



December 3, 2012

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
Office of Strategic Initiatives
400 Seventh Street SW, Eighth Floor
Washington, D.C. 20024

Dear Mr. DeMarco:

Wells Fargo & Company (Wells Fargo) is pleased to take this opportunity to respond to the Federal Housing Finance Agency's (FHFA) recent white paper outlining its initial plans to create a common securitization platform for the Government Sponsored Enterprises (GSEs) and to develop a model pooling and servicing agreement (PSA).¹ FHFA's approach to this important initiative will effectively determine the terms of competition in the mortgage market for many years to come.

We applaud the agency's efforts to update the GSEs' aging infrastructures in a way that minimizes costs to the federal taxpayer, improves the efficiency of the secondary market, and ultimately paves the way towards more fundamental reform. However, we have a number of questions and concerns regarding the scope and underlying policy objectives of FHFA's proposal, particularly as it relates to its application to private label securities (PLS) and the governance, ownership, and funding of the platform.

While FHFA has attempted to clarify its position through a series of one-on-one meetings with industry groups, continued uncertainty regarding these and other issues has made the initiative difficult to assess and has led to markedly different reactions to the white paper. Given these uncertainties, we believe that FHFA should issue a clarifying statement that provides additional details on the precise nature and scope of the work. While this may delay the process somewhat, too many questions remain unanswered at this point in time for the industry to provide an informed response.

¹ "Building a New Infrastructure for the Secondary Mortgage Market", released by FHFA for industry comment, October 4, 2012

Based on our current understanding of FHFA’s plans, however, we have developed some preliminary recommendations on how FHFA might structure the initial work, the specific functions that should be included in the platform, and how the platform and accompanying legal structure would have to be modified to accommodate a variety of risk-sharing arrangements. These recommendations are presented below. While we have not attempted to address the full range of issues that are associated with this important initiative, we would welcome the opportunity to discuss our recommendations in more detail and to work with FHFA in the upcoming months as it refines its approach and begins the process of implementation.

1.0 Guiding Principles

FHFA’s proposal to develop a common securitization platform for the GSEs and a model PSA is a complex undertaking that could take many years to implement and could potentially affect virtually every segment of the mortgage market. In order to maximize the probability of its success, we believe that FHFA should adhere to the following principles:

- *Focus on functions and rules where standardization provides the greatest value-added and serves to foster, not impede, market competition.* This principle applies not only to the functions that should be included in the securitization platform. It also applies to the specific components of the PSA that should be standardized.
- *Ensure that the platform is “policy neutral” and will continue to have value in a post-conservatorship world.* Design the system in such a way that it can be used by potential new market entrants or by the GSEs in the event that they lose their ability to provide a government guarantee.
- *Initially limit the platform’s scope to what can reasonably be accomplished within a relatively short period of time (1 to 2 years).* Focus on functions that are core to streamlining and improving existing processes, leaving further model enhancements for a later stage. Even a brilliantly conceived plan can be doomed to fail if there are no tangible near-term results.
- *Ensure that the design of the system is focused not only on improving GSE operations, but also on the efficiency with which lenders can interface with the GSEs.* Not only data, but data processes, should be standardized by designing a platform that is accessible to both lenders and the GSEs.
- *Do not reinvent the wheel.* Wherever possible, leverage the activities of other regulatory agencies and industry initiatives to find solutions that work for the market as a whole.

The initial recommendations presented in the following pages were developed with these principles in mind.

2.0 Proposed Analytic Framework

There are at least three basic questions that FHFA needs to address as it begins to develop a detailed scope for the securitization platform:

- First, given the substantial costs of the initiative, how can FHFA ensure that the platform continues to have value post-reform?
- Second, what lessons can be learned from past efforts to harmonize certain operational requirements of the GSEs?
- Third—and most important--what specific functions and rules lend themselves to additional standardization and what functions and rules are better left to market forces?

