Written Testimony of

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Good morning Chairman Frank, Ranking Member Bachus, and Members of the Committee. I am Thomas Hamilton, Managing Director, Barclays Capital, Inc, where I am responsible for the MBS, ABS, and CMBS businesses. I am pleased to testify today on behalf of the Securities Industry and Financial Markets Association (SIFMA)[1], where I serve as Vice Chairman of the Mortgage Backed Securities and Securitized Products Division Executive Committee. We commend Chairman Frank and Ranking Member Bachus for their leadership and efforts to address the problems we see today in the mortgage markets.

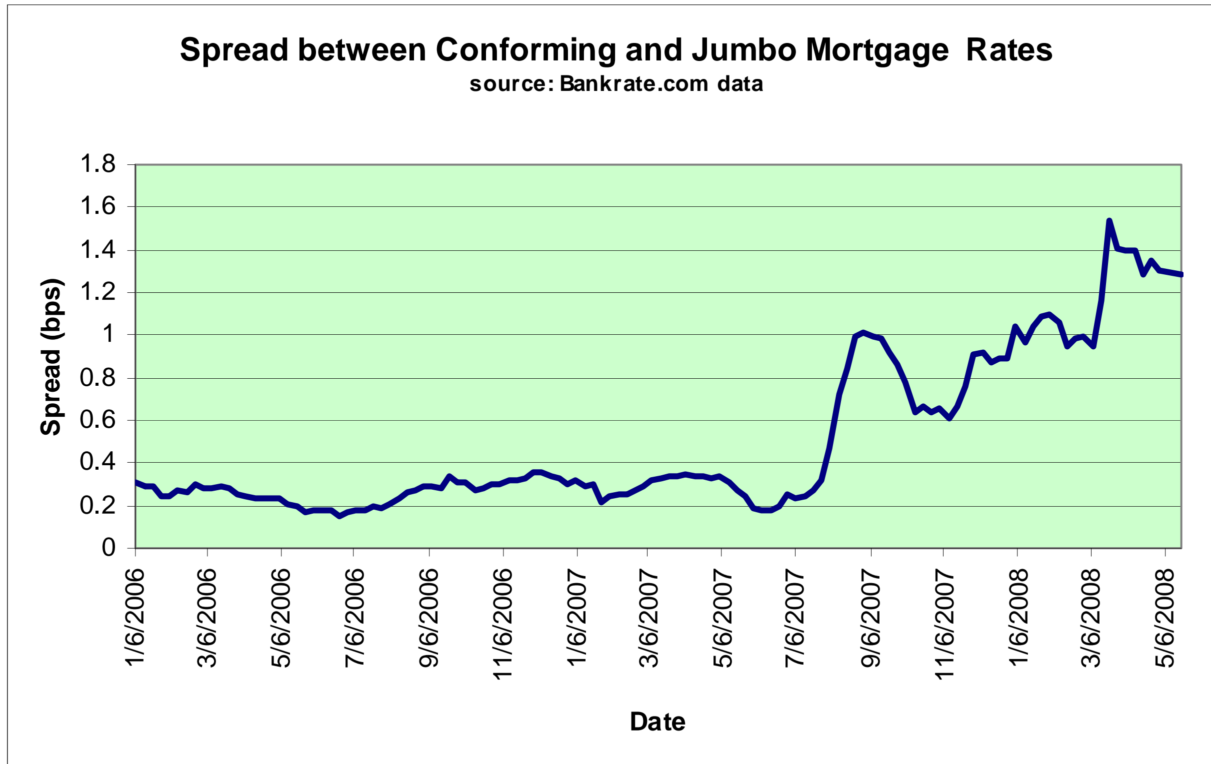
We appreciate the opportunity to discuss the mortgage backed securities (MBS) market, and one of the most liquid secondary markets for mortgage loans in the world – the "To-Be-Announced" (TBA) Trading of Agency Passthrough Securities. More specifically, we would like to discuss action taken by SIFMA with respect to which loans are acceptable for inclusion in TBA-eligible MBS pools.

SIFMA is pleased to contribute to the understanding of a situation that is complex, with many moving parts and few simple answers, but incredible importance. By way of background, we will discuss the market for mortgage backed securities known as the Agency MBS market, the

[1] SIFMA brings together the shared interests of more than 650 securities firms, banks, and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services, and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington, D.C., and London. Its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong. More information may be found on our website: http://www.sifma.org.

trading market known as the TBA market, an essential cog in the mortgage finance system, as well as SIFMA's role in these markets.

