BNY MELLON
Corporate Trust

Federal Housing Finance Agency
Office of Strategic Initiatives
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Washington, DC 20024

Ladies and Gentlemen,

The Bank of New York Mellon ("BNY Mellon") welcomes the opportunity to provide the Federal Housing Finance Authority ("FHFA") with feedback on your recent release "Building a New Infrastructure for the Secondary Mortgage Market" (the "Infrastructure Proposal")[1], which discusses plans for a single infrastructure to support residential mortgage-backed securities ("RMBS") that are guaranteed by Fannie Mae ("Fannie") and Freddie Mac ("Freddie", and collectively with Fannie, the "Enterprises"), as well as provide future application to the private label RMBS market ("PLS RMBS Market"). BNY Mellon provides traditional banking services such as custody, asset management, asset servicing, securities services, clearing services, and treasury services, as well as program administration services in which we provide infrastructure - either whole or partial – in support of a program. With no retail banking franchise and consequently very little consumer or real estate market credit risk, we are trusted, impartial service providers to our clients. While not a seller-servicer into the Enterprise market, we participate in the private secondary market as a major provider of trustee and custodial services, while maintaining a smaller presence as a master servicer, a role coordinating the various servicers of the securitized mortgages.

BNY Mellon understands the importance of industry-wide efforts to encourage the return of private capital investment across the mortgage lifecycle and to reestablish a robust private secondary market in order to alleviate the burden of taxpayers in supporting the cost of operating the Enterprises. We agree that the reduction of costs in providing and maintaining separate infrastructures at each of the Enterprises is one way to support this goal, as is creating risk sharing securitization structures that further involve the private market in ways that have not yet been implemented in the Enterprise model. *We also believe that the revival of a private RMBS market, based on lessons learned from the financial crisis, is necessary to truly get the country back on track.*

We have discussed these industry topics with a variety of constituents and see principles that could help further the market recovery and support your efforts:

- Ensure transparency into collateral and guarantee deployment
- Establish independent due diligence on collateral
- Enlist an independent entity to ensure investors' interests are fully protected
- Flexibility and awareness of differing agendas in Enterprise and PLS RMBS Markets

[1] *See* http://www.fhfa.gov/webfiles/24572/FHFASecuritizationWhitePaper100412FINAL.pdf

1. Single Platform

The implementation of a uniform, single platform could improve operational efficiency at the Enterprises. The Infrastructure Proposal outlines principles that you believe establish a "strong foundation to align and standardize existing practices, enhance the ability to attract private capital for credit risk and accommodate many future housing finance models."[2] The core functions outlined in the Infrastructure Proposal – data validation, issuance, disclosure, master servicing and bond administration – are a solid start toward addressing the primary functionalities of securitization. It is important to ensure that the functions are approached in such a way as to ensure coverage of all aspects of the responsibilities, even where such responsibilities are unable to be fully automated. If an objective is to design tools usable in each marketplace, greater clarity may be needed in respect of the differences between how the functions develop in the Enterprise market as compared to the PLS RMBS Market. It is important to ensure that the practice put in place going forward is supported by a "best- in-class" infrastructure, utilizing current technology to allow maximum interconnectivity between functions. This will minimize the need for manual intervention and entry of information and improve efficiency, consistency and accuracy of data throughout the lifecycle. The system needs to ensure solid points of reconciliation throughout the process to maximize effectiveness and efficiency. To that end, the system needs to continue to leverage movement towards a consistent data standard, ideally one that is consistent across the entire industry. While within the Enterprise system that is being enacted through the use of MISMO, as utilized by Uniform Loan Delivery ("ULDD") and Uniform Mortgage Data Program, establishing a data model that will translate into the PLS RMBS Market is a more difficult ask. While many participants utilize the Enterprise standard, such participants must comply with regulatory data standards – such as those proposed in Reg AB II. In proposing future applicability to the PLS RMBS Market, the infrastructure must be able to adhere to the requirements of regulatory agencies for example SEC data reporting to investors.

2. National Database

In building out the functions in question, the current processes in place at the Enterprises should be re-evaluated to avoid building on a patchwork of existing systems and such systems' legacy issues. The FHFA is in a unique position to make changes that affect a large portion of the market and to establish standards in a way inaccessible to private market participants. The FHFA has shown through this Infrastructure Proposal, as well as the recent announced partnership with the Consumer Finance Protection Bureau ("CFPB") to build a National Mortgage Database, that you are examining the larger national housing finance landscape to see where changes could alter the way the market currently functions. This presents you with an opportunity to partner with CFPB to establish a single loan identification number – a standard that can be utilized to track a loan's performance from origination. A database which included information on every US mortgage utilizing a single identifier could result in greater transparency, improve analytics and predictive modeling, and benefit both regulators and investors. This expansion of the National Mortgage Database may also help address other issues which arose during the financial crisis. For example,

[2] *See* Infrastructure Proposal at 6.

in addition to tracking loan performance, it could be utilized to track the mortgage's chain of title, thereby enabling more efficient loan transfers and facilitating additional liquidity in the market.