Planning for the Future

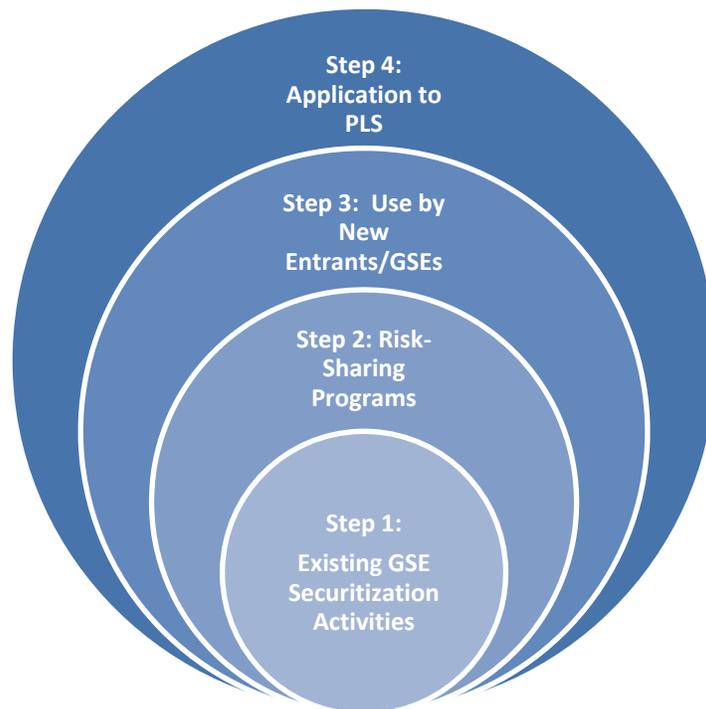
The design of the legal framework—as well as the specific elements that must be included in the platform—will ultimately depend on the types of transactions that the platform is designed to accommodate. While FHFA has clarified its intention to build a platform specifically designed for the GSEs, it has also indicated that the platform should accommodate a variety of risk-sharing arrangements and have value to the market regardless of the eventual outcome of GSE reform.

To achieve these objectives, FHFA must take steps to ensure that the design of the platform does not in any way preclude extending its application to new types of transactions and to a post-conservatorship world. This will require a forward-looking approach based on an architecture that is flexible enough to serve a variety of potential users and to incorporate the kind of changes that would be required to attract private investors in credit risk. While the latter will vary with the specific nature of the transaction (e.g., structured transactions, synthetic risk transfers), it will most likely require a platform with the flexibility to provide additional loan- and bond-level disclosures, a transparent legal framework for the enforcement of representations and warranties, and an ability to address actual or apparent conflicts of interests among transaction parties such as trustees and master servicers.²

² Additionally, the regulatory framework for securitization transactions is in a period of substantial development and enhancement. Although the initial implementation of the platform may not need to provide for all of these functions, it should include the flexibility to implement these types of changes in the future so that successful risk transfer transactions can be executed.

One possible way to think about the design of the platform would be to adopt an incremental approach that begins with an assessment of the changes that would be required to streamline and improve the current operations of the GSEs. As illustrated by the following graph, once the first stage of the analysis is complete, the next step would be to identify changes or enhancements to the platform that would be necessary to accommodate a variety of risk-sharing transactions (Step 2), multiple issuers and credit enhancers (Step 3), and ultimately, private label MBS (Step 4). Such considerations are necessary to ensure that the platform has lasting value regardless of what ultimately happens to the GSEs. While the FHFA may chose to implement the construction of the platform by beginning with the current operations of the GSEs, the platform must be designed in such a way that can readily accommodate potential changes to the current model.

Proposed Analytic Approach



Learning from the Past

In many ways, FHFA’s plan to build a common securitization platform is a logical extension of its other initiatives to harmonize the certain aspects of the GSEs’ operations, including the servicing alignment initiative, the development of standard appraisal processes, Uniform Loan Delivery Data (ULDD), and the Representation and Warranties framework. One way to begin the process of designing the initial scope of the platform would be to look at the lessons learned

from these initiatives and try to identify what has worked in the past and what has fallen short of expectations.