Rates for jumbo mortgages have risen since last August to previously unseen spreads to those for conventional mortgages. As shown in the chart below, jumbo mortgage rates tend to hover in a range between 25-40 basis points above those for "conforming" mortgages. Since last summer, however, jumbo rates have ballooned to exceed conventional mortgage rates by more than one percent. This is attributed to the so-called "credit crunch" and related general lack of liquidity in securitized product markets. The chart below shows that the spread between jumbo and conforming rates has two clear peaks that correlate with periods of stress in the credit markets (August 2007 – BNP Paribas hedge fund troubles, first wave of liquidity crunch & March 2008 – Bear Stearns and hedge fund liquidity problems). This makes painfully clear the interconnection between the capital markets and the primary mortgage markets.



One bright light throughout the difficulties in the credit markets has been the performance of the markets for mortgage backed securities issued by Ginnie Mae, Fannie Mae, and Freddie Mac (referred to hereafter as “Agencies”). These markets have remained stable, given the guaranteed nature of these products and the generally more conservative underwriting standards employed, in comparison to the weak underwriting standards that permeated the subprime mortgage market. As Congress deliberated on an economic stimulus package several months ago, the issue of providing liquidity to the jumbo loan market by increasing the agencies’ loan size limits became a matter of discussion.

Current Jumbo Mortgage Rates

While rates of jumbo loans have not returned to ranges approaching historical norms, the seeming answer does not relate to TBAs or the lack of inclusion of jumbo loans as TBA eligible. Rather, lenders and the Agencies faced operational challenges to implement the programs – and the programs are not running at full speed at this point. This is not to say that the programs will not have the intended effect – we believe they will. Many analysts expect jumbo rates to drop to somewhere around 50 basis points over conforming loans, which would be quite an improvement. It is important to separate out the issues of pricing of loans in the secondary market and the timing of the implementation of the programs.

We see no reasonable means or mechanism for these programs to have been implemented more quickly than has happened given the requirements of the legislation. However, in the last month we have seen the first issuances of jumbo loan-backed MBS by Ginnie Mae[2], and the continued build-out by Fannie Mae and Freddie Mac of their loan purchase programs. Freddie Mac recently announced an agreement with a number of large lenders[3], and Fannie Mae has announced various changes to their pricing policies[4]. There are reports that a few small GSE pools are circulating in the trading markets. We believe that the market is on the verge of relief from higher rates – rates have dropped a quarter point in the last month, and we expect that to continue as the GSE and Ginnie Mae programs grow.

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[2] http://ginniemae.gov/issuers/poolnum2008.asp?Section=Issuers
[3] http://www.freddiemac.com/news/archives/singlefamily/2008/20080417_jumbo.html
[4] http://www.bloomberg.com/apps/news?pid=20601087&sid=a9oy299Yq6K8&refer=home

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The Importance of Ginnie Mae, Fannie Mae, and Freddie Mac

The Agencies have long played a crucial role in the U.S. mortgage finance market. As the current mortgage and credit market difficulties evolved from the summer of 2007 until today, their role became even more essential. It is not an exaggeration to say that the Agencies currently provide virtually the only functioning means of accessing the secondary mortgage market which provides funding for about three-quarters of mortgage originations[5].

Mortgage backed securities (MBS) issuance statistics bear this out: as the issuance of mortgage backed securities in the private (a.k.a. "non-agency") market, which includes bonds backed by prime, Alt-A, and subprime loans, fell from about $270 billion in the first quarter of 2007 to around $20 billion in the first quarter of 2008[6], issuance of MBS by the Agencies grew to the point that the market share of Agency issued MBS now exceeds 80%. Over the last few years, the Agencies' market share fell into a range below 50%[7]. From 2006 to 2007 Ginnie Mae MBS issuance essentially doubled, driven by growth in FHA refinancing and origination programs[8]. As another example, the average daily trading volume of agency MBS reported to the New York Fed by the primary dealers[9] in 2007 was $320.1 billion, which dwarfs the $13.6 billion average for corporate debt, and approaches the levels for Treasury debt, which is regarded as the most liquid fixed-income product in the world. Difficulties in the non-agency mortgage markets

