie Mae or the GSEs, they tended to involve riskier assets (non-conforming loans), but also offered investors the potential for higher yields. The robust demand for both agency and private-label mortgage products translated into very attractive mortgage rates for homebuyers.

The picture changed dramatically in the wake of the financial crisis as housing prices fell and delinquencies and foreclosures rose. To spare the GSEs from financial collapse, the federal government took Fannie Mae and Freddie Mac into conservatorship in September 2008, and the Treasury guaranteed their obligations. At the beginning of the crisis, FHA's market share grew as it became the primary means for first-time homebuyers and non-prime borrowers to obtain mortgage credit<sup>1</sup>. In the past few years, the Federal Reserve further supported the housing and mortgage markets by

purchasing large sums of agency MBS and debt. By 2009, the federal government had become the largest purchaser of mortgages, and under "QE3," the Federal Reserve continues to purchase \$40 billion in mortgages per month<sup>2</sup>.

While the government-insured or guaranteed share of the mortgage market has grown, the private-label market has shrunk dramatically. Figure 1 below illustrates that more than 95% of all mortgages securitized after the 2008 credit crisis were ultimately government guaranteed. Prior to 2008, the private-label market provided approximately 20% of housing finance. (While it did not necessarily represent the desirable equilibrium, the private-label market comprised almost 50% of securitized housing finance at the height of the housing boom). As we discuss in this paper, we believe solutions to housing finance must recognize and include investor perspectives in order to draw private capital back to this sector.

Figure 1: AGENCY MBS DOMINATES POST-CRISIS



Sources: Thomson Reuters, Federal Agencies, SIFMA.

## A CRITICAL MARKET

Since the creation of the first mortgage-backed security more than 35 years ago, the size and strength of the mortgage and MBS markets have grown tremendously, offering significant benefits to US homeowners, including lower financing rates to millions. As the vast and critical foundation of housing market finance, the MBS market totals more than \$6 trillion. More than \$5 trillion is backed by the GSEs and the remaining \$1 trillion is backed by private lenders. As Richard Dorfman, head of the Securitization Group at SIFMA, noted in testimony to the House Committee on Financial Services, this makes the mortgage market nearly equal to the total size of bank balance sheets. It is also the second-most liquid market in the world, behind the US Treasury market. Without this market, he concluded, there is not enough capacity within the banking system to fund the nation's housing stock.

<sup>1</sup> Recently, FHA announced that its capital reserves have fallen below zero, largely as a result of its pre-2010 books of business.

<sup>2</sup> "Statement Regarding Transactions in Agency Mortgage-Backed Securities and Treasury Securities". Federal Reserve Bank of New York. 13 September 2012.

## Where We're Headed

Today, the mortgage market functions primarily because the government provides a guarantee. While demand for mortgage product from the government has ensured liquidity through the crisis and helped to keep rates low for US homebuyers, a thriving housing finance market requires a return to a more “normalized” marketplace where private capital plays a larger role.

The consensus view, as was evident in the position taken by both candidates during the 2012 Presidential campaign, is that federal government support for the mortgage market must be judiciously reduced. This means other sources of capital are critical to addressing and sustaining the future of housing finance. Both the agency and the non-agency markets need private capital. As shown in Figure 2, government holdings have increased significantly since 2008, and Figure 3 highlights the outright decline of private-label MBS. Whatever your view on the ultimate fate of the GSEs, most observers agree that the housing finance market needs certainty to attract private capital and appropriately reduce reliance on government support.

The history of the mortgage market has shown us that the government and private sectors can co-exist in a productive and complementary way. The first step toward “normalization” requires a restoration of confidence in the quality and transparency of a market that was once recognized globally for its liquidity. In order to rebuild the reputation of the world’s

largest mortgage market, the needs of all parties — homeowners, banks, regulators, servicers and investors — must be balanced. We would argue that unless certain changes are made to housing programs and policy initiatives to recognize the needs of investors, private capital may be reticent to increase its participation in the housing finance market, and this could have unintended negative consequences for the housing market and the broader economy.