Based on our experience, we believe that FHFA has generally been very effective at developing standards for the GSEs, but has sometimes fallen short in assuring that these standards are implemented in a consistent way that fully takes into account the resulting impact on loan originators, sellers and servicers. For example, while FHFA has developed a common set of data elements through its ULDD initiative, the two GSEs have defined these elements in different ways and employ different editing procedures. As a result, the efficiencies that might have otherwise resulted from the establishment of a common set of data requirements have not been fully realized.

Similarly, FHFA introduced the servicing alignment initiative at the end of 2011 to standardize default servicing processes of the GSEs, and recently rolled out a second phase. While many important components of the process have been standardized, the GSEs continue to differ in many respects, including utilization of different reporting codes for each GSE, different data inputs (e.g., only one GSE requires pool-level data), and different timeframes for remitting advances. This lack of standardization increases the administrative burden borne by primary servicers and makes the process less efficient.

Finally, the recently-introduced appraisal process is standard between the GSEs, but fails to consider the information needs of sellers. When loans are originated by correspondents, appraisal data by-passes the aggregator and goes directly to the third party vendor, who then delivers it to the GSE. As a result, GSEs have far more information on correspondent loans than do the aggregators of these loans. In this case, the process re-design appears to have overlooked the aggregators' needs.

These examples illustrate how standardization initiatives, while adding value to both the GSEs and lenders, have sometimes fallen short of achieving their potential benefits. A common platform provides the opportunity for “true” standardization i.e., one set of rules, not subject to differing implementation anomalies. We also believe that ongoing dialogue with stakeholders will ensure not only process efficiencies for the GSEs, but value to all market participants.

As we understand it, FHFA currently intends to build the initial platform for the exclusive use of the GSEs—i.e., as a back-office function that would not replace the “front-end” systems and processes associated with purchasing and securitizing loans. Since the platform would not contain a direct lender interface—although this capability could presumably be added at a later date—lenders' interactions with the GSEs would essentially remain unchanged, perpetuating unnecessary operational disparities that currently exist between the two enterprises.

While we are sympathetic with FHFA’s concerns over the difficulties of replacing the interfaces that now exist between lenders and the GSEs, we urge it to reconsider this approach. As past experience has shown, aligning standards without standardizing the processes used to implement those standards will represent only a partial solution to problems associated with the GSEs’ aging infrastructures and do little to address the inefficiencies of the current system—even though certain back-office functions of the GSEs would be combined.

Establishing Criteria for Standardization

Perhaps the most fundamental issue that must be addressed by FHFA relates to the functions that should be standardized—and those that should be left to market forces. FHFA’s decisions on such matters will effectively set the terms of competition in the mortgage market for many years to come.

In general, standardization can serve two related, but different purposes. First, standards can be used to establish a minimum quality level, or “floor”, for a particular service or product. One example of this type of standardization would be designating loans with certain characteristics as a “qualified mortgage”. In addition, standards can be used to create a common set of specifications designed to promote operational efficiencies and “inter-operability”. One example of this type of standardization would be developing a uniform loan application form. While the construction of a common securitization platform is largely driven by the second objective (i.e., establishing “commonality”), quality issues will also play a role, particularly with respect to functions such as master servicing.

Although sometimes overlooked, one of the GSEs’ greatest contributions to the secondary mortgage market has been the standardization they have brought to certain aspects of the current system, including:

- Basic underwriting guidelines and loan documentation requirements;
- The legal structure governing the sale and securitization of mortgages; and
- Certain aspects of mortgage servicing.

If properly designed, FHFA’s efforts to further harmonize the GSEs’ servicing standards, reporting and disclosure requirements, and certain back-office functions represent a logical extension of these earlier initiatives and could ultimately lead to a more efficient and competitive mortgage market.

However, standardization is inherently a double-edged sword. For certain functions, it can serve to reduce unnecessary costs, streamline and improve existing operations, and generally lead to a more efficient, liquid mortgage market. For other functions, standardization can stifle innovation

and reduce otherwise healthy competition among entities wishing to offer an alternative to the status quo. This tension is hardly unique, as witnessed by the long-standing debate over the extent to which public utilities such as power companies should be open to competition.