[5] Sources of funding for origination: http://www.imfpubs.com/issues/imfpubs_imf/25_13/news/1000008851-1.html
[6] Non-Agency MBS Issuance: http://www.imfpubs.com/issues/imfpubs_ima/2008_15/news/1000008955-1.html
[7] Agency share of new originations: http://www.imfpubs.com/issues/imfpubs_imf/25_17/news/1000009069-1.html
[8] Ginnie Mae MBS Issuance: http://www.imfpubs.com/issues/imfpubs_imf/25_15/news/1000008952-1.html
[9] More information about primary dealers: http://www.newyorkfed.org/markets/pridealers_current.html

contributed to a 25% year-over-year increase in this number from 2006 to 2007[10]. The outstanding volume of Agency MBS pools was $4.5 trillion at the end of 2007, and $1.3 trillion for Agency CMOs[11]. This total of nearly $6 trillion dollars exceeded the outstanding supply of Treasury debt in 2007[12].

While this is not a complete picture of the market, it provides a clear indication of the size, and thus the importance of the Agencies in providing financing to the primary mortgage market. Clearly, these are extraordinary times, and the Agencies are of extraordinary importance.

General Description of Mortgage-Backed Securities Issued by Ginnie Mae and the GSEs

Passthrough Securities

As the name suggests, the issuer or servicer of mortgage passthrough securities collects monthly payments from the mortgagees whose loans are in a given pool and "passes through" the cash flow to investors in monthly payments that represent both interest and repayment of principal. The payments of principal and interest on agency passthroughs are considered secure because of the guarantee they receive from their securitizing agency and the collateral (homes) that ultimately backs the mortgages.

[10] SIFMA's compilation of trading volumes: http://www.sifma.org/research/pdf/Overall_Trading_Volume.pdf
[11] Outstanding agency MBS: http://www.sifma.org/research/pdf/MortgageRelatedOutstanding.pdf.
[12] Outstanding Treasury debt: http://www.sifma.org/research/pdf/Treasury_Securities_Outstanding.pdf.

Normally, the mortgages backing a passthrough security are of the same loan type and are sufficiently similar with respect to maturity and interest rate to permit cash flows to be projected. At issuance, the stated maturity of most fixed-rate residential passthrough securities is generally 30 years, although some may have 20- or 15-year maturities. While most passthroughs are collateralized by fixed-rate mortgage loans, adjustable-rate mortgage loans (ARMs) may also be pooled to create securities. Most ARMs have caps and floors limiting the extent of interest-rate changes, and these option-like characteristics require that passthroughs collateralized by ARMS have higher yields than pure floating-rate debt securities.

Collateralized Mortgage Obligations / REMICs

The Agencies also issue Collateralized Mortgage Obligations (CMOs) in addition to the passthroughs discussed above. CMOs are multiclass structures that give investors a choice of short, intermediate and long-term maturities, while allowing issuers to reach a wider range of investors than normally possible with a standard passthrough. CMOs may be collateralized by FHA insured or VA-guaranteed mortgages, conventional mortgages, whole loans, Ginnie Mae, Fannie Mae or Freddie Mac passthrough mortgage-backed securities, AA passthroughs, other CMOs, callable MBS or combinations of these instruments. Unlike standard passthroughs, which typically pay monthly, CMO bonds may pay monthly, quarterly, semi-annually or as specified in the related offering materials. A related term often associated with CMOs is Real Estate Mortgage Investment Conduit (REMIC). In practice, the terms CMOs and REMICs have almost become interchangeable.

Guarantee of Payment on Agency MBS

Ginnie Mae securitizes Federal Housing Administration-insured (FHA), Veterans Administration-guaranteed (VA) mortgages and Rural Housing Service-guaranteed (RHS) mortgages. As a government entity within the Department of Housing and Urban Development (HUD), timely payment of principal and interest on Ginnie Mae securities is guaranteed by the full faith and credit of the U.S. Government.

Fannie Mae and Freddie Mac are private companies chartered by the federal government and are often referred to as Government-Sponsored Enterprises (GSEs). Fannie Mae and Freddie Mac securitize conventional mortgages that conform to certain size and underwriting criteria, and each agency provides its individual guarantee relating to timely payment of interest and principal for the securities it issues.

The Importance of Prepayment Projections and Expectations

Cash flows on mortgage-related investments may vary from month to month depending on the actual prepayment rate of the underlying mortgage loans. A critical feature of the mortgage passthrough security is that the principal on individual mortgages in the pool can usually be prepaid without penalty in whole or in part at any time before the stated maturity of the security. This is often referred to as an "embedded call option" in the security. Because of this, estimations and expectations of prepayment performance are critical to an investor's analysis of passthroughs. We will discuss this further later in the testimony.