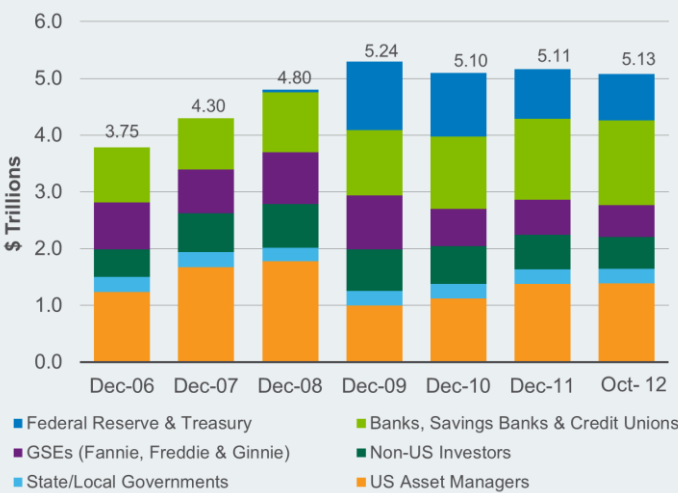
## An Investor Perspective

Policymakers continue to work tirelessly to build a new foundation for the future of US housing finance. Indeed, there are a plethora of government initiatives to support homeowners and the housing market, along with many voices calling for a reduced reliance on the GSEs. We applaud efforts to restore order to this critical economic sector, and firmly believe any inroads to that end can be successful only if investor perspectives are considered and incorporated into the resultant programs and legislation.

In the following pages, we review key housing programs currently in effect or under consideration and offer our thoughts and recommendations for revising and strengthening these initiatives to address the concerns of the investor community — an outcome we believe would simultaneously benefit homeowners and make the housing recovery more resilient over the long-term.

**Figure 2: GOVERNMENT SUPPORT SUSTAINS AGENCY MARKET**

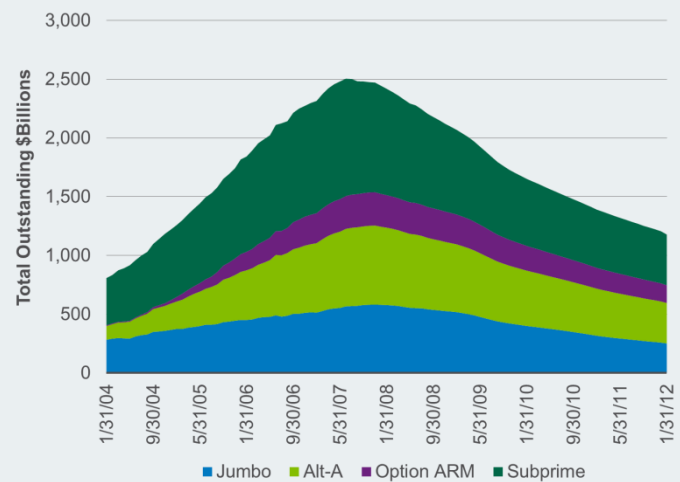
Agency Mortgage Holders in \$ Trillions



Sources: Nomura Securities International Estimates. As of October 2012.

