

April 30, 2026

TMPG Secretariat
Treasury Market Practices Group
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Re: Theoretical Implications for Agency MBS Market Liquidity and Functioning of any Potential GSE Ownership Structure Changes

I. Overview

The Structured Finance Association (SFA)¹ appreciates the opportunity to submit comments pursuant to the New York Federal Reserve Treasury Market Practices Group Consultative Note ‘Theoretical Implications for Agency MBS Market Liquidity and Functioning of any Potential GSE Ownership Structure Changes’.

The following feedback addresses the potential capital markets implications of releasing Fannie Mae and Freddie Mac (the GSEs) from Conservatorship. Our response focuses on two primary themes: the evolving market perception of government support/creditworthiness, and the heightened risk of policy and procedural misalignment outside of a controlled regulatory environment.

As noted in the TMPG’s Consultative Note, it is unclear what path policymakers may take in seeking to privatize the GSEs and/or release them from Conservatorship. The responses herein seek to respond to theoretical outcomes that may or may not arise from such efforts. SFA’s goal is not to restrict efforts to end the Conservatorship but rather share market participants’ insights that will inform policymakers on the best path forward on what form the GSEs’ release from Conservatorship might take.

II. Market Perception of Government Support and GSE Creditworthiness

¹ The SFA is a consensus-driven trade association with over 370 institutional members representing the entire value chain of the securitization market. By facilitating the responsible issuance of and investment in loans and securities, our members help to foster a market that provides trillions of dollars of capital to consumers and businesses in communities across the country. SFA members include issuers, investors, broker-dealers, rating agencies, data analytic firms, law firms, servicers, trustees, and accounting firms.

The transition of the GSEs from Conservatorship to private entities is a dynamic process where risk profiles and investor behaviors will likely evolve as government ownership decreases.

Currently, the Preferred Stock Purchase Agreements (PSPAs)--which govern the relationship between the United State Treasury, the FHFA, and the GSEs--are effectively the source of the government's guarantee on Agency MBS. Since the Conservatorship went into effect, the terms of the PSPAs and the reforms undertaken by the GSEs have led investors to presume that an implicit guarantee remains in place, notwithstanding the limits imposed by the PSPAs. However, if Treasury and FHFA took steps to privatize the GSEs without policymakers and/or legislators explicitly clarifying the scope and nature of the guarantee, that would likely introduce uncertainty as to the ongoing nature of the guarantee in a future state.

The clearest way to avoid that uncertainty is through legislation². Absent legislation that explicitly defines the scope and nature of the government's backing of GSEs' MBS, there are several potential vulnerabilities that could lead to adverse market impacts, ultimately leading to higher mortgage rates for borrowers. Importantly, these vulnerabilities may not appear at the outset of privatization efforts. Instead, they are likely to emerge over time and appear most acutely in times of economic stress. It is therefore critical to create bright-line guardrails and plan for inevitable economic downturns. The points below outline some of those potential vulnerabilities, and how they may arise

- ***Long-Term Credit Deterioration:*** Were the GSEs to operate as private entities, their risk profile shifts from 'government-proximate' to 'private credit.' If their post-Conservatorship status places the GSEs in a similar situation to their pre-Conservatorship status, experience demonstrates that their business models are likely to evolve to prioritize private returns to their shareholders. Moreover, as they compete with each other and with other private market MBS issuers, they will move away from their historical role of countercyclical credit providers. A fully privatized model introduces procyclicality to the GSEs business model, which could result in credit spreads widening exactly when the market most needs stability.

Were the perception that Agency MBS includes a credit component to take hold, Agency MBS investors would require a yield premium to compensate for the increase in credit risk, resulting in borrowers paying higher rates for GSE-backed mortgages, which in turn would set a new, higher benchmark rate for mortgages generally. It is also possible that certain Agency MBS investors may not be satisfied with a yield premium but instead would abandon the Agency MBS market in favor of other assets without credit components, further widening spreads.

² <https://www.jchs.harvard.edu/blog/senator-toomey-process-exiting-gse-conservatorship-not-so-simple>

- ***Perception of Reduced Government Support Absent Legislation:*** As noted above, the market currently presumes an implicit guarantee via the PSPAs. Without legislative action to shore up this backstop, a reduction in government ownership introduces an uncertainty premium that increases as the GSEs move further from federal oversight.

While it is possible that some new, non-legislative arrangement between FHFA and Treasury could extend the market perception that some level of government support continues to exist, the strength and duration of this arrangement would fall well short of the certainty provided by a legislative full faith and credit guarantee. One lesson learned during nearly 18 years of Conservatorship is that any action undertaken by one Administration can be undone or modified by a subsequent Administration. While administrative actions such as heightened capital standards and PSPA-like backstops can help improve the perception of creditworthiness and the government's commitment to the GSEs, such actions will not take the place of a full faith and credit guarantee enacted via legislation and may even be seen as less satisfactory than the current PSPA arrangement.