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“To-Be-Announced” Trading of Agency Passthrough Securities

Much of the volume in the agency MBS market today is in the form of “To-Be-Announced” (TBA) trading. A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; however, the actual pool identities or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. Actual mortgage pools guaranteed by one of the Agencies are subsequently “allocated” to the TBA transactions to be delivered upon settlement. Settlement dates are standardized by product type (e.g. 30 year FNMA/Freddie Mac pools, 30 year Ginnie Mae pools, 15-year pools). Monthly settlement date calendars for the TBA market are published one year in advance by a SIFMA committee on a rolling 12-month basis[13]. This is done to increase the efficiency of the settlement infrastructure. Pools may, however, be settled on days other than the established settlement date if the parties to the trade so desire.

For example, in a typical trade, a buyer may ask to purchase $100 million of 30 year Fannie Mae MBS with a 6% coupon for delivery next month. The buyer does not know the exact bonds that will be delivered. According to industry practice, two days before the contractual settlement date of the trade, the seller will communicate to the buyer the exact details of the MBS pools that will be delivered.

[13] Agency MBS Settlement Dates: http://www.sifma.org/services/stdforms/settlement-dates.shtml

The TBA market is the most liquid, and consequently most important, secondary market for mortgage loans in the world. In this current time of distress, the importance of the TBA market is only heightened, and it is difficult to exaggerate the terrible consequences of a loss of confidence in, withdrawal from, or general upward repricing of risk in this market. The effects would be directly and immediately felt by the average mortgage borrower.

TBA trading enables mortgage lenders to sell product forward through primary originations, by securitizing the mortgages for purchase in the secondary market. To allow mortgage lenders to hedge or fund their origination pipelines, TBA settlements are often scheduled significantly ahead of the date on which the transaction is negotiated. This permits the lenders to lock in a price for the mortgages they are in the process of originating.

Pools delivered to settle a TBA obligation may be either newly issued or "seasoned." There are circumstances in trading TBAs where counterparties agree that the pools to be delivered must meet certain stipulations or "stips", such as issuance year and/or month; or minimum or maximum percent in a particular geographic state or region, or others.

Homogeneity is the Key to the TBA Market

The TBA market is based on one fundamental assumption – homogeneity. TBA trading is based on the assumption that the specific mortgage pools which will be delivered are fungible, and thus do not need to be explicitly known at the time a trade is initiated. At a high level, one pool is considered to be interchangeable with another pool.

SIFMA's Role in the TBA Market

SIFMA and its predecessor organizations have long played a central role in the TBA market. The genesis of this role began in the 1970s, when members of the Government Securities Dealers Association began to discuss standards for the trading and settlement of bonds issued by Ginnie Mae. In 1981, the Public Securities Association published the *"Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities"*, which is a manual that contains numerous of market practices, standards, and generally accepted calculation methodologies developed through consensus discussions of market participants, that are widely accepted and used in the MBS and asset-backed security markets.

Participants in the TBA market generally adhere to market-practice standards commonly referred to as the "Good-Delivery Guidelines", which comprise chapter eight of this manual[14]. These guidelines cover a number of areas surrounding the TBA trading of agency MBS, and are promulgated by and maintained by SIFMA, through consultation with its members. The purpose of the guidelines is to standardize various settlement related issues to enhance and maintain the liquidity of the TBA market. Many of the guidelines are operational in nature, dealing with issues such as the number of bonds that may be delivered per one million dollars of a trade, the allowable variance of the delivery amount from the notional amount of the trade, and other similar details.

[14] The Good Delivery Guidelines are a part of SIFMA's *Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities*, which is available here: http://www.sifma.org/services/publications/uniform-practices.shtml

A concept that underlies the TBA guidelines is that of a "standard loan." Standard loans are loans which are eligible collateral for bonds which are traded in the TBA market. While each standard loan may not be exactly the same, they share many general characteristics, and perform in a more consistent manner. This concept is the key to the homogeneity of the collateral.

While it is Critical, the TBA Market is Not the Only Agency MBS Market

Above we have outlined the critical nature of this TBA trading market. Pools that do not share this homogeneity of underlying collateral are not eligible for TBA trading – so where do they go? Mortgage pools which are not eligible for TBA delivery are traded in what is called the "Specified Pool" market.