**Figure 3: PRIVATE-LABEL MBS A DISAPPEARING ACT**

Outstanding Non-Agency MBS, 2004-2012



Source: Intex

**Figure 4: OVERVIEW OF KEY HOUSING PROGRAMS**

	OVERVIEW	MECHANICS	BOTTOM LINE
<b>Eminent Domain Efforts by Municipalities</b>	<ul style="list-style-type: none"> <li>▶ San Bernardino, CA and other municipalities are considering seizing non-agency MBS through eminent domain and forced loan restructurings.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Venture capital firm proposed having municipality seize loans from investors, refinanced, then sold to venture firm.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Considerable legal and procedural defects exist.</li> <li>▶ Extremely anti-investor and destructive to markets.</li> </ul>
<b>Home Affordable Refinance Program 2.0 (Oct. 2011 Update)</b>	<ul style="list-style-type: none"> <li>▶ Designed to remove impediments to refinancing.</li> <li>▶ Offers financial relief for deeply underwater homeowners.</li> <li>▶ Incentivizes lenders by reducing liability for bad loans (put-back risk).</li> <li>▶ Extends program to end 2013.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Borrowers who owe more than 125% of the value of their homes now qualify.</li> <li>▶ Eliminates some “reps and warrants” for lenders, or obligations to take back bad loans from the GSEs.</li> <li>▶ Streamlines process by eliminating appraisals for most homeowners.</li> <li>▶ Currently limited to GSE loans.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Expected to boost loan refinancing and prevent properties from going into foreclosure.</li> <li>▶ Gives lenders incentives to refinance.</li> <li>▶ Beware prepayment risks to MBS trading at a premium.</li> </ul>
<b>Home Affordable Modification Program (2012 Update)</b>	<ul style="list-style-type: none"> <li>▶ Allows loan modifications for more homeowners.</li> <li>▶ Increases incentives for mortgage servicers and GSEs to modify loans.</li> <li>▶ Financial relief for homeowners but uncertainty for investors and inherent conflicts of interest for mortgage servicers.</li> <li>▶ Extends program to end 2013.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increases incentives to mortgage servicers for loan reductions and offers new incentives to Fannie Mae and Freddie Mac.</li> <li>▶ Non-owner occupied homes now qualify as do people with low debt-to-income ratios (&lt;31%) if they owe secondary mortgages or big medical bills.</li> </ul>	<ul style="list-style-type: none"> <li>▶ May boost loan modifications and prevent properties from going into foreclosure.</li> <li>▶ Risks benefiting holders of second-liens over investor-held first liens.</li> <li>▶ Discourages private capital.</li> <li>▶ High recidivism rate.</li> </ul>
<b>\$25 Billion Attorneys General Settlement</b>	<ul style="list-style-type: none"> <li>▶ The top-5 mortgage servicers pay \$25 billion in fines and loan modifications to settle allegations of sloppy and abusive foreclosure practices including “robo-signing.”</li> <li>▶ Mortgage servicers change how they service loans, handle foreclosures and ensure accurate information.</li> <li>▶ Financial relief for homeowners but downside for investors due to inherent conflicts of interest for mortgage servicers.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Settlement includes \$20 billion in borrower relief and \$5 billion in penalties paid to federal and state governments.</li> <li>▶ Financial relief for homeowners through reduction of principal balance and refinancing.</li> <li>▶ Establishes new servicing standards.</li> <li>▶ Mortgage servicers receive partial credit for writing down investor (first-lien) loans.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sets standards for mortgage servicing and foreclosures.</li> <li>▶ Does not protect rights of first-lien holders and gives banks an incentive to write down loans they don't own.</li> <li>▶ Likely to slow down the foreclosure process and increase costs for investors.</li> <li>▶ Discourages private capital.</li> </ul>

**Eminent Domain: Not the Answer**

Of the proposals currently on the table, we are perhaps most adamant in our conviction against the use of eminent domain. Specifically, some local governments are considering seizing non-agency MBS through eminent domain and forcing loan restructurings, a plan hatched by a venture firm. We believe such efforts would only impair the flow of mortgage credit, harming investors, lenders and homebuyers. The plan essentially encourages municipalities to forcibly tear up legal contracts between borrower and lender. Mechanically, loans would be taken from private investors in the MBS that fund the loans, refinanced through non-market-based methodology and sold back to a venture firm.

The negative implications for both borrowers and investors are significant. For investors, billions of dollars in mortgages would likely become riskier given the possibility that a local government or other entity could take and restructure a mortgage by fiat. Beyond prepayment risk and default risk, the unpredictability of what a local government might do is difficult to evaluate. Ultimately, this plan only increases government involvement in the mortgage market we believe. Such an outcome would invariably impair any momentum in bringing private capital back into the MBS market, as investors would need to be compensated for the higher risk of having loans seized.

For borrowers, such a plan should slow or reverse any healing of the mortgage market, raise mortgage rates, reduce credit availability and increase fees not only in risky locales,

but potentially across the entire market. In addition, pension funds, mutual funds and other investments may be harmed given the sheer amount of MBS held in these portfolios. In short, we don't see any benefit to the use of eminent domain to address the issues afflicting underwater distressed loans. Chicago Mayor Rahm Emanuel shares our disapproval. "The idea of using eminent domain is not one I support," he has said, adding that housing is a national matter that needs to be addressed. "I don't think it is the power of the city [municipality] to deal with the housing issue."

### HARP: A Model Program

A major impediment to a more rapid housing market recovery and lower mortgage default rates has been the inability of a current borrower with a high mortgage rate to take advantage of today's historic-low rates through refinancing. The Home Affordable Refinance Program (HARP) is a tool to extend credit to those borrowers who had been unable to access it due to falling home values, a trend that has recently started to reverse.

