

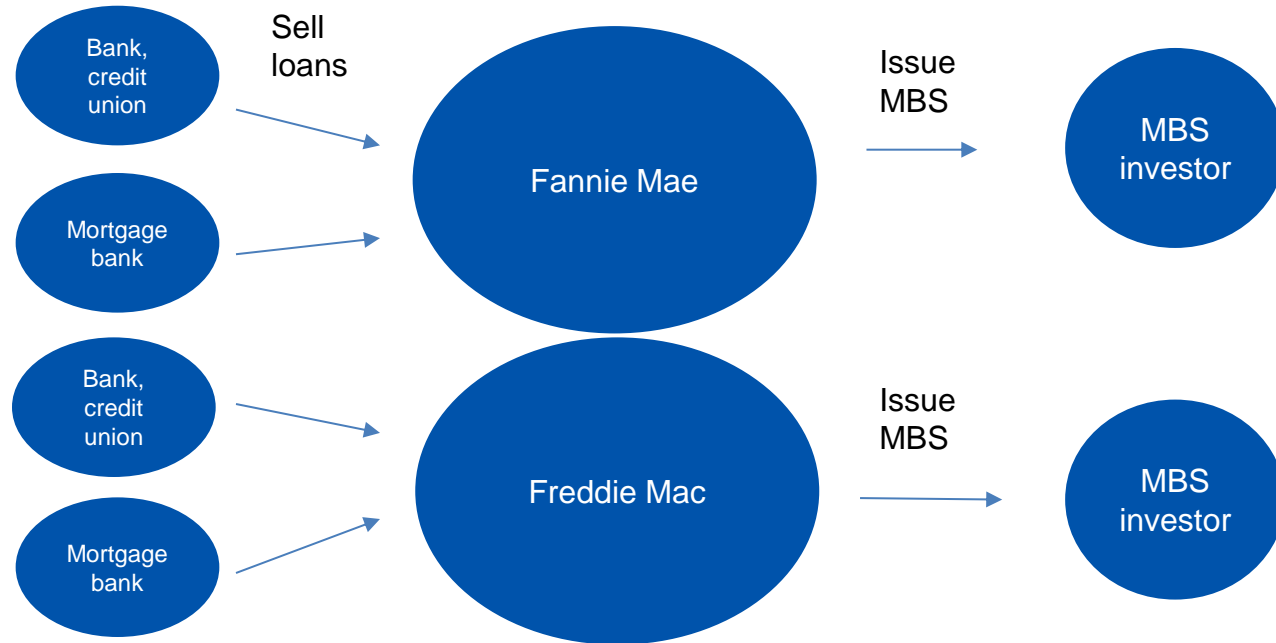
# Secondary Mortgage Market Reform: Summary of Milken Institute Proposal



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# Fannie/Freddie system today



## Key features of this system

- Fannie and Freddie retain credit risk; they distribute much of it via credit risk transfer (CRT). Historically, they kept all of it.
- Fannie and Freddie's mortgage-backed securities (MBS) investors do not worry about credit risk. In the past this was due to implied guarantee; today it is due to preferred stock purchase agreements.





