

By Tom Deutsch and Katherine Seid

A Path to Recovery for Residential Mortgage Bonds

The effects of the credit crisis on the U.S. residential mortgage market require action on a number of fronts. Helping borrowers avoid foreclosure is clearly one of these, and the American Securitization Forum (ASF) has been fully involved in government and industry-wide initiatives to prevent avoidable foreclosures. But there is also the longer-term matter to be addressed: ensuring that a robust mortgage finance market is in place which incorporates the lessons of the past 18 months.

With that in mind, on July 16 last year the ASF announced the launch of its Project on Residential Securitization Transparency and Reporting, dubbed Project RESTART. The project seeks to identify areas of improvement in the process of securitization and refashion, in a comprehensive and integrated format, the critical aspects of securitization with market-based solutions and expectations. Although its initial focus has been on the private-label RMBS market, ASF expects to pursue similar efforts in other major asset classes. The goal: over time, implementing recommendations identified by Project RESTART to persuade institutional investors to commit capital to the securitization markets again. Ultimately that should increase the supply and lower the cost of mortgage and consumer credit in the U.S.

Conceived during the fall of 2007, the project came together when market participants began meeting in earnest under the auspices of ASF to explore market challenges and identify areas needing improvement, and started developing specific market-based consensus solutions. In particular, there had already been unprecedented industry attention on transparency and disclosure in mortgage-backed transactions and the processes, controls and procedures associated with them.

Then at ASF's annual winter industry conference in February last year, a broad group of ASF members developed the core concepts and objectives of today's Project RESTART.

A month later the ASF board approved the creation of Project RESTART and its mission statement to integrate and build upon the initial foundation which various working groups had developed. In its March 2008 Policy Statement on Financial Market Developments, the President's Working Group (PWG) on the Financial Markets, led by Treasury Secretary Henry Paulson, recommended that the ASF develop templates for disclosure in securitization that support efforts to improve market discipline. The project's objectives were accelerated by and are directly responsive to the PWG's request. In a speech to investors on June 24 last year, Acting Under Secretary for Domestic Finance Anthony W. Ryan announced that the PWG had engaged the ASF as a private sector committee to develop best practices regarding disclosure to investors in securitized credits.

In its July launch, the ASF mapped out the direction for each project phase and issued a request for comment on one of the initial deliverables of phase I of the project, a proposed disclosure package for use at the initiation of RMBS transactions (the ASF RMBS Disclosure Package), which consists of 135 data fields of pool and loan-level information.

The purpose of the disclosure package is threefold: to provide more data than currently available to institutional investors, ratings agencies and other eligible RMBS market participants about the underlying mortgage loans; to standardize the presentation of deal and loan-level data to allow investors to easily compare loans and transactions across all issuers; and to allow investors to perform necessary deal and loan-level analysis to evaluate RMBS transactions on the basis of the credit quality of the underlying mortgage loans.

Project RESTART has also been engaged in other initiatives affecting the general securitization process, including develop-

ing an RMBS Reporting Package — a dynamic set of data elements which will be updated monthly by servicers throughout the life of an RMBS transaction and made available to investors and ratings agencies through investor reporting websites run by trustees, servicers and other third-party information providers.

The RMBS Reporting Package will allow investors and ratings agencies to compare updated data files across issuers and to track the performance of a mortgage loan throughout its life in the secondary market, regardless of who the owner or servicer is at any point in time. Additionally, Project RESTART has been working on the development of model representations and warranties, repurchase procedures, standards for pre-securitization due diligence and model servicer provisions.

Mindful of the goals of increased standardization and transparency, Project RESTART includes several market standards proposals specifying how certain data elements are obtained, calculated and presented. These proposed market practices include standardizing back-end debt-to-income ratio calculations, FICO score methodology, servicer and issuer/originator names, the definition for “full documentation,” and the utilization of the Mortgage Bankers Association method of delinquency reporting.

Support at the highest level

One of the market standards recommendations included is that every loan should be assigned a unique identification number. This would help identify and track the loan throughout the secondary market, regardless of who holds legal title to or services the loan at any particular point in time. For the past several months, members of Project RESTART have been working to develop this industry standard and to recommend a centralized vendor to provide the loan identifier.

Project RESTART leaders have interviewed multiple vendors to provide the standard loan identifier and have evaluated the variety of unique capabilities and perspectives. Chief among what the project is looking for in deciding which company to choose is the ability of a vendor to protect borrowers’ privacy, the associated costs of obtaining the loan identifier, potential synergies offered by the vendor, as well as the vendor’s existing infrastructure that may facilitate the implementation of a loan identifier system internally for issuers and originators.

Project RESTART will recommend methods for the loan identifier to efficiently meet the needs of the project’s disclosure and reporting packages, methods conducive to the overall data transparency goals of the project.

Project RESTART is led by the industry but the Bush Administration and federal and state regulators, as well as international regulatory bodies, have been involved in its development. That has helped to coalesce market participation in this critical effort. Securities and Exchange Commission Chair-

man Christopher Cox and Treasury Secretary Paulson have applauded the launch of Project RESTART and the associated request for comment on the initial phase of the project, and have commended the ASF for its efforts in addressing the market turmoil.

On October 10, the Financial Stability Forum (FSF) referenced the work of Project RESTART as a private sector initiative to “strengthen initial and ongoing disclosures and transparency relating to structured products” in a report

it presented to the G-7 Finance Ministers and central bank Governors — itself a follow-up report to its April *Report on Enhancing Market and Institutional Resilience*. Additionally, Federal Reserve Governor Randall S. Kroszner deliv-

ered a speech at the Federal Reserve System Conference on Housing and Mortgage Markets in December on improving the infrastructure for non-agency mortgage-backed securities, specifically mentioning the work of Project RESTART in his discussion on the need for additional disclosure information.

The achievements of Project RESTART culminated with the release in December of a report from the Global Joint Initiative to Restore Confidence in Securitization Markets, a joint working group led by ASF, the Australian Securitization Forum, the European Securitization Forum (ESF), and the Securities Industry and Financial Markets Association. The report proposed a number of recommendations to enhance industry practices aimed at restoring confidence in the securitization and structured credit markets, and discussed the efforts of Project RESTART to increase and enhance initial and continuing pool information for RMBS, strengthen and standardize core representations and warranties as well as repurchase procedures for RMBS, and develop industry-wide standard norms for RMBS servicing duties and evaluating servicer performance.

The ASF will establish a standing committee of the ASF board of directors to review the enhancements to RMBS initiated by Project RESTART for the purpose of updating data and the related market standards on an annual or biannual basis, as experience and market requirements evolve. The ASF has been coordinating Project RESTART with its trans-Atlantic counterpart, the ESF, which launched an initiative similar to Project RESTART with respect to European RMBS at the end of July last year. The ASF will be releasing several requests for comment on the various components of Project RESTART in the first few months of 2009.▼

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