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MBA Asks Treasury, Fed to Intervene in Mortgage Market (More Than They Already Are)

Over the weekend the Mortgage Bankers Association (MBA) sent letter to two federal financial officials asking for **immediate action to counter potential negative impacts of the pandemic crisis on the mortgage sector.** The letter, over the signature of MBA President and CEO Robert D. Broeksmit was sent to Treasury Secretary Steven T. Mnuchin and Federal Reserve Chairman Jerome H. Powell.

MBA cites the financial market volatility that has arisen following the spread of the COVID-19 virus and the pending closing of businesses and institutions which will result in **millions of households possibly unable to meet their debt obligations**. Some of the most significant impacts, Broeksmit said, "are occurring with respect to the nation's system of housing finance."

He acknowledged the actions already taken by the Fed and Treasury to stabilize the economy and financial markets, including the establishment of emergency facilities to support liquidity for commercial paper and money market mutual funds. However, he urged Powell and Mnuchin to take further actions, specifically to increase the scale and scope of purchases of agency mortgage-backed securities (MBS) and to develop a liquidity facility to support mortgage servicers in anticipation of the need to grant widespread payment forbearance.

Broeksmit said MBS have long exhibited high levels of liquidity, second only to U.S. Treasuries in terms of volume and other measures. This has led to high investor demand, which has raised MBS prices and lowered interest rates for mortgage borrowers. In recent days however, fixed income investors have been rattled and the market for MBS has become severely dislocated and illiquid. Significant and sudden mark-downs in agency MBS valuations have prompted margin calls and sales of assets to raise needed cash. This negative spiral is creating a market in which sellers far outnumber buyers, liquidity continues to suffer, and valuations continue to fall. Ensuring liquidity, MBA says, should continue to be a public policy priority.

The dislocation in the secondary market is flowing into the primary market; interest rates are spiking and spreads with Treasuries are widening even as the Federal Open Market Committee (FOMC) has acted to reduce its target range for the federal funds rate. This has **cut into the ability of homeowners to refinance which could be a powerful stimulus in a recession.**

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/3

Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

The market volatility also is a threat to those heavily exposed to MBS and could drive important market participants into insolvency. The current situation is unique given the high credit quality of agency MBS. There is no fundamental reason, even given the current virus fears, for the downward price pressure. These securities are guaranteed by a government agency or government-sponsored enterprises (GSEs) that operate with capital support from Treasury and present essentially no credit risk for investors. "There is no inherent or fundamental reason, even against the backdrop of COVID-19 fears, that these securities should face such downward price pressure, other than forced selling resulting from illiquidity in other adjacent markets," the letter says.

MBA's specific requests are for the Fed to significantly expand its purchase of agency MBS well beyond the $200 billion minimum it specified on March 15. Rather than provide a target for total purchases, the FOMC should commit to increasing purchases "to the level necessary to stabilize the agency MBS market and, as a result, mortgage interest rates in the primary market."

Additionally, because the current liquidity strains are particularly acute in the markets for specified pools and agency multifamily securities, **the FOMC should commit to expanding the scope of its purchases to include these assets**, as well. Finally, a new version of the Term-Asset Backed Securities Loan Facility (TALF) should be launched to help support liquidity for other less-liquid portions of the securitization markets.

MBA says, with millions of households facing temporary unemployment or lost wages, regulators and financial institutions must find ways to keep them in their homes. Mortgage forbearance will not only ensure they can do that, but also that they have the best chance possible to resume their lives on the other side of the crisis. However, widespread borrower forbearance could result in a severe liquidity shortage that will most acutely affect mortgage servicers. They are contractually bound to advance monthly payments to investors, insurers, and taxing authorities even when borrowers are not making their payments. These advances are required for all loans that are securitized and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae (60 percent of the market.) And while the guarantors will eventually reimburse the servicers for those advances, there can be significant delays.

Servicers maintain reserves to cover these advances and in normal and even stressed environments, such as a localized natural disaster, servicers can withstand this liquidity pressure. The forbearance levels being proposed in this instance, however, extends well beyond any levels of advances previously envisioned, and the capacity of the private sector alone to support.

MBA estimates, for example, that if approximately one-quarter of borrowers avail themselves of forbearance for six months or longer, advancing demands on servicers could exceed $75 billion and could climb well above $100 billion.

This scale and the importance of the housing finance system in providing both economic stimulus through refinancing and temporary borrower hardship assistance, means public sector resources will be needed and policy makers must emphasize that such resources are provided through liquidity facilities - that is, they will provide liquidity to otherwise solvent companies in order to support borrowers through this challenging time.

A program to provide such liquidity to the servicing sector can be authorized under Section 13(3) of the Federal Reserve Act and should be supported by credit protection from Treasury's Exchange Stabilization Fund. A program of this nature "would be developed in response to "unusual and exigent circumstances," entail lending on a temporary basis to solvent institutions and provide for "broad-based" eligibility. Further, the high quality of mortgage underwriting over the past decade, combined with the government or GSE guarantees on the collateral, would minimize any credit risk associated with the program."

Such a program must be announced and developed before servicers encounter the obligations they must meet to grant borrower forbearance. By ensuring liquidity is available before it is truly needed will provide stability and remove barriers to successful implementation of forbearance options on a national scale.

The letter concludes with a request for immediate and aggressive action from the Fed. "Even an announcement of its intention to accelerate its agency MBS purchases will provide stabilizing signals to the market. By doing so, the Federal Reserve can arrest the abnormally high volatility in the agency MBS market. It is becoming clearer by the day that such action is necessary to **prevent more sweeping dislocations across fixed-income markets and the housing finance system.**"