In designing the securitization platform—and in identifying the functions and processes that should be standardized—it is critical that the FHFA limit its scope to areas in which common standards have a clear, demonstrable value to market participants and avoid areas where standardization might serve to stifle competition. This suggests that the platform be restricted to functions that:

- Reduce costs to the various parties involved in the transaction by making the process more efficient;
- Increase the ability for lenders to choose among the GSEs by reducing “switching” costs (i.e., increased “inter-operability”); and/or
- Reduce unnecessary barriers to entry for lenders, credit enhancers, and/or potential replacements for the GSEs by providing open access to the platform.

At the same time, FHFA should avoid standardization in areas that serve as a potential basis for competition unless the benefits of such standardization clearly outweigh the costs. While this is an inherently delicate balancing act, we urge the FHFA to be conservative in its approach and focus only on those functions with clearly perceived market benefits.

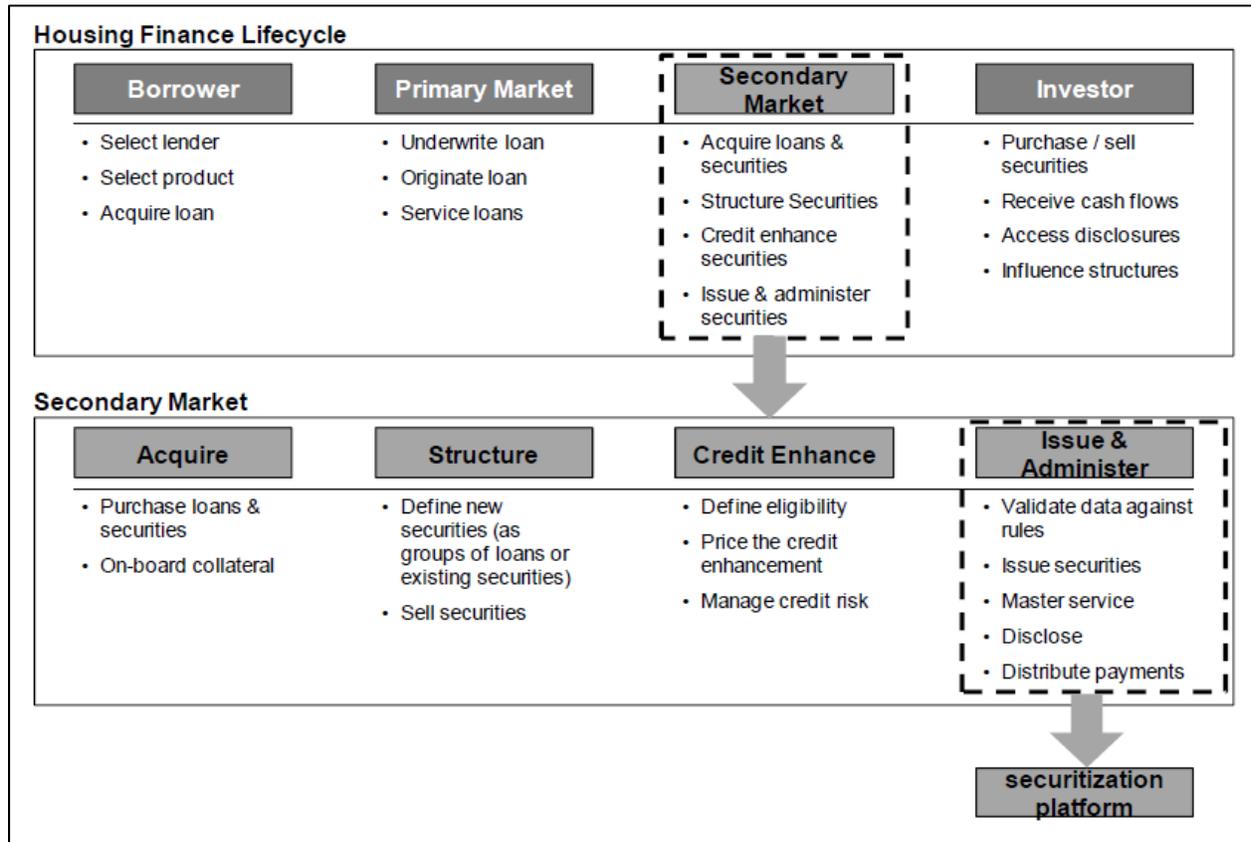
3.0 Preliminary Recommendations

As shown below, the FHFA has identified five functions to be included in the initial platform:

- Data validation;
- Collateral management (specifically, centralized note tracking);
- Bond administration;
- Master servicing; and
- Security Issuance.

In general, we believe that standardization of these functions is appropriate and will ultimately lead to a more efficient and cost-effective market.

Proposed Scope of Securitization Platform



Source: FHFA, Op. Cit., p.16

However, based on our experience as a large originator and active participant in the secondary market, we believe the scope of the platform should be broadened to include the “Acquire” function (i.e., the purchase of loans and the on-boarding of collateral) and that data validation should occur at this stage.³ Numerous differences in GSE requirements currently require lenders to maintain different delivery systems, which can be problematic for small originators. Creating a uniform delivery system will encourage competition and facilitate delivery to multiple issuers by lenders of all sizes. At the same time, moving standardized data editing and validation procedures to the acquisition stage will provide greater certainty that loans comply with the terms of the contract, thereby reducing repurchase risk.

In addition, we have several other recommendations regarding the platform’s overall design:

- *Ensure that Independent Trustees and Master Servicers Can Link Into the Platform.*