BlackRock favors the approach taken with HARP, particularly following the 2011 revisions that reduced the impediments to refinancing, speeding the process of helping homeowners avert default. These changes, outlined in "2011 Changes Enhance HARP," maintain the integrity of the mortgage market and preserve the rights of all participants. The effectiveness of HARP, in our view, is evidenced in the pickup in refinancing speeds of "seasoned" coupons (5.5% and higher) — those that were exhibiting many of the credit issues HARP was intended to address. In other words, distressed borrowers are accessing capital markets in a meaningful manner. We expect the prepayment speeds on mortgages of these rates will continue to accelerate and remain elevated in the coming months.

### 2011 CHANGES ENHANCE HARP

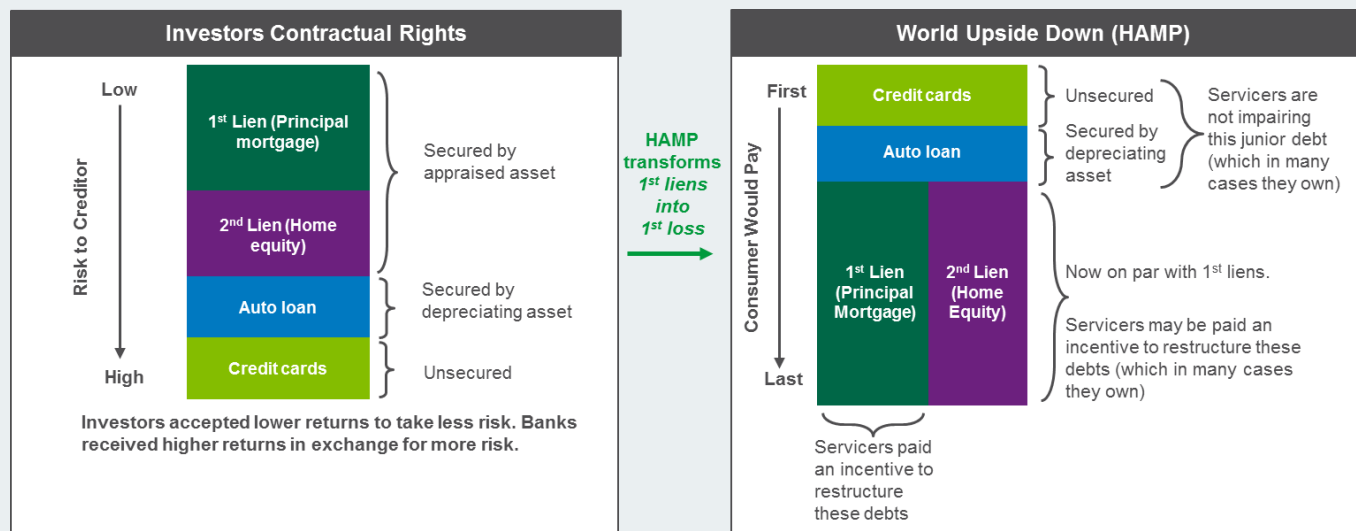
- ▶ Removal of loan-to-value limits allows refinancings despite declining home prices.
- ▶ Representation and warranty relief eases lender liability.
- ▶ Eliminating or lowering fees for risk-based price adjustments eases burden on borrower.
- ▶ Easier mortgage insurance portability and secondary lien re-subordination.
- ▶ Standardized and streamlined processing enables enhanced speed and efficiency.
- ▶ Access to automated GSE valuation systems increases transparency.
- ▶ Program qualification dates extended from June 2012 to year-end 2013, meaning more help for more homeowners.

### HAMP: Revisions Necessary

The Home Affordable Modification Program (HAMP) was created to encourage mortgage servicers to modify existing loans, thereby assisting borrowers in danger of foreclosure and stabilizing the housing market. HAMP has met with limited success, with roughly 1 million permanent modifications of delinquent loans having taken place since its inception in 2009. More troubling, in our view, is that the program alienates investors and exacerbates conflicts of interest within the mortgage servicing system.

By providing incentives to servicers to write down first-lien loans ahead of second liens, HAMP encroaches on the rights of first-lien holders, which tend to be investors such as pension funds, mutual funds and other institutional investors in agency MBS.

**Figure 5: HAMP PUTS FIRST-LIEN HOLDERS IN FIRST-RISK POSITION**



Source: BlackRock. As of December 2012.