# (Re-)Creating a Market for Mortgage Credit Risk

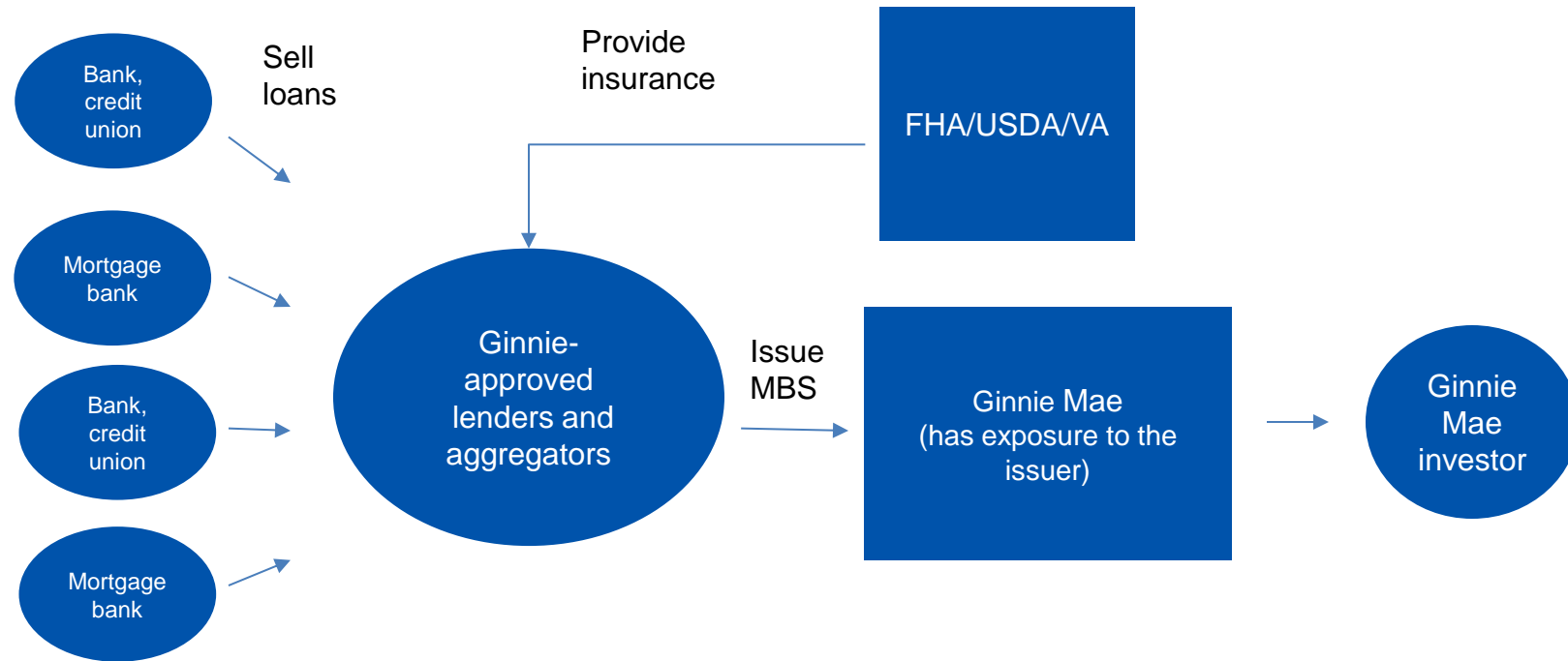
What do investors need to develop a liquid, robust market for mortgage credit risk?

1. Data standards
2. Disclosures
3. Security uniformity
4. Reliable reps and warrants
5. Standardization around credit risk transfer structures
6. Enforceability of contracts and investor protections