Extending the platform to accommodate a variety of risk-sharing arrangements or private

³This would not prevent originators from performing data edits earlier in the process, i.e., before the loans were actually delivered.

label MBS will ultimately require that the roles of the trustee and master servicer be separated from that of the issuer. While the GSEs currently perform all three functions, this would pose a conflict of interest if outside credit investors were involved.

- *Incorporate Expanded Loan-level Disclosures.* The platform should also have the capability of moving to expanded loan-level disclosures, for example, those that are likely to be required under Reg AB II. Building-in these capabilities will give credit investors the information required to evaluate and price the underlying loans.
- *Develop common implementation requirements in addition to common standards.* Common standards can be interpreted and implemented in different ways that can change over time. One of the greatest potential benefits of the platform would be its ability to standardize and automate the processes that are used to determine compliance with established standards.
- *Allow lenders and MIs direct access to the platform.* While this will complicate the task, it will ultimately lead to a more efficient, cost-effective securitization process.
- *Develop a master servicing function that covers the entire life of the loan.* Developing this capability will be necessary to support private risk-sharing arrangements and PLS. It will also provide flexibility for the GSEs in a changing economic environment, for example, when rising interest rates make it advantageous to finance delinquent loans by keeping them in the pool.

The remainder of this section presents more detailed recommendations for each of the five functions identified by FHFA, as well as for loan acquisition. While these recommendations are not intended to be all-inclusive, they illustrate the kinds of changes that could be made to improve the operations of the GSEs and help to pave the way for eventual reform.

3.1 Loan Acquisition

Loan acquisition includes the delivery of loans and pool information to the GSEs and data edits (discussed below) to ensure loan eligibility. It is our understanding that lenders will not interface with the common platform, but will continue to deliver loans and pools to the GSEs where initial data validation will occur. We strongly believe that such an approach would undermine the potential benefits of the platform to lenders, and that the “acquire” function (i.e., the delivery of loans and pools) should be within the scope of the platform.