In the specified pool market, unlike the TBA market, the actual identities of the bonds that are bought and sold are known at the time of a trade, similar to how most other bonds are traded. Many products which do not fit into the TBA guidelines are traded as specified pools: pools backed by interest-only loans, which in 2006-2007 became an important part of Agency issuance, pools backed by 40-year mortgages, pools backed by loans with prepayment penalties, and various types of adjustable rate mortgages. Furthermore, non-TBA eligible pools are actively bought by those who wish to create Agency CMOs. We have found in recent months that there exists a widely held misperception that there is no market outside of the TBA market; this is simply not correct.

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Temporary Increases to Agency Loan Limits

On February 13th of this year, the President signed in to law the Economic Stimulus Act of 2008. Among other things, this Act temporarily increased the dollar size limits of loans which the Agencies may purchase to the lower of 125% of the area median price of a home or $729,750 (with higher amounts allowed in Alaska, Hawaii, Guam, and the U.S. Virgin Islands).

There are two significant facets of this legislation that will be considered below: (1) that the loan limit increases will sunset on December 31, 2008 and (2) that the Secretary of Housing and Urban Development was charged determination of "area median home price(s)." Both of these decisions impacted the implementation of the programs.

SIFMA's Actions Regarding Increased Loan Limits

In January and February, SIFMA called together its buy- and sell-side members on multiple occasions as the stimulus legislation progressed through Congress. SIFMA also met with representatives of Fannie Mae, Freddie Mac, FHA and Ginnie Mae. The legislation was viewed as extremely important, both in the context of the Agency MBS market, as well as in the larger context of something that could counteract the contraction of the availability of credit to deserving borrowers more generally. SIFMA believed that this legislation could be a useful tool to help strengthen the mortgage markets. SIFMA also realized that it must act as promptly as possible to minimize any uncertainty in the markets, and to ensure that the GSEs and Ginnie Mae could implement their new programs as quickly as possible.

On February 15th, SIFMA announced its intention to publish an update to the Good Delivery Guidelines. The revised guidelines more explicitly define the characteristics of the "standard" loans which are acceptable for inclusion in TBA-eligible MBS pools. Concurrently, the revision implements modifications to the "non-standard" loans section to codify existing market practice and further delineate which non-standard loan product are eligible for de minimis inclusion in TBA-eligible pools. We have included in the appendix to this testimony the relevant sections of the guidelines.

The updates to the guidelines reflect the decision by SIFMA members to keep the maximum TBA eligible original loan balance at $417,000, as well as clarify several long standing market practices for good delivery. The previous maximum original balance allowable for a single family loan in a TBA eligible Fannie Mae or Freddie Mac pool was $417,000 (with the exception of Alaska, Hawaii, Guam and the U.S. Virgin Islands where the limit is $625,500). Loan size limits for Ginnie Mae pools also remained at 2007 levels. Higher balance loans which are now temporarily eligible for FHA and GSE guarantee programs under the Stimulus Package are not eligible for inclusion in TBA-eligible pools. They are instead expected to be securitized under unique pool codes for trading on a pool specified basis or included in REMIC transactions.

SIFMA views this arrangement as the most expeditious and least disruptive methodology currently available to facilitate securitization and secondary market activity for the higher balance loans, bringing added liquidity and rate relief to higher balance loan borrowers while not

imposing additional costs or impairing the liquidity for loans falling within the pre-existing loan limits.

The importance of the continued liquidity and smooth functioning of the current conforming loan market must be underscored in this time of broad disruption to financial markets. As discussed earlier in this testimony, this importance is reflected in data from the fourth quarter of 2007 that shows Agency MBS issuance represented over 80% of total MBS issuance, representing a vital source of financing for mortgage borrowers. The Agency MBS market is effectively the lone functioning secondary market providing liquidity to originators and borrowers.

There were two main drivers of SIFMA's decision:

***First*, paramount in all discussions of the conforming-jumbo program is the temporary nature of the legislation.** Given that market participants expected the program to take some time to implement, the December 31, 2008 cutoff only provides for a very small window for the purchase of these loans by the GSEs. While the program effectively only has a nine month life, preliminary estimates as to when this program would become fully operational were in the two to three month range. These estimates have turned out to be accurate, as we see the Agencies, led by Ginnie Mae, just getting their programs in gear in the last month. Market participants are hesitant to disrupt a functioning market, especially when the market is so essential to the mortgage finance system, to accommodate a program that effectively ends in less than 9 months.