3. Collateral Review

The Infrastructure Proposal addresses the need for data validation with a focus on the validation of data points rather than collateral. Proposed structural changes should place greater focus on strengthening and standardizing underwriting standards as well ensuring such standards are met. The FHFA recently announced, as part of its seller-servicer contract harmonization initiative, changes to the representations and warranties framework in place for its seller-servicers. Those changes involve comprehensive reviews and alterations to the time frame for quality control reviews. They would accelerate quality control reviews to within one to four months of loan purchase and would relieve seller-servicers of repurchase obligations after 36 months of continued performance. These changes are sensible but could be enhanced by the introduction of independent verification of characteristics prior to pooling such loans for securitization. This would bring greater transparency to the process and improve accountability among market participants while potentially reducing loan performance risks. Independent reviews would be valued by credit-investors who need to look more closely into the collateral - a meaningful consideration as you look to expand MBS offering types and/or move away from a full guarantee model. Moreover, the inclusion of an independent review earlier in the process will allow for a loan to be underwritten once, not continually as in the past when loans were sold and additional in-house reviews were necessary; potentially leading to lowered overall costs.

While the proposed changes address some existing infrastructure issues, it may also be beneficial for increased industry-wide focus on preventing and reducing issues altogether. We understand the market's need for the efficient absorption of housing stock. Focus on the on boarding of mortgages prior to the inception of transactions may reduce potential remunerative efforts after the fact, an issue currently prevalent within the Enterprise realm as well as the PLS RMBS Market.

While, we recognize that the Infrastructure Proposal provides improved focus on disclosure, we understand from our discussions with various market constituents increased disclosure would be a significant benefit to investors and other market participants. Enhanced transparency at the collateral level is of great import to credit-risk investors and any changes to the types of offerings made by the Enterprises may need to remain sensitive to the needs of such investors. In re-evaluating the current model and current disclosure practices – particularly as the adoption of risk-sharing structures are considered – we see room for further increases of transparency related to collateral performance and guarantees. For example, the proposed infrastructure changes could include improved mechanisms for both the tracking and reconciling of collateral shortfalls and corresponding guarantee payments as well as to facilitate requested payouts. As the Enterprises shift away from full guarantees, an enhanced ability to examine collateral and the guarantee deployment processes could provide investors with greater insights into the performance of the each mortgage and the related securities as a whole. Additionally, there may be benefits in providing periodically updated collateral information, including ongoing fluctuations in credit scores, second liens, and LTVs. Provided by an independent party, this information – along with the upfront due-diligence work referred to earlier – could further benefit investors, guarantors and the market place at large by providing these stakeholders ways to manage and reduce risks, thereby aiding the return of ready investors to both the PLS RMBS Market and the evolving Enterprise realm.

4. Standardization of Documentation

We see opportunities for standardizing operational procedures for mortgage loans throughout their lifecycle, however, we are sensitive to the difficulties of establishing uniform, market-wide standards. While Enterprise-issued RMBS share certain characteristics and processes enabling a more straightforward implementation of standardized documents and procedures, the PLS RMBS Market varies widely. The variance of tax structures, credit enhancements, deal parties, collateral types, and private guidelines further complicate matters making the introduction of uniform, wide-ranging standards extraordinarily difficult. However, there may be aspects of certain documents used by the PLS RMBS Market through which to introduce more uniform standards, although any incremental moves toward uniformity should be undertaken with a view toward maintaining flexibility for nuanced investor demand in the PLS RMBS Market. The Infrastructure Proposal rightly focuses on the need for improved document standards for origination data and seller responsibilities; but there are also opportunities for attention to standards regarding exception remediation and settlement processes. There are fundamental differences in the dynamics among parties in the Enterprise realm versus the PLS RMBS Market and such differences are reflected in the documentary framework. Market participants believe that there is a need in the PLS RMBS Market for greater clarity regarding the roles and responsibilities of parties accountable for exception remediation and settlement, and they believe this will ultimately improve efficiency and reduce costs. There is a market need for an independent monitoring role concentrated on collateral performance, something the PLS RMBS Market is beginning to move towards. An independent monitoring role focused on collateral performance could be granted the authority to act on behalf of investors to review documents whenever certain events are triggered and assist in the management of certain dispute resolutions or participate in arbitration proceedings.

Conclusion

We are supportive of efforts to improve marketplace efficiency through the introduction of streamlined operational and documentary standards to the Enterprises. Enhancements geared toward improving accuracy, timeliness, efficiency and data sharing practices are desirable across the board. Though significant challenges exist within the PLS RMBS Market in relation to the establishment of absolute standards, there are avenues through which to make both structural marketplace improvements and take steps toward document standardization which may lead to greater investor confidence.

From conversations with investors in both markets, we understand that they could benefit from greater certainty, stability and predictability, each of which can be achieved through improved data sharing, increased transparency, and assurances that there are roles and mechanisms for protecting their interests from inception throughout the life of a RMBS transaction. Though there are significant differences between the two markets, there are also common threads that can be drawn to help support the market more effectively. These threads can be drawn out through the incorporation of independent parties outside of the Enterprise walls to perform due diligence and protect investor interests and the release of guarantee transparency and collateral level information.

We appreciate the opportunity to make these comments and are available to further discuss our ideas. If you have any questions, please contact Antonio Nunes, Group Head of Global Strategy at tony.nunes@bnymellon.com or Douglas J. MacInnes Managing Director of Government Solutions at douglas.macinnes@bnymellon.com.

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