There are numerous opportunities to standardize the processes that are involved in the pooling and delivery of loans to the GSEs. Today, requirements for the two GSEs differ in ways that

require the use of different delivery systems, which can pose a significant obstacle to smaller originators wishing to deliver loans to both GSEs. Standardizing these processes would reduce unnecessary redundancies, increase access for small originators, and ultimately pave the way for use of the platform by other guarantors or private label issuers. Examples of current differences include:

- Identification protocols (i.e., pool number vs. contract number)
- Coding of Terms of Business
- Requirements for changing loan data after a pool has been submitted
- Requirements for dropping or adding loans
- Procedures for collapsing (cancelling) pools
- Requirements for cash pools
- Processes for single loan waivers
- Edit reporting
- Processes for retrieving buy-up and buy-down grids
- Processes for reconciling buy-up and buy-down proceeds
- Requirements for Pool Books (pool documentation)
- Retention requirements for Pool Books

In addition, the GSEs currently have inconsistent customized reporting capabilities, which make it difficult to retrieve pool identification fields, editing data, and issue-date pooling information.

The list of differences is extensive. For lenders, these differences mean that there are distinct processes and systems required to deliver loans to the GSEs. Staff must be trained for each GSE's unique loan delivery process—a process which can easily be standardized in a common platform with common data requirements, documentation and retention policies. A single tool with a consistent, clear and easily understood edit structure would allow for customized reporting and fewer manual processes. Indeed, a single pooling and delivery process can dramatically streamline processes and reduce the costs for lenders, while building an infrastructure that would have value to other participants in the future.

3.2 Data Validation

Clear data structures, definitions and edits are one of the most significant ways that the GSEs could add value through standardization. Not only will lenders benefit from the operational effectiveness of a single set of data protocols, but investors will benefit from the transparency and certainty that consistent disclosures will provide regarding the characteristics of the underlying loans. Equally important, a comprehensive and uniformly-enforced set of data protocols will help to ensure that loans conform to the contract terms *at the time they are delivered for securitization*. Establishing quality control checks at the beginning of the process

will reduce the need for after-the-fact quality controls and significantly reduce the lender's put-back risk.

As noted earlier, ULDD has made progress in defining a standard set of data for GSEs. However, significant differences remain in the data elements required by the two GSEs, as well as in the manner in which these data elements are validated (i.e., editing procedures). Data protocol and processes are not a basis of competition for the GSEs, but they do have a profound impact on lender costs and inter-operability.

As a result, in developing the common platform, we believe that FHFA should consider the following:

- *As many elements of the contract as possible must be computable.* An issuer must be able to verify compliance with the objective elements of the contract by the application of rules. A requirement that the appraisal not be more than 120 days old at the time of funding, for example, can be easily validated at loan delivery. Moreover, data should be edited just once rather than implementing duplicative and redundant processes.
- *Uniform data should be combined with clear, unambiguous definitions and industry standard reporting protocols.* The expanded data set of the UMDP must be accompanied by a data glossary that clarifies terms and standards that have previously been subject to interpretation and discretion. Clear business rules for these data will further increase transparency and alignment between buyer and seller.
- *Data edits should be expanded and employed in such a way that subsequent repurchase risk is minimized.* A common set of edits and reasonableness checks at the time of delivery will provide greater certainty that a loan meets underwriting standards and help to address one of the thorniest issues facing the industry today.
- *Common data, indexing standards and business rules should be established for the MIs.* If MIs were required to connect to the platform, tri-party data reconciliation and confirmation could occur, thereby simplifying operations for all involved.

We believe that standardization of data and the related editing and validation processes will provide significant benefits to the GSEs, lenders and investors. Consistency and standardization in the collection of uniform data will be of great value to the industry. We also point out that, in the context of risk transfer transactions, it may become necessary, either as an investor requirement or due to regulatory or due diligence requirements, that additional data be collected and disclosed. As such, this function should be flexible enough such that additional or variations of these inputs can be collected and disseminated in the future.

3.3 Collateral Certification and Tracking

As we understand it, FHFA is not considering incorporating the actual storage of the mortgage notes into the securitization platform. We agree with this approach, since the use of third-party custodians is a well-established practice that appropriately leverages the resources of the private sector. Instead, the FHFA appears to be focusing on ways to improve the ability of the GSEs to certify and track the collateral that underlies their securities.