***Second*, the issue of the importance of homogeneity of the TBA market was significant**. Experience has shown that higher balance mortgage perform differently than lower balance mortgages. As discussed earlier, prepayments are a key element in MBS investing. Higher balance loans respond differently than lower balance loans to changes in interest rates – this is the concept of convexity – in that for a given decrease in interest rates, higher balance loans are more likely to refinance (i.e. prepay). Logically, this makes sense, as a .5 % change in rates is much more meaningful in dollar terms on a $600,000 loan than a $150,000 loan.

Given that the TBA market depends on homogeneity, the introduction of jumbo loans which have different convexity characteristics into TBA-eligible pools would have reduced the homogeneity of the market – and would have begun a process of bifurcation of the TBA market into pools which contained jumbo loans and those that did not. This bifurcation would have reduced liquidity; liquidity that has been essential in the last year. Given that the TBA market is so essential in this time of stress, market participants are very hesitant to change the rules in a manner that may have negative consequences.

The market would have bifurcated because investors would have valued the securities which contained jumbo loans at lower levels than those which contained only conforming loans. The TBA market is a "cheapest to deliver" market – since the collateral is considered fungible it makes sense for a seller to deliver the collateral that it can obtain for the lowest price. Thus, collateral containing jumbo loans would generally be cheapest to deliver. Because of this, pricing would have been driven down across the market, causing borrowers of conventional

loans to pay higher rates. Another possible outcome would have been to drive trading into the specified pool market, which is less liquid than the TBA market, which also would have had negative implications for conventional loan borrowers.

In the time that SIFMA members were discussing how to proceed with respect to jumbo loans, there were proposals that jumbo loans be included in de minimis amounts – that is, up to 10% of the balance of a pool, as some other types of non-standard product are included (relocation, co-op, and certain buydown loans). SIFMA members, however, generally believed that any inclusion of jumbo loans in TBA eligible pools would incur a reaction from the market that would negatively impact the liquidity of the product, and thus negatively impact the rates that previously conforming borrowers would pay. Even if the actual impact of such inclusion would turn out to be insignificant, simply the *perception* that it could turn out as such would negatively impact the market and the rates paid by mortgage borrowers. This impact would have been immediate – prices for TBA trades would have changed instantly upon an announcement by SIFMA that jumbo loans would have been included. Regardless of SIFMA's decision, benefits of this still would not have accrued to jumbo borrowers for a period of months – but lower-balance borrowers would have seen increased rates immediately. Above all else, SIFMA members did not want to increase the rates of conforming borrowers to benefit jumbo borrowers.

While it is true that jumbo rates would see maximum impact if they were included in TBA-eligible pools, it is even more important that the rates of all conforming borrowers would have

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been impacted negatively. Jumbo rates would *not* have simply come down to what was at that time the conventional mortgage rate – rather, the rates on jumbo and conventional mortgages would have converged somewhere in the middle – i.e. *conforming rates would have to increase*. While it is impossible to quantify the exact meeting point, it is clear that conventional borrowers would be impacted. SIFMA was also mindful of the "Sense of Congress" outlined in section 201 (e) of the bill, which instructs that the implementation of the conforming-jumbo programs *"not impose additional costs for mortgages originated, purchased, or securitized under the existing limits or interfere with the goal of adding liquidity to the market."*[15]. Including jumbo loans in TBA-eligible pools would have done just that. As mentioned earlier, perceptions that jumbo loans would weaken the quality of the TBA product would cause changes to pricing, and affect the rates paid by mortgage borrowers – and it is unlikely that these perceptions would be able to be discredited in the very short window that has been granted for the Agencies to purchase or insure jumbo loans.

Thus market participants had to weigh the potential for the disruption of the last functioning mortgage market against the short term benefit of a subset of mortgage borrowers. In 2006, jumbo origination had a 15% market share, versus a 52% share for FHA and conventional loans[16]. The liquidity of the market (and therefore borrowing rates) for loans representing more than half of the mortgage market would be impacted negatively for a program that was slated to expire in less than a year, and that benefitted a significantly smaller population.