# Ginnie Mae system today



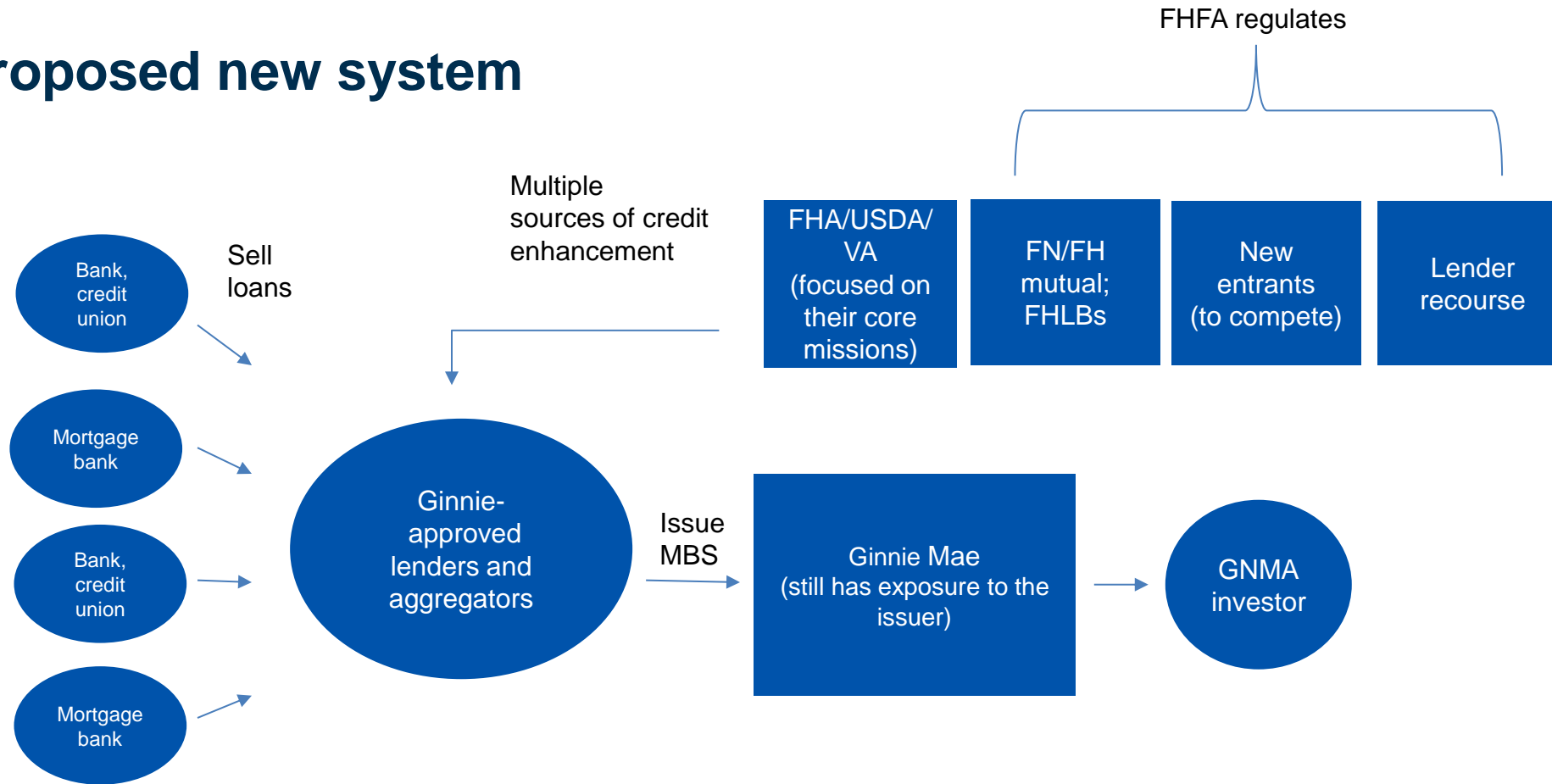
## Key features of this system

- Ginnie has exposure to the issuer (and indirectly to the guarantors).
- FHA/USDA/VA provide loan-level credit enhancement on Ginnie pools.
- Ginnie Mae MBS investor gets full-faith-and-credit MBS.