This raises the possibility of large-scale reductions of first-lien loan cash flows and, in turn, helps second-lien holders — who often are affiliates of the very same mortgage servicers. This not only disregards the interests of senior secured investors, but also introduces conflicts of interest.

HAMP essentially turns the pecking order of creditors on its ear, placing first-lien holders in a “first-risk” position. (See Figure 5 on the previous page.) As it currently exists, HAMP discourages private capital from entering the market. Our thoughts for revising this program are outlined in “Recommendations for Improving HAMP” below.

In addition to our concerns around current features of HAMP, two more HAMP-related programs are being discussed that also raise concerns for investors:

**Potential Market Rate Modification Program:** Recently, the Treasury indicated it is considering a proposal to expand HAMP to address borrowers who are *current* on their loan payments, but significantly underwater. As we understand it, through this loan-modification program, Treasury would encourage participating mortgage servicers to lower the rate on certain current loans (subject to specific loan-to-value parameters) down to prevailing market rates. Treasury would pay the investors in the subject loans the difference between the existing rate and the new current market rate for a period of five years, after which investors would bear the cost. No principal forgiveness would be offered to these borrowers. This program would result in an interest shortfall after five years and, thus, investor losses. We are skeptical that all of these modifications would be net present value positive to investors, which is a

## RECOMMENDATIONS FOR IMPROVING HAMP

We believe the following revisions are necessary to properly align the interests of HAMP stakeholders and ensure the program’s longer-term success:

### Maintain First-Lien Priority

HAMP places first-lien holders in a first-risk position, while ignoring borrowers’ subordinate and unsecured debt, such as home equity loans and credit cards. Ultimately, we believe this policy will fail at its goal of lowering borrowers’ debt levels while at the same time eroding the protections of first-lien holders. In order to encourage a return of private capital to the mortgage market, the contractual rights of the first-lien holder must be affirmed.

### Eliminate Conflicts of Interest

A significant portion of servicers required to implement loan modifications through HAMP have extended other forms of credit to homeowners through affiliates. We strongly oppose provisions that would encourage a modification of a first-lien mortgage loan prior to the write-off of second-lien loans and a borrower’s unsecured loans. This structure means mortgage investors effectively subsidize unsecured creditors despite a higher-priority lien.

Importantly, the HAMP-related Second Lien Modification Program (2MP) for modifying second liens does not respect lien priority. Instead, it elevates second liens to the same priority as first liens. The appropriate treatment for second liens, in the case of an impaired first lien, is for the second-lien holders to extinguish their claim entirely or release claims and pursue unsecured deficiency claims. We have consistently argued for the appropriate treatment and enforcement of senior creditor rights and for bankruptcy reforms that would reduce homeowners’ highest-cost debt while preserving the rights of first-lien holders. Without this protection, private capital is discouraged from returning to the mortgage markets.

### Revise Net Present Value Methodology

Within the process to determine whether a borrower is eligible for loan modification under HAMP, participating servicers conduct a net present value (NPV) analysis. If that analysis tests positive, the loan must be modified. Ostensibly, this is in the best interests of both investors and borrowers. However, we find the NPV methodology to be deficient on several levels, leading to loan modifications that are not in the best interests of investors. The Department of the Treasury has undertaken a re-evaluation and revision of the NPV methodology, but flaws remain. Following are just a few of the issues that we believe should be addressed:

- ▶ **Discount Rate:** Must be raised to be consistent with market rates for similar products.
- ▶ **Servicing Fees:** Currently not consistent with market practice and may result in improper cash-flow projections.
- ▶ **Mark-to-Market Loan-to-Value Ratio:** Continues to be defined on first-lien loan only and fails to account for second liens.
- ▶ **Debt-to-Income Ratio:** Uses front-end ratio as a key input of re-default model, which does not reflect market practice.
- ▶ **Real-Estate-Owned Valuation:** Use of automated valuation models when determining property value does not accurately reflect fair market values.
- ▶ **Transparency and Access to Loan-Level Data:** Currently lacking and should be enhanced so investors can make independent assessments of investment value.

requirement of any loan modification. It also adds another market distortion and further complicates risk analysis for the subject assets. While still in preliminary talks, we believe the impact to investors and the market must be carefully considered and understood before launching such a program, particularly if the objective of returning private capital to the market is to be achieved.