[15] P.L. 110-185
[16] Mortgage originations by product: http://www.imfpubs.com/issues/imfpubs_imf/25_6/news/1000008524-1.html

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It is for these reasons that SIFMA elected to recommend the separate pooling of jumbo loans. SIFMA and its members believe that this regime will best preserve the incredible liquidity the TBA market has provided over the last 30 years, keeping mortgage rates for lower balance borrowers unchanged, while still clearing a path to the secondary market for jumbo loan originations which are currently stuck in a purgatory of no liquidity. SIFMA fully expects jumbo rates to decrease – it is a matter of originators and the Agencies gearing up their programs to implement the higher loan limits.

Implementation of Jumbo Loan Purchase Programs

SIFMA believes the main factors in the delay in implementation of jumbo loan purchase programs are the operational requirements for these programs to be enacted. The main hurdle that was faced by the market was the issue of the calculation of loan limits for a given area.

As mentioned earlier, the legislation directed the Housing Secretary to delineate the "areas" and "area median home prices" for the various areas of the country. For Ginnie Mae, which is a part of HUD and accustomed to operating under the HUD/FHA methodologies for the calculation of loan limits, this was less of a challenge.

For Fannie Mae and Freddie Mac, as well as many lenders, however, this method of calculating loan limits was a change from their current methodology, and was known in advance by market participants to be an issue that would take some time to work out. For example, changes were required to various systems used by lenders and Fannie Mae and Freddie Mac to accommodate

this new methodology of determining whether or not a loan was within size guidelines. SIFMA believes that all parties moved, and are still moving, as expeditiously as possible to implement these changes.

It may be useful to present a timeline of events:

February 13	Stimulus bill signed into law[17]
February 15	SIFMA announces decision regarding TBA eligibility[18]
March 6	FHA publishes loan limits in Mortgagee Letter 08-06[19]
March 6	Ginnie Mae publishes information about their program, effective 3/24/08[20]
March 6	Fannie Mae publishes details of program, effective 4/1/08 for 15/30yr fixed rate products[21]
March 12	Freddie Mac publishes details of program, effective June 1 for flow program, reviewing bulk sales immediately[22]
March 24	Freddie Mac announces jumbo prefix information[23]
April 4	Fannie Mae expands/updates previous announcement[24]
April 17	Ginnie Mae issues 3 pools of jumbo loan backed pools (issuance date 4/1, delivery date 4/17)[25]
April 17	Freddie Mac announces $10-15 billion purchase agreement with a number of lenders[26]
April 17	Fannie Mae announces jumbo loans will be priced 39 basis points above conforming[27]
May 7	Fannie Mae announces jumbo loans will receive TBA pricing[28]

As shown by the table above, the process of implementing the new loan limits, buying loans from lenders, and issuing securities backed by these loans takes a significant amount of time. Even for Ginnie Mae, who was best positioned to implement the changes, it took until mid-April for pools to reach the secondary markets. It is important to keep in mind that increased liquidity and lower rates will only come to the jumbo market when an active secondary market is operational. This is happening now, and can be seen in the chart we provided earlier in this

[17] P.L. 110-185
[18] http://www.sifma.org/news/news.aspx?id=1930
[19] http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/
[20] http://ginniemae.gov/apm/apm_pdf/08-05.pdf
[21] https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0805.pdf
[22] http://www.freddiemac.com/singlefamily/increased_limits.html
[23] http://www.freddiemac.com/mbs/docs/f306newsrev.pdf
[24] https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0809.pdf
[25] http://ginniemae.gov/issuers/poolnum2008.asp?Section=Issuers
[26] http://www.freddiemac.com/news/archives/singlefamily/2008/20080417_jumbo.html
[27] http://www.fanniemae.com/media/statements/2008/041708.jhtml?p=Media&s=Statements
[28] http://www.bloomberg.com/apps/news?pid=20601087&sid=a9oy299Yq6K8&refer=home

testimony. Regardless of the decision as to whether or not jumbo loans could be securitized in TBA eligible pools, the market would have faced the same operational hurdles to implement the provisions of the legislation.

Another issue is underwriting guidelines. The Agencies have recently gone through a process of changing and tightening their underwriting guidelines to better position themselves for current market conditions. SIFMA understands that many loans which have been sent to the Agencies for review were rejected because they did not meet underwriting standards. This is not to say that the Agencies' guidelines are too restrictive, but rather that Agency guidelines have tended to differ from guidelines for loans not originally meant to be sold to the Agencies. Jumbo loans have not been eligible for GSE purchase until this year, so it is natural to assume that there would be some fall out when previously originated jumbo loans are sent to the Agencies.

