

United States Senate

WASHINGTON, DC 20510

March 17, 2015

The Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Dear Director Watt:

We are writing to you regarding the development of the Common Securitization Platform (“CSP”). A CSP that is accessible and valuable to not only to Fannie Mae and Freddie Mac, the Government Sponsored Enterprises (“GSEs”), but also private sector participants in the secondary mortgage finance market, would facilitate positive transformation in the nation’s housing finance system. That is why every major bill proposed to reform Fannie Mae and Freddie Mac last Congress envisioned a CSP with open access beyond the GSEs. The benefits of developing the CSP with an open architecture seem obvious; it will enhance the ability for small and mid-sized lenders to access the secondary mortgage market and facilitate greater competition in this market going forward. As Congress looks to address broad housing finance reform legislation this Congress, the Federal Housing Finance Agency (“FHFA”) should capitalize on the broad support for an open architecture platform, moving past the duopolistic tendencies of the past.

It is commendable that FHFA has long stated that a key aspect of the CSP will be its open architecture. The FHFA’s strategic plan released in February 2012 noted that: “for the platform to have long-term value, it should have an open architecture that will permit multiple future issuers of mortgage-backed securities to access the platform and it should be flexible enough to permit a wide array of securities and mortgage structures.”¹ This goal was further clarified in FHFA’s 2012 White Paper that stated a key principle in the platform is its “open architecture,” where it was envisioned that the “standard external interfaces would be established for efficient interoperability with multiple Issuers/Enterprises.”²

On the topic of an open architecture for the CSP, during your testimony before the Senate Banking Committee on November 19, 2014, you commented that, “if we can design a system that works for the current, it will also work for the future, and we know

¹ FHFA’s “A Strategic Plan for Enterprise Conservatorships: The Next Chapter in a Story that Needs an Ending” (February 21, 2012), available at: <http://www.fhfa.gov/AboutUs/Reports/Pages/A-Strategic-Plan-for-Enterprise-Conservatorships.aspx>

² FHFA’s “Building a New Infrastructure for the Secondary Mortgage Market” (October 4, 2012), available at: http://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/FHFA_Securitization_White_Paper_N508L.pdf

what the current circumstances are.”³ While we appreciate the need to consider current circumstances, we are concerned that steps already taken are setting up for the CSP to act as an appendage of the GSEs, rather than a truly unbiased and open market utility available for multiple issuers.

For instance, it appears every member of the current Board of Directors of Common Securitization Solutions (“CSS”) is an employee of either Fannie Mae or Freddie Mac.⁴ Given that the GSEs’ priority is to maintain their current outsized share and influence in the market, it is difficult to envision the CSS, under the direction of the current Board, will be developed to encourage other participants in the securitization market.

An additional area of concern is the ownership structure of the CSP. We support the development of the CSP in a manner that serves all the participants of our secondary housing finance market for the long term, and in a manner that remains policy-neutral and technology-neutral. According to public comments, GSE employees are developing the technology and infrastructure of the CSP. With the infrastructure progress in its earliest stages, tasking GSE employees with ongoing development further weakens the case for a truly independent, open platform going forward. As long as the GSEs maintain 100 percent ownership, they maintain outsized control of the CSP’s development.

Beyond our concerns with the outsized influence of the GSEs in the development of the CSP, we are also very concerned about the considerable amount of time and funding it has taken to move forward with the CSP. It has been over three years since the idea of the CSP was first proposed. If the CSP is going to be a part of the critical infrastructure on which we rebuild the country’s secondary mortgage market, greater progress has to be made in the short-term. As FHFA’s OIG has recommended,⁵ we believe that the development of cost estimates for the CSP is a necessary component of successful project management, and should be prudently considered. As such, we request that you:

- (1) Reassess the current makeup of the CSS Board to include individuals that represent market participants beyond Fannie Mae and Freddie Mac;
- (2) Establish an advisory committee to provide a vehicle for outside participants that will likely play a role in the post-GSE housing finance structure to have their say in the early stage development of this critical market infrastructure;

³ Testimony of Director Mel Watt before the Senate Banking Committee (November 19, 2014), available at: http://www.banking.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=6d6117b6-1099-4790-b7e9-3c018fcc64f5

⁴ Common Securitization Solutions Board of Directors (November 3, 2014), available at: <http://finance.yahoo.com/news/ceo-board-members-named-common-210000369.html>

⁵ FHFA OIG “Status of the Development of the Common Securitization Platform” (May 21, 2014), available at: <http://fhfaoig.gov/Content/Files/EVL-2014-008.pdf>

- (3) Provide us with a plan for the transition of CSS from its current ownership structure into one with an open architecture and more flexibility to accommodate multiple future states of housing finance. Include in your response suggested legislative language to accomplish that outcome; and
- (4) Provide us with a forward looking timeline and budget estimates for the development of the CSP from where it exists today through the point at which it is fully operational.

We urge you to make these concerns a top priority within the development of the Common Securitization Platform. We look forward to hearing from you on this matter.

Sincerely,

Boucaph

Mark R Werner

Mike Gregory

Jon Tust

Tom Hill

Heidi Heitkamp

Pat Rooney

Clara Kim