- ***Regulatory and Liquidity Headwinds:*** Market perception and reaction is not the only dynamic that may emerge as the GSEs are released from Conservatorship. The privatization of the GSEs could result in GSE MBS losing its Level 2A High-Quality Liquid Assets (HQLA) status.

In the period immediately following GSE privatization, this would appear to be a somewhat remote risk. But such risks may increase over time as the GSEs' business activities mirror the private commercial entities with which they compete, raising the possibility that GSE MBS would be characterized as Level 2B HQLA. If this were to happen, it would increase the haircut from 15% to 50%, and commercial banks holding Agency MBS would face higher Liquidity Coverage Ratio (LCR) costs, resulting in a permanent outward shift in spreads.

III. Policy Divergence and Procedural Misalignment Impairing Liquidity

Outside of the disciplined environment of Conservatorship, it is unclear whether Fannie Mae and Freddie Mac would remain aligned with each other in their operational and credit policies over time. Over time, material misalignment between the two could impair existing market liquidity, which exists today largely due to actions undertaken during Conservatorship. One of the most important policy outcomes achieved during Conservatorship has been the launch and continued success of the Uniform Mortgage-Backed Security (UMBS) under the Single Security Initiative (SSI).

Prior to 2019, Freddie Mac securities typically traded at a persistent discount to Fannie Mae due to lower perceived liquidity. Research from the Federal Reserve Bank of New York³ and the Urban

³ https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr965.pdf?sc_lang=en

Institute⁴ indicates that the SSI successfully eliminated a 17-cent price gap and an Option-Adjusted Spread (OAS) gap of approximately 5–8 basis points between the two GSEs. This spread convergence saved the GSEs an estimated \$400 million to \$600 million annually in liquidity-related costs. An exit from Conservatorship may lead to the resumption of practices at Fannie Mae and Freddie Mac that undermine the UMBS market and re-introduce the spread divergence.

While such impairments to MBS fungibility may appear gradually, they are likely to be exacerbated during times of acute economic stress and market volatility. During such times, investors are more likely to express preference for the GSE MBS that is perceived as more liquid, reducing the buyer pool for the MBS perceived as less liquid. This will further decrease liquidity at a time when it is most critical, thereby preventing the GSEs from fulfilling their historical role as countercyclical providers of capital to the housing market.

- ***Conflict with Strategic Reform under Basel III:***

Policymakers should also note that such an undermining of the UMBS market would fundamentally conflict with the goals of the March 2026 Basel III Re-proposal, which seeks to revitalize bank participation in mortgages through standardized, lower-risk capital hurdles. The unintended effects of an exit from Conservatorship by the GSEs that lack explicit government support and the controls to maintain liquidity could more than offset the intended benefits of policy directives under the Basel III proposal.

IV. Multi-pronged Approach: Government, Bank, and Private MBS

We believe it is best to create diversified financing streams for the housing market. Agency MBS should retain their current characteristics that make the asset class a counter-cyclical support for market liquidity and the housing market. Bank financing is an additional and essential source of housing finance and is being encouraged with recently proposed regulatory change to risk weights introduced under Basel III.

A third important source of financing is the private securitization markets, which historically have supplied needed innovation, and can provide financing for credit-worthy borrowers which do not meet the specific requirements of the GSEs' programs. Currently SFA is engaging with the SEC to help create a more vibrant and robust private MBS market to increase liquidity in this market⁵.

⁴ <https://www.urban.org/urban-wire/single-security-helps-todays-housing-finance-system-and-lays-groundwork-tomorrows>

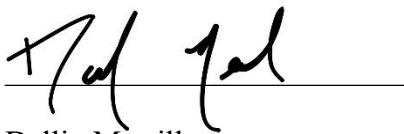
⁵ <https://structuredfinance.org/resources/sfa-responds-to-secs-concept-release-pertaining-to-rmbs-and-abs/>

V. Conclusion

Later this year, the GSEs will mark 18 years in Conservatorship. While this is certainly longer than what anyone involved in the process of instituting the Conservatorship envisioned at the time, it is also true that many beneficial reforms have taken place during this period. To the degree that unwinding the Conservatorship reduces the extraordinary powers of the FHFA as Conservator, policymakers should query whether (or to what extent) the benefits of these reforms could be lost. The consequences of such loss may not immediately appear at the outset of privatization efforts, but instead would gradually increase over time, and accelerate during times of economic stress.

SFA's purpose in sharing these views is not to restrict optionality, but rather to inform policymakers about potential impacts of releasing the GSEs from Conservatorship and the structural concerns and questions that may arise in doing so. As policymakers consider potential paths towards GSE privatization, SFA welcomes the opportunity to comment further. We thank you for the opportunity to share our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Dallin Merrill", written over a horizontal line.

Dallin Merrill

Head of Policy
Structured Finance Association