Expectations Were Unrealistic

We understand that some primary mortgage market participants expected jumbo rates to be nearly equivalent to those found on conforming loans shortly after the bill was passed, before there was a realistic chance for the Agencies to provide any liquidity. We discussed above some of the factors that contributed to the length of the implementation period for conforming jumbo programs. Clearly there exists a lack of clarity as to how secondary market forces impact primary market mortgage rates. The recent article in the *New York Times*[29] is further illustration of this. Expectations on one side of the coin were for immediate relief – while those on the flip

[29] http://www.nytimes.com/2008/04/30/business/30jumbo.html

side, involved in the secondary markets, always thought in terms of months. Hopefully this testimony, and this hearing, will help to correct these misunderstandings, and allow all concerned to have a better understanding of the issues at hand.

Conclusion

SIFMA supported the stimulus package provisions which increased the conforming loan limits and continues to do so. SIFMA believes that the housing agencies can, do, and will continue play a central role in the recovery of the mortgage markets.

SIFMA believes that the correct decision was reached regarding the TBA eligibility of pools containing jumbo mortgages. The decision strikes the correct balance between providing increased liquidity and rate relief to jumbo borrowers, while preserving the liquidity of the TBA market that provides lower rates to conforming borrowers.

We thank the Committee and its Chair for the opportunity to provide this testimony, and hope that we have helped to shed some light on what is a complex issue.

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Appendix

Sections 10 and 11 of SIFMA's "Good Delivery Guidelines"

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The Securities Industry and Financial Markets Association's

Uniform Practices for the Clearance and Settlement of Mortgage-Backed Securities and Other Related Securities

Selections from Chapter 8 – Standard Requirements for Delivery on Settlements of Fannie Mae, Freddie Mac, and Ginnie Mae Securities

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11. General Characteristics of Standard Loans for 15 and 30yr Fixed-Rate Single-Family TBA-eligible Pools

The following list represents important characteristics of loans eligible for unlimited inclusion in TBA-deliverable pools ("standard loans"). For complete details of characteristics of loans in various pools, please refer to the appropriate offering documentation available from the issuer.

- For 30 year pools: Term greater than 15 but less than or equal to 30 years
- For 15 year pools: Term less than or equal to 15 years
- Fixed rate
- First Lien
- Level payments
- Fully amortizing
- Servicing fee greater than or equal to 25bp per loan
- Maximum Original Balance for FNMA and FHLMC pools:
  - $417,000 for mortgages on one-unit properties;
  - $533,850 for mortgages on two-unit properties;
  - $645,300 for mortgages on three-unit properties; and,
  - $801,950 for mortgages on four-unit properties.
  - Limits for each of the above categories are increased by 50% for properties in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.
- Maximum Original Balance for Ginnie Mae pools:
  - Note: FHA permits first year's mortgage insurance premium (up to 2.25% of original balance) to be financed in loan;
  - $362,790 ($370,953 if MIP is financed) for one-unit properties;
  - $464,449 ($474,900 if MIP is financed) for two-unit properties;
  - $561,411 ($574,043 if MIP is financed) for three-unit properties;
  - $697,696 ($713,395 if MIP is financed) for four-unit properties;
  - Limits for each of the above categories are increased by 50% for properties in Alaska, Hawaii, Guam, and the U.S. Virgin Islands;
  - VA loans are pooled with no limitation on balance.
- Loan does not include a prepayment penalty at time of pooling

- No extended buydown provisions (greater than 2% buydown of rate, or buydown period longer than 2 years)
- Not a cooperative share loan
- May be a participation interest in a loan
- Not a relocation loan
- Not a bi-weekly loan

12. Non-Standard Loans

Effective with trade date April 1, 2008, and for pools with issue dates of April 1, 2008 and later, pools containing more than 10% of any single type of nonstandard loan or more than 15% of the total nonstandard loans—as disclosed by the agencies—will not be acceptable as good delivery for TBA transactions.

The following, exclusive list details the types of nonstandard loan product which may be delivered in pools, subject to the de minimis limits described above:

1. Relocation loans
2. Co-op loans
3. Buydown loans, defined as follows: For purposes of SIFMA's good-delivery guidelines, a buydown loan shall be considered nonstandard if the difference between the actual and the "bought down" interest rate is more than 2% or if the buydown period is more than two years.

For pools with issue dates prior to December 1, 1991, existing good-delivery standards for nonstandard loans will apply.