**Potential Principal Reduction Alternative:** Treasury and other commentators have advocated a Principal Reduction Alternative (PRA) under HAMP. While the purpose of the program is to increase the creditworthiness of loans, we believe the principal forgiveness feature introduces an element of moral hazard. Underwater homeowners who are *current* on their payments might be encouraged to default in order to receive a principal reduction. This has the potential to result in a direct cost to investors who hold the MBS backed by these loans. Ed DeMarco, acting director of the Federal Housing Finance Agency (FHFA), has expressed concern about how principal reduction of GSE loans could impact taxpayers. As defaults and writedowns snowball, this could more than offset any improvements in loan credit quality. In a letter to Congress summarizing FHFA's analysis of PRA, Mr. DeMarco concluded that "the potential benefit was too small and uncertain relative to known and unknown costs and risks to warrant the dedication of additional taxpayer resources to Fannie Mae and Freddie Mac to implement HAMP PRA." He suggested instead that Fannie Mae and Freddie Mac work to ensure the success of the existing "suite of effective programs for underwater borrowers." Ultimately, the design of any potential principal reduction program must mitigate and manage the risk of moral hazard.

## AG Servicing Settlement: Investors Underrepresented

BlackRock applauds state and federal authorities for aggressively investigating and seeking damages for improper foreclosure practices. We support ongoing efforts to develop national mortgage servicing standards and believe those standards should apply uniformly to all residential mortgage loans to promote soundness in the credit markets, to ensure fair and consistent treatment of borrowers and to protect investors' interests. However, we are concerned that the servicing standards contained in the \$25 billion Attorneys General (AG) Settlement provide little incremental protection for investors in MBS. In fact, we believe it further misaligns the interests of the affected parties to the detriment of investors, who have suffered losses as a result of the lengthy settlement procedure, yet have failed to realize any equitable protections as a result.

We are concerned that servicers are allowed to settle claims with investor capital in the form of modifications. Allowing servicers to apply principal forgiven under HAMP to damages payable under the settlement misaligns servicer and investor

interests in the MBS market. Essentially, the AG Settlement provides that financial sanctions can be "paid" by investors, who were neither at fault nor represented in the negotiations and may even have been harmed by servicer actions.

Ultimately, the AG Settlement highlights the need for the Settlement Monitor to carefully consider how servicer compliance is scored within the settlement. Perhaps more significantly, it highlights the need for regulators and administrators to ensure that investors who suffer losses as a result of improper practices are adequately protected in the future. Notably, the 2011 Bank of America settlement provides an example of fair and inclusive negotiations that recognize the interests of investors. The bank agreed to pay \$8.5 billion to investors who suffered losses due to soured MBS that had been issued by Countrywide Financial (which the bank acquired in 2008). Negotiations such as this, which respect the position and interests of investors, have the additional benefit of encouraging a return of private capital to the mortgage markets. We believe any future settlements of this nature should follow this example and include the voice of the investor to ensure the views and interests of all affected parties are represented and addressed.

## DODD-FRANK AND HOUSING FINANCE

Housing was partially addressed in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. While many of the regulations are not yet finalized, we expect the Administration will look to move forward in finalizing these provisions.

As currently proposed, Dodd-Frank regulations would establish credit risk retention standards for sponsors of securitized debt and define Qualified Residential Mortgage (QRM) for sponsors and Qualified Mortgage (QM) for originators. We outlined our views in detail in a July 2011 letter on Credit Risk Retention and Proposed Rules addressed to the Office of the Comptroller of the Currency, the Federal Reserve, the SEC, FDIC, FHFA and HUD. As regulators move forward to finalize these rules, consideration should be given to the overall public/private goals for housing finance.

## Wanted: Inclusion, Transparency, Focus

Private capital is critically important to housing finance, even more so at this juncture when the role of the government, including the GSEs, is likely to be reduced. In order to attract capital, we believe housing finance solutions should incorporate these concepts:

- ▶ **All voices must be heard.** All interested parties — borrowers, investors, servicers — must be treated fairly and given a voice at the table. We are concerned that, in an effort to move swiftly to implement new programs

and revised practices, federal and state authorities have not provided an adequate forum for the concerns of MBS investors to be expressed. In several instances, important rulemakings and policy decisions have been made public for inadequately short periods, or have come about with no public process.

