

- Create comparable method for financing residential housing:
 - Originate loans to be held for investment
 - Originate loans to be sold
- Why it may be needed
 - Lower mortgage rates for homebuyers and owners?
 - Create competition between the two methods?

Comparable Methods

- Comparison should be between MHS hold for investment and ISS “securitization” vs.. GSE hold for investment and “securitization”
- Both methods are used interchangeably in the market for originators/sellers to realize the best economic return (shareholders)
- Presumption is that GSE method and process is not as effective and efficient as MHS method and process will be
 - Cost for consumer
 - Expanding homeownership
 - Risk to government (taxpayers)

Assertions That Need Analysis

1. “Loss” protection for bank MHS owner might lead to taking greater risk and adverse selection
2. Market has repeatedly shown that “cost” benefits for consumer that become potentially available are captured either by originator/servicer for their profit or paid away for competitive reasons in either fees or servicing premiums
3. Standardization and risk evaluation standards may be fractured and consumer not well served by result -- borrowing what can't be repaid
4. Fractured standards of origination lead to higher not lower costs to service loans
5. Significant tax and accounting issues for loan servicing. Tax and accounting issues for existing servicing assets and for MHS loans held to maturity

Assertions That Need Analysis (Continued)

6. MHS could require significant technology investment for some (retail vs. wholesale lenders; small vs. large financial institutions)
7. Loan origination and servicing costs, as well as transaction costs resulting from MHS implementation need significant analysis and review. Costs may not change significantly once MHS system is fully implemented.

Additional Systemic Questions

1. Is this redistribution of GSE “benefits” to banks, others and their shareholders? (“Multiple private sector GSE’s”)?
2. Would some MHS’s be perceived as “too big to fail,” thus encourage taking more risk?
3. Would domestic and foreign debt markets require higher not lower yields for MHS in general and for particular MHS’s debt based on asset type, mix and leverage?
4. Why won’t it cost MHS’s as much to manage MHS portfolios as it costs holders of MBS’s to manage interest rate risk?
5. Not clear that portfolio holdings of loans by GSE’s have done nothing to boost public policy benefits
 - Investment in experimentation, held in portfolio loans that might otherwise never have been tested or made (ARM’s; reverse mortgages, etc.)

Additional Systemic Questions (Continued)

6. “Eventually planning deteriorates into work”? – timing of implementation and effect on liquidity of current system?
7. What is MHS impact on FHA and Ginnie Mae? More or less risk?