

December 1, 2012

Sent via e-mail: SecuritizationInfrastructure@fhfa.gov

Federal Housing Finance Agency
Office of Strategic Initiatives
400 7th Street S.W.
Washington, DC 20024

Building a new infrastructure for the secondary mortgage market

Dear Sirs:

TYI, LLC appreciates the opportunity to submit this letter in response to your request for comments on building a new infrastructure to support the secondary mortgage market.

Conclusion

The infrastructure you are proposing is the critical piece to support the housing finance system going forward regardless of the type of structure of the mortgage-backed deal. Your platform should be able to support everything from covered bonds through securitizations.

Since it is the critical piece, this puts an extra burden on the infrastructure that it addresses all of the flaws that exist with the current information infrastructure.

Comments

1. The proposed securitization platform has four core functions (issuance, disclosure, bond administration and master servicing). Will these core functions provide an efficient and effective foundation for the housing finance system going forward?

Yes.

I would like to focus on disclosure as if this is not done correctly the securitization platform is worthless.

There are two elements to disclosure: what is disclosed and when it is disclosed. I would like to focus on “when” it is disclosed.

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Everyone knows that mortgage-backed securities involve taking specific mortgages and setting them aside for the benefit of the investors. The physical equivalent of this would be to put them into a bag.

Once the mortgages are in the bag, it is important to know what is in the bag currently.

Why?

If an investor does not know what is in the bag currently, they cannot take the first step in the investment cycle.

The first step is to independently assess the risk and value the underlying mortgages so the investor can know what they are buying and, after buying, know what they own.

The second step is to compare this independent assessment to the prices shown by Wall Street.

The third and final step is to make a buy, hold or sell decision based on the difference between the investor's independent valuation of the security and the price shown by Wall Street.

Please note that without the ability to perform their own independent assessment or hire an expert third party who can do the assessment for them, investors cannot go through the investment cycle as they cannot complete the first step.

Buying securities in the absence of an independent assessment is not investing.

Buying securities that cannot be independently assessed is the equivalent of blindly betting on the contents of a brown paper bag.

Investors did this leading up to the financial crisis in 2007 and lost trillions of dollars. They are not going to do this again.

What is required so that investors can know what is in the bag currently?

Observable event based reporting.

Under observable event based reporting, all activities like payments or delinquencies involving the underlying collateral are reported before the beginning of the next business day.

Fortunately, mortgage servicer information systems happen to track mortgages

on an observable event basis so it is easy to get the data for the securitization platform on this basis.

2. Are there additional functionalities that should be considered as core functions of the platform? For example, should the platform independently verify or determine the following or rely on an issuer or guarantor:

- A. underwriting and loan eligibility rules?*
- B. pooling rules?*

Yes. For example, the platform should make available both underwriting and loan eligibility rules as well as pooling rules. Market participants can then use these rules and the mortgage data to see if the deal is in compliance.

3. Will the framework for a model PSA described in this paper provide the foundation for a standardized contractual framework for the housing finance system going forward?

Yes. There needs to be substantial additional work on the model PSA to be sure that the investor protections written into the model PSA are credible.

4. Are there additional elements/attributes that should be included in a model PSA? For example,

- A. should the model PSA define when a non-performing loan is required to be purchased out of the trust?*
- B. should the model PSA define when a non-performing loan is required to be transferred to a specialty servicer?*

Yes to both A and B.

Market participants can use the data on the mortgages to confirm that the terms of the PSA are being adhered to.

5. If the framework for a model PSA is a good contractual foundation, how should compliance with the PSA be monitored in the future?

Compliance with the PSA is the responsibility of all market participants, particularly the investors in a specific deal. Ideally, the securitization platform will make this easy to do using the mortgage performance data.

Finally, a number of years ago, my firm designed and patented an information system that bears striking similarities to the proposed securitization platform.

Based on my firm's expertise, setting up and operating the data warehouse and information infrastructure to support the financing of mortgages in the secondary market can be easily done in a manner that will support the government guaranteed market and restart the market for private label mortgage-backed securities ranging from covered bonds to securitizations.

I look forward to talking with you about how this can be accomplished and helping you to implement a securitization platform that is the foundation of the secondary mortgage market for years to come.

Sincerely,

A handwritten signature in cursive script that reads "Richard G. Field".

Richard G. Field
Managing Director