The GSEs currently differ with respect to their requirements regarding both initial collateral certification and ongoing tracking. In general, we believe that the current system can be improved by standardizing these requirements and incorporating them into the common platform. For example:

- *The initial loan certification process should be streamlined by eliminating any unique specifications between the GSEs, including document and data certification requirements, GSE-specific document forms (Promissory Notes Certification Forms, Lost Note Affidavits (LNAs), and Modification Agreements). This would include eliminating cases where the same document has different requirements (e.g., the fields that must be certified) or where the same field has different codes or tolerance levels (e.g., allowable variances).*
- *The FHFA should also develop a standard approach for tracking and reporting collateral releases, loans modifications, and LNAs. Such standardization would enable the agencies to track the underlying collateral without manual reconciliations and give them greater control over the underlying collateral that is being stored by third party custodians.*
- *The FHFA should consider developing a custodial interface tool that gives third-party custodians the ability to export certification data for the purposes of processing and certifying pools in a standardized fashion, and eliminating the GSE's current stand-alone applications. The interface should also allow the export of servicing data in order to automate and streamline the processing of releases.*

All of these changes would reduce the costs of dealing with multiple systems and improve the ability of the GSEs to monitor the status of the underlying loans that serve as collateral to their securities. In addition, such changes would add value in a post-conservatorship world by facilitating originators' ability to deal with multiple issuers.

3.4 Bond Administration

Bond Administration includes the calculation of investor payments (including the priority of payment calculations), ongoing disclosure, and protecting the interests of investors through the administration of the trust, the latter being an essential function of the trustee in private label issuances.

With respect to ongoing disclosure, to provide transparency to investors, the bond administration function must have the capability to provide market participants with custom reporting. Enhanced web-based reporting capabilities could support regular and ad-hoc reporting, as well as provide the ability to perform portfolio analytics. This capability will also provide the basis for increased investor reporting in the context of risk sharing transactions and the flexibility to comply with increased regulatory reporting requirements going forward. Ongoing disclosure processes should also be standardized. For example, one GSE releases all ARM data at one time, while the other has two separated data releases for ARMs; one GSE provides channel information (retail, broker, TPO), while the other does not.

Although GSEs have historically held the role of trustee on GSE issued securities, given the investor protection mandate of the trustee in the private label context, private first-loss investors will likely object to the GSEs performing this role in risk sharing transactions, as it may be viewed as a conflict of interest. As an example, private investors will likely object to the GSEs verifying loss allocations and calculations when they bear only the credit risk on the senior class of a structured transaction. Additionally, private investors in risk sharing transactions will likely require an objective and transparent approach to the enforcement of representation and warranty breaches where the GSEs are less-incentivized to pursue such remedies. Hence, the platform should allow for the ability to utilize independent trustees and enforcement parties in the context of risk sharing transactions.

3.5 Master Servicing

The master servicer plays a critical function in ensuring the quality of data on a monthly basis, verifying that principal and interest remittances are correct, approving modifications, and providing standard and customized reporting on loan performance. The master servicer also monitors the performance of the primary servicer for compliance, and directs the transfer of primary servicing, if appropriate.

There are a number of opportunities to standardize and improve master servicing processes for the GSEs:

- *Master servicing should track activity over the life of the loan.* Currently, data is not available on loans after they are pulled from the pool (120 days) since the investor is paid off at par pursuant to the terms of the GSE guarantee. Credit investors, however, will require loan-level data (including any realized losses) throughout the life of the loan. The construct of master servicing capabilities must consider activities beginning with the boarding of the loan into the servicing system and extending through payoff or sale of a property after foreclosure or deed in lieu of foreclosure. Such an approach would also preclude the need to re-enter loan data at various points in the life of the loan.
- *All reporting should be at the loan (vs. pool) level, with standard codes utilized by each GSE.* Currently, Fannie Mae reporting is both loan- and pool-level while Freddie Mac reporting is loan-level only. Calculated amortization levels can differ for loan- vs. pool-level aggregations, requiring reconciliation by the servicer.
- *Processes and timelines should be standardized.* Consistent processes for loan modifications and for funding of payoff and curtailment interest shortfalls should be developed, as well as consistent timeframes for terminating advancing obligations and for data corrections.
- *Standard MI processes would streamline servicer operations and lower cost.* Servicers file claims directly with Freddie Mac, but in most cases, file directly with the MI for Fannie Mae insured loans. Additionally, different tools and processes exist today to track repurchase, MI rescission and MI denial. Servicers are also asked to help resolve MI-related issues to post-asset sale structures (e.g., investor placed MI, investor placed deep MI, and BPMI cancellations). The platform could standardize processing for rescission and denials and could provide for automatic notification of when post-asset sale transactions occur between GSEs and MIs.

