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April 6, 2020

VIA ELECTRONIC SUBMISSION

The Honorable Jerome Powell
Chairman, Board of Governors
Federal Reserve System
Constitution Ave NW & 20th St NW
Washington, DC 20551

The Honorable Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

The Honorable Steven Mnuchin
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: Credit Risk Transfer Securities

Dear Chairman Powell, Secretary Mnuchin, and Director Calabria:

Nareit is the worldwide representative voice for real estate investment trusts (REITs)¹ and publicly-traded real estate companies with an interest in U.S. real estate and capital markets. Nareit's members are REITs and other real estate businesses throughout the world that own, operate and finance residential and commercial real estate. Mortgage REITs (mREITs), which invest in residential and commercial mortgages, as well as residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), help provide essential capital for the real estate market not provided by traditional bank holding companies.

On behalf of our REIT members, Nareit thanks you all for your leadership and significant contributions to ensure the safety of the American people and your hard work to protect the American economy during the COVID-19 crisis. Your efforts these last few weeks, in partnership with the US Congress, have helped millions of Americans during a time of unprecedented uncertainty.

¹ REITs are real estate working for you. Through the properties they own, finance and operate, REITs help provide the essential real estate we need to live, work and play. All U.S. REITs own approximately \$3 trillion in gross assets, public U.S. REITs account for \$2 trillion in gross assets, and stock-exchange listed REITs have an equity market capitalization of over \$1 trillion. In addition, more than 80 million Americans invest in REIT stocks through their 401(k) retirement and other investment funds. Additional information available at www.reit.com.

While we applaud the enactment of the CARES Act² and the Federal Reserve's measures to launch and expand liquidity facilities to support the smooth operations of financial markets,³ we respectfully urge you to take immediate action to improve the liquidity in the market for investment-grade credit risk transfer ("CRT") securities.

Specifically, we ask that you act swiftly to improve the liquidity in the CRT securities market. We suggest:

- Affirming that CRT securities are eligible corporate securities collateral for the Primary Dealers Credit Facility; or
- Establishing a new liquidity facility, similar to those currently operated by the Federal Reserve and the Federal Reserve Bank of New York (FRBNY), to support and stabilize the CRT securities market; and
- Beyond the immediate crisis, consideration should be given to make CRT securities eligible under the Term Asset-Backed Securities Loan Facility (TALF).

We believe that any of these immediate and longer-term actions would be consistent with the stated goals of the Federal Reserve's programs "to support the flow of credit to households and businesses."⁴ Emergency measures for the CRT securities market would also be consistent with other recent activities that have been undertaken to assure normal functioning of capital markets, which will in turn allow an early return of this program.

According to a 2018 *Staff Report* of the FRBNY, "CRT programs have been successful in reducing the exposure of the federal government to mortgage credit risk without disrupting the liquidity or stability of mortgage secondary markets. In the process, the CRT programs have created a new financial market for pricing and trading mortgage credit risk, which has grown in size and liquidity over time. The CRT programs provide an important building block to help facilitate reform of the U.S. housing finance system."⁵

The CRT program allows for the smooth and effective transfer of a substantial amount of the credit risk that the government-sponsored enterprises ("GSEs") assume in targeted loan acquisitions to private investors, thereby reducing the risk that the GSEs pose to taxpayers while in conservatorship. Moreover, as the Federal Housing Finance Agency ("FHFA") notes, the GSEs "continue to innovate and experiment

² Coronavirus Aid, Relief, and Economic Security Act (CARES Act), H.R. 748, Pub. L. No. 116-136.

³ Press Release, Federal Reserve Announces Extensive New Measures to Support the Economy, Board of Governors of the Federal Reserve System (Mar. 23, 2020), *available at* <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm>.

⁴ *Id.*

⁵ David Finkelstein, et al., *Credit Risk Transfer and De Facto GSE Reform*, Staff Report No. 838, Federal Reserve Bank of New York (Feb. 2018), *available at* https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr838.pdf.

with different structures and the scope of credit risk transfer as part of their efforts to reduce even more risk, where economically sensible.”⁶

We also understand the broad policy perspective to transfer credit risk in mortgage financing from the GSEs to the private sector. The CRT program has been successful in achieving this in a cost effective, market driven manner. If the CRT market continues to be impaired from a liquidity perspective, alternative risk transferring methods could be expected to be much more costly.

According to the FHFA, by mid-2019, there were \$100 billion of CRT securities outstanding in the market, which represents credit risk transfers from the GSEs to the private market affecting over \$3.1 trillion of mortgages.⁷ Our members report to us that in the last two weeks, due to the COVID-19 crisis related liquidity disruption in the market, these securities have traded at extraordinarily wide spreads. The lack of liquidity has been further exacerbated by the fact that so many other asset classes have been included in the liquidity facilities of the Federal Reserve.

As discussed above, CRT securities are held by a variety of investors, including an array of institutional asset managers, mutual funds, and REITs. In this COVID-19 crisis, investors have been forced to sell into an illiquid market – due to price declines or because bank lenders have refused to continue lending against these securities.

In this current COVID-19 crisis, CRT securities are losing lender support both in the terms under which lending is provided as well as fundamental access. In a normal market, when a lender increases terms or decides to exit a market, there are multiple alternatives. In today’s disrupted market, few if any lenders are looking to increase their exposure to CRT securities. Drawing a line under this continuing uncertainty through allowing access to Federal Reserve facilities would remove tremendous uncertainty and allow the market to restart.

We believe CRT investors remain comfortable and committed to assuming the credit risk of the securities in the reference pools. But they did not invest to insure against a market-wide liquidity event that dropped prices precipitously. Facilities that support lending against these securities would go a long way towards preserving the fundamental CRT bargain. Investors would remain at risk for ultimate credit loss, but their intermediate-term risk from liquidity disruption would be addressed.

Providing prompt support to the CRT securities market – whether in the nature of existing facilities or other immediate market-based mechanisms to encourage continued liquidity, lending, and market making – would stabilize this market from a liquidity perspective. The CRT programs are too important to lose to the COVID-19 crisis.

⁶ “Credit Risk Transfer,” Federal Housing Finance Agency, <https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Credit-Risk-Transfer.aspx> (last visited April 1, 2020).

⁷ Press Release, FHFA Updates Progress on Fannie Mae and Freddie Mac Credit Risk Transfer Programs, Federal Housing Finance Agency (Nov. 12, 2019), *available at* <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Updates-Progress-on-FNM-and-FRE-Transfer-Programs-111219.aspx>.



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We thank you in advance for your consideration of these matters. We also hope that you will look to Nareit as a resource as it moves forward on this and related initiatives to address the COVID-19 crisis. Please do not hesitate to contact me, (swechsler@nareit.com or (202) 739-9406), John Worth, EVP, Research & Investor Outreach (jworth@nareit.com or (202) 739-9414), or Victoria Rostow, SVP, Regulatory Affairs & Deputy General Counsel (vrostow@nareit.com or (202) 739-9431).

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S. A. Wechsler".

Steve Wechsler
President & CEO
Nareit