# Proposed new system



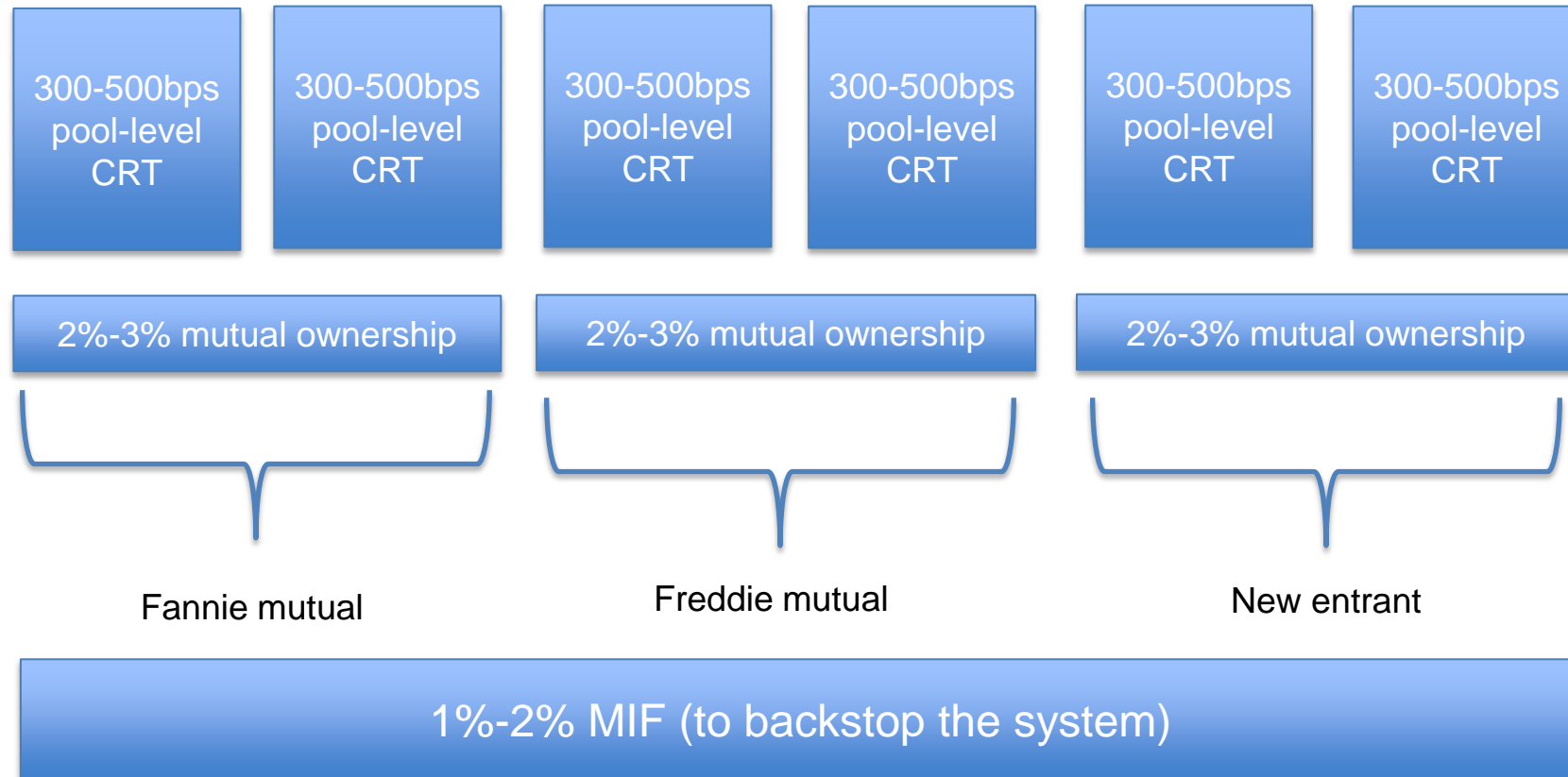
## Key features of this system

- Ginnie still has exposure to the issuer.
- Credit enhancement could be provided by FHA, VA, USDA, Fannie, or Freddie mutuals, FHLBs, new entrants (such as a new mutual). FHFA has regulatory oversight of all nongovernment participants.
- Ginnie Mae MBS investor still gets full-faith-and-credit MBS.



