



**To:** Secondary and Capital Markets Committee

**Date:** April 16, 2009

**Re:** **Market Transparency Working Group Project Plan**

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### **Background**

When liquidity starts returning to the housing finance system, increased volume will prompt entities other than the government sponsored enterprises to issue mortgage backed securities. However, the housing finance crisis shed light on key shortcomings in basic components of the securitization framework such as the lack of complete transparency, dispersed accountability, and the objectivity of ratings.

The American Securitization Forum (ASF) is undertaking a series of initiatives to enhance the clarity of securitization standards, and develop standardized investor reporting requirements (Project Restart) across all asset types. ASF believes these measures will restore investor confidence by fostering informational transparency.

MBA can leverage ASF's undertaking with two initiatives focused exclusively on the housing finance system and the link between the primary and secondary markets. In addition to complementing ASF's transparency, standardization and reliability goals, an additional goal of MBA's initiatives is to support the reemergence of a robust secondary mortgage market. An overview of MBA's initiatives follows:

#### **Initiative 1: Develop mortgage issuer rating criteria leading practices.**

Under this initiative a multi-functional working group will develop measures of adequacy for new mortgage issuers. The metrics would serve as leading practices for entities seeking to become mortgage banks. The criteria also can be used as the basis for ratings agency evaluations, and could serve as a reference point for thresholds in areas such as:

1. Capital adequacy;
2. Assets;
3. Liabilities; and
4. Counterparty information.

#### **Initiative 2: Develop a Standard Mortgage Loan Sale and Purchase Agreement.**

Under this initiative a multi-functional working group will develop a standardized whole loan sale and purchase agreement that will contain the essential mortgage credit, counter-party, data requirements and representations and warrants that have been developed by the ASF over the past 18 months. This document would be acknowledged by ratings agencies as an industry "best practice." The idea behind this is to promote secondary market whole loan sale activity where the underlying sales agreement is

consistent, transparent and fully vetted by industry participants. Generating enhanced whole loan sales in the secondary market, is likely to foster the reemergence of a private MBS market.

**Actions**

MBA’s Secondary and Capital Markets Committee has formed the Transparency Working Group comprising regulators, rating agencies, mortgage banks, and other industry participants to work on these initiatives.

After the group establishes the skeletal framework for both initiatives, representatives from key housing finance regulators will be invited to participate going forward. The goal will be to announce the new standards at MBA’s Annual Conference in October. This is an aggressive schedule and would require the following preliminary timeline. Efficiencies could be gained by dividing working groups into two subgroups to work on each initiative separately. Some working group members have been contacted already and are eager to begin work.

**Timeline**

<b>Week of</b>	<b>Milestone</b>
April 19	Introductory meeting at 2ndary conference committee meeting to recruit working group members.
April 20	Possible working group kickoff meeting to assign preliminary duties
May 29	<ol style="list-style-type: none"> <li>1. First draft of Whole Loan Purchase Agreement.</li> <li>2. First draft of issuer adequacy requirements.</li> <li>3. Circulate draft agreement and adequacy requirements to relevant MBA committees.</li> <li>4. Regulator participation begins.</li> </ol>
June 22	Working Group call to review MBA committee input
July 20	<ol style="list-style-type: none"> <li>1. Second draft of Whole Loan Purchase Agreement.</li> <li>2. Second draft of issuer adequacy requirements.</li> <li>3. Circulate draft agreement and adequacy requirements to relevant MBA committees.</li> </ol>
Aug. 24	Working Group call to review MBA committee input.
Sept. 21	Final agreement and issuer adequacy requirements.
Oct. 11	Agreement and issuer adequacy requirements publicly released at MBA Annual Convention.