

**MEMO# 15747**

March 12, 2003

# **JOINT AGENCY TASK FORCE REPORT ON MORTGAGE-BACKED SECURITIES DISCLOSURE**

[15747] March 12, 2003 TO: FIXED-INCOME ADVISORY COMMITTEE No. 4-03 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 3-03 RE: JOINT AGENCY TASK FORCE REPORT ON MORTGAGE-BACKED SECURITIES DISCLOSURE Last month, a task force consisting of the staffs of the Securities and Exchange Commission, the Department of the Treasury, and the Office of Federal Housing Enterprise Oversight issued a report regarding its study of disclosures in offerings of mortgage-backed securities ("MBS").<sup>1</sup> The purpose of the joint study was to evaluate the disclosure practices in the MBS markets and determine whether disclosure enhancements are needed to enable investors to make informed investment decisions regarding mortgage-backed securities. In the report, the Task Force discusses: (1) the development and operation of the MBS markets; (2) the various market participants; (3) the types of MBS sold; (4) current disclosure practices and investor interest regarding the assets of and structures used for the securitization vehicles; (5) credit and repayment sources and other risks affecting the repayment and value of the MBS; (6) information imbalance issues; and (7) categories of information that would enhance disclosures in the MBS markets. In addition, the Task Force made several findings, conclusions and recommendations. First, the Task Force found that investors would find beneficial timely disclosure of additional information, particularly aggregate pool-level information, as opposed to loan-level information. Second, the Task Force recommended that market participants should work together to reach consensus on disclosure enhancements. The report added that if market forces fail to reach consensus, then the agencies represented on the Task Force would need to consider what additional action might be appropriate. Third, the Task Force recommended that market participants seriously consider providing the following pool-level information referred to above: (i) loan purpose (i.e., whether a purchase or a refinance); (ii) original loan-to-value ratios; (iii) standardized credit scores of

<sup>1</sup> The report is available from the SEC's web site at <http://www.sec.gov/news/studies/mortgagebacked.htm>. The report notes that the MBS market consists primarily of government sponsored enterprises ("GSEs"), including the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and a wholly-owned federal government corporation – the Government National Mortgage Association ("Ginnie Mae").

<sup>2</sup> borrowers; (iv) servicer for the pool; (v) occupancy status (owner-occupied or investor); and (vi) property type (e.g., detached, condo). Fourth, apart from disclosure issues, the Task Force concluded that it did not receive any substantiation of allegations of improper use of non-public information for trading purposes, which previously had been levied against Fannie Mae and Freddie Mac. Fifth, the Task Force found that Ginnie Mae has developed, and continues to refine,

procedures for monitoring and disseminating information relating to its MBS, and is currently in the process of evaluating the enhancement of disclosure of information on its securities. Finally, the Task Force noted its intention to monitor the MBS markets to evaluate the implementation and impact of disclosure enhancement, in assisting investors in evaluating MBS securities and making informed investment decisions. Moreover, if future developments warrant, the Task Force would consider, either as joint members or as separate regulators, what additional steps might further enhance disclosure to investors in the MBS marketplace. Barry E. Simmons Associate Counsel

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