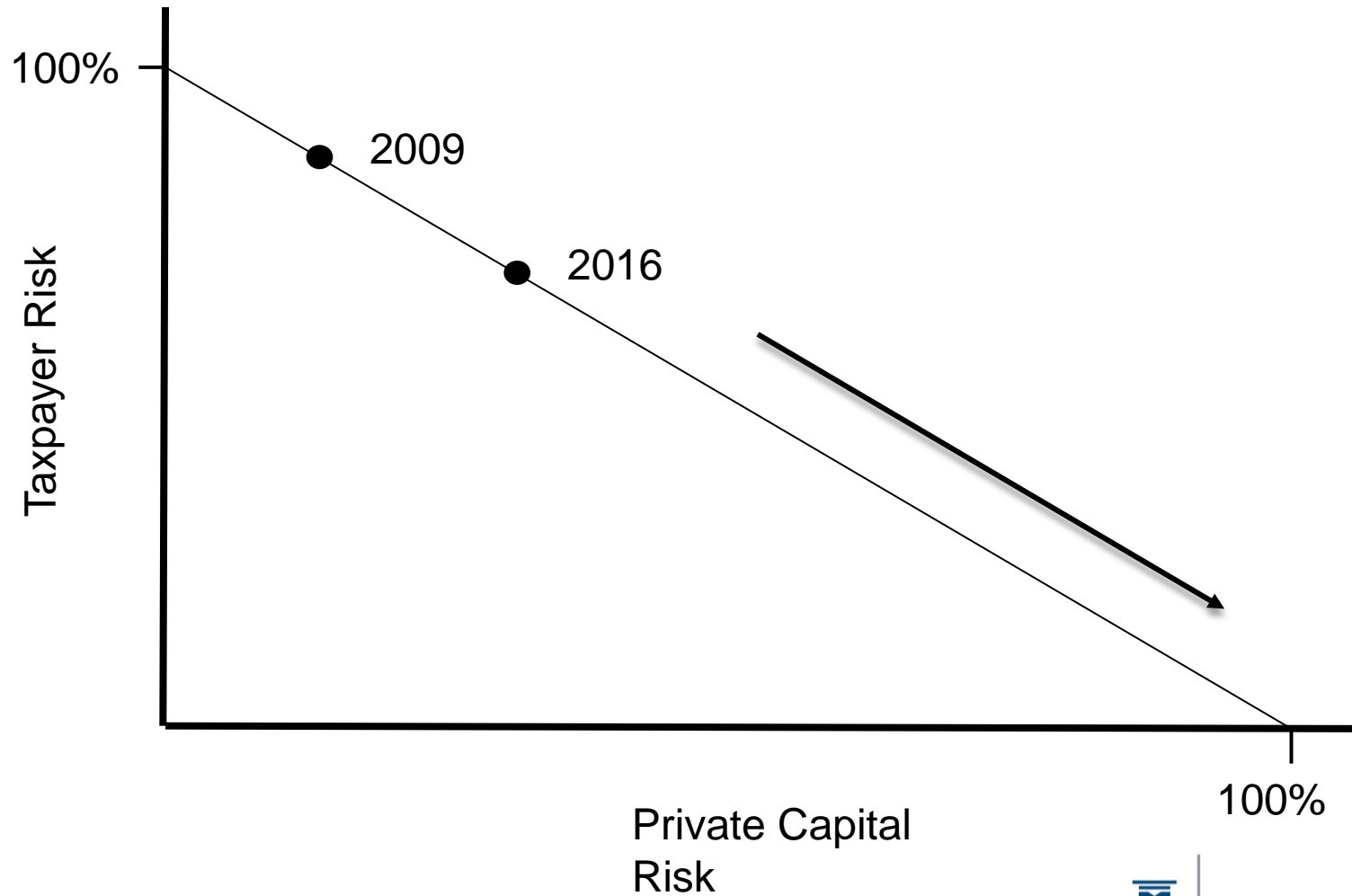


# Sources of capital





# Gradually Reducing the Taxpayer's Share of Mortgage Credit Risk





## For More Information

Detailed Papers on these topics may be found at:

<http://www.milkeninstitute.org/centers/markets/housing>

Specific Papers:

- *Why Housing Reform Still Matters* (MB, ED June 2016)
- *Toward a New Secondary Mortgage Market* (MB, ED Sept. 2016)
- *(Re-)Creating a Market for Mortgage Credit Risk* (ED Oct 2015)
- *Home Ownership, Wealth Creation, and Financial Stability* (ED Oct 2016)