► **Transparency is key.** The hallmark of the pre-crisis housing finance market had been its efficiency and liquidity. We believe the return of a thriving housing and mortgage market with these characteristics will require enhanced transparency, from origination of a mortgage loan to its securitization and then through the full life of the loan once securitized.

► **Focus and coordination are absolutely necessary.** There are several competing programs to support housing and seemingly no consistent, overarching objectives. However, focus and coordination are absolutely necessary if we are to “get it right.” We believe a holistic approach, one with complementary processes and objectives rather than multiple workstreams, is clearly needed to solve the housing finance conundrum. Now is the time to analyze what needs to be done and identify those measures necessary to achieve it. In the process, the current programs must be prioritized and aligned with the interests of all participants, rather than ignoring the rights of investors.

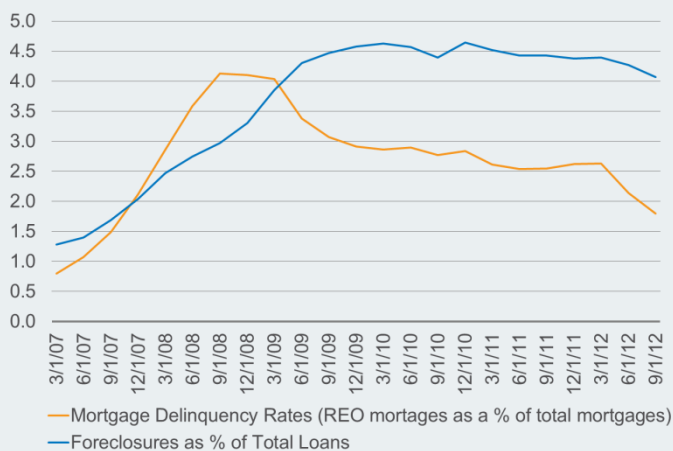
Housing policy reform remains critical to the recovery of US households and the broader economy. Clearly, there is no shortage of proposals to improve and revitalize the housing finance market and to attract critical private capital back to the mortgage market. In addition to those outlined here, we offered our views and recommendations for the proper realignment of judicial mortgage restructuring in a December 2009 *ViewPoint*, “Keeping Homeowners in Their Homes,” and discussed the topic of GSE reform in a February 2011 *ViewPoint* titled “Getting Housing Finance Back on Track.” It is clear that arriving at a holistic solution will require moving forward on GSE reform as one of the key steps.

At this juncture, nearly five years after the first pains of the financial crisis were felt, there are clear signs that housing is slowly on the mend, but not yet healed (see Figures 6 and 7 at right). We believe it is time to assess how far we have come and to agree on what still needs to be achieved. From

there we can work toward a comprehensive and cohesive plan that will realign the housing market with housing finance so as to better balance public and private participation, and provide for a longer-term sustainable future for the US housing market and the US economy.

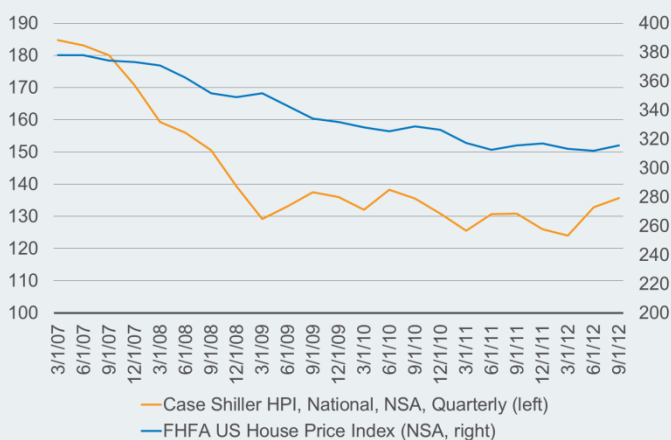
## Positive Trends, But a Ways to Go

**Figure 6: MORTGAGE DELINQUENCY RATES AND FORECLOSURES**



Source: Bloomberg; Mortgage Bankers Association via Bloomberg.

**Figure 7: HOUSING PRICES**



Source: Case Shiller via Bloomberg; FHFA via Bloomberg.

## RELATED CONTENT

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- [Alternative Mortgage Servicing Compensation, Letter to FHFA, December 2011](#)
- [Credit Risk Retention, Letter to Regulators, July 2011](#)
- [Getting Housing Finance Back on Track, February 2011](#)
- [Keeping Homeowners in Their Homes, December 2009](#)

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