While the GSEs have effectively played the role of master servicer for their portfolios, master servicing is another supervisory function that may need to be carried out by others as GSEs undertake risk sharing transactions. Again, this is an area where the interests of private first-loss investors and the GSEs may conflict. For example, in a senior and subordinate transaction, the decision to forgive principal preserves cash flows to the senior class but will also result in a certain loss for subordinate bond holders. Like the trustee function, the common platform must have the ability to interface with independent master servicers.

3.6 Security Issuances

The security issuance function “settles” the transaction: registering the security with the appropriate agent (Fed or DTC), transferring the security to the initial owner and remitting the cash proceeds to the issuer. It interfaces with the master servicer to initiate servicing, and prepares initial disclosure via its agents and service providers.

Not only will the security issuance capability facilitate the transition to a single security, it also has the potential to reduce barriers to entry for new entrants. As FHFA contemplates the requirements of a platform that would have value post-conservatorship, this capability is at the core of providing such value.

With respect to current processes, initial disclosures should be standardized. ARM data, for example, is provided to Bloomberg earlier for one GSE than the other. Since many investors wait to “see” the pool on Bloomberg before investing, it is more difficult for dealers provide liquidity for this product when such delays exists. Similarly, the timing of when pools are posted to Bloomberg differs between GSEs.

More significant issues relate to the issuance of securities in which the GSEs do not hold the primary credit risk. For certain types of risk sharing transactions, the process must be able to facilitate compliance with applicable disclosure regimes, as well as allow bondholders or their designees the ability to perform loan-level due diligence. This implies a significant increase in disclosure, and will potentially require that first loss investors (or their designees) have access to a sample of loan files held by the custodian. The American Securitization Forum, as part of its Project RESTART effort, has published certain loan-level and bond-level reporting standards. The SEC, in its proposed amendments to Regulation AB, has proposed a set of loan level disclosure requirements similar to that of Project RESTART. We believe that private investors will demand such information as part of their investment analysis.

Depending upon the structure utilized, risk sharing transactions may have substantial effects on the TBA market. It is critical that, as the GSEs enter into risk sharing transactions, the depth and liquidity of this market be maintained. While we have not discussed particular risk sharing structures in depth in this letter, we look forward to discussing those options as part of our ongoing dialogue with FHFA and the GSEs.

4.0 Conclusions

FHFA has embarked on an extremely complex and challenging undertaking that will require the active participation of virtually every segment of the mortgage industry, including lenders, mortgage insurers, investors and the GSEs. While we appreciate the opportunity to provide our initial reactions to the white paper, we are still in the process of assessing the proposal and the various options that might be available to FHFA. As a result, our comments are not intended to be exhaustive but, rather, are simply designed to illustrate the types of changes that could be effected in order to create an efficient and effective industry utility.

We recognize that the platform must be built to accommodate a wide range of stakeholders—including small originators wishing to deal directly with the GSEs. We believe that our recommendations will improve the existing process for all involved and lead to a more efficient and competitive secondary market.

We would welcome the opportunity to have an on-going dialogue with FHFA and the GSEs as they proceed with the development of the platform. In the meantime, if you have any questions regarding the issues that we have raised, please feel free to contact me directly.

Sincerely,

John P. Gibbons
Executive Vice President
Wells Fargo Home Mortgage