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Submitted electronically to: [tmpg@ny.frb.org](mailto:tmpg@ny.frb.org)

**Re: Treasury Market Practices Group (“TMPG”) Consultative Summary Note ‘Theoretical Implications for Agency MBS Market Liquidity and Functioning of any Potential GSE Ownership Structure Changes’ (“Summary Note”)**

To Whom It May Concern:

SIFMA<sup>1</sup> and SIFMA AMG<sup>2</sup> (together, “SIFMA”) are pleased to provide feedback on the TMPG’s Summary Note. Since Fannie Mae and Freddie Mac (the “GSEs”) entered conservatorship in 2008, SIFMA members have been keenly focused on how proposed changes to the U.S. housing finance system could impact markets for mortgage-backed securities, and consequently, the provision of liquidity and capital throughout the entire housing finance system from end investors to the ultimate beneficiaries, American consumers. SIFMA is encouraged that discussions of how to resolve the long-running conservatorships of the housing GSEs have, to some extent, resumed.

### **Executive Summary**

In this letter we discuss SIFMA’s conceptual framework regarding the important role the GSEs and the To-Be-Announced (“TBA”) mortgage-backed securities (“MBS”) market play in the U.S.

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<sup>1</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

<sup>2</sup> SIFMA AMG brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG’s members represent U.S. and global asset management firms whose combined assets under management exceed \$45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

mortgage finance system and then turn to a review of the TMPG’s Summary Note. Our key points include:

1. MBS issued by the GSEs attract trillions of dollars of capital from across the globe to the US housing finance system through the TBA market, which ensures access to thirty-year, fixed-rate mortgages nationwide and throughout economic cycles, at lower rates than would otherwise be available.
2. Without the TBA market, mortgages would be more expensive, and their availability would become fractured regionally.
3. Any legislation or government action should articulate a clearly defined government role in the mortgage market that supports the “rates market” characteristic of the TBA market, and significant amounts of private capital should stand in front of the taxpayer.
4. SIFMA is generally supportive of the comments and conclusions set forth in the TMPG’s Summary Note.

#### **A. SIFMA’s Conceptual Framework**

Before we turn to specific discussion of the note, we provide context for how SIFMA views these issues and what our priorities are. These priorities have been consistently held for more than 15 years.

1. *MBS issued by the GSEs attract trillions of dollars of capital from across the globe to the US housing finance system through the TBA market, which ensures access to thirty-year, fixed-rate mortgages nationwide and throughout economic cycles, at lower rates than would otherwise be available.*

The forward trading market for the GSE’s MBS, the TBA market, is the key to the success of our nation’s housing finance markets. This market structure exists solely in the United States. It is the mechanism that allows mortgages to be more affordable than they otherwise would be, to be broadly available nationally, to have rates locked in advance, and to lack prepayment penalties. Investors from all over the world are active in this market, it is a critical risk management vehicle for originators, and it serves as the pricing benchmark for all mortgage products. It is extremely liquid and trails only US Treasury markets in trading volumes. In 2025 (according to FINRA data) there was \$323BN TBA trading volume per day (9177 trades/day) and \$19BN of GSE specified pool trading volume per day (6263 trades/day).

The TBA market is premised on the homogeneity of MBS making investors generally indifferent to the specific security they receive at settlement of a trade. This homogeneity is enabled by market practice standards, GSE guidelines, and most importantly, the belief that there is no credit risk in GSE MBS. The TBA market is a “rates” market (as opposed to a “credit” market) where investors

consider interest rate and prepayment risk, but not credit risk. The TBA market will not function if credit risk is introduced.

2. ***Without the TBA market, mortgages would be more expensive, and their availability would become fractured regionally.***

Numerous materially negative consequences would flow from a breakdown or diminution of the TBA market, including:

- ***Higher homeownership costs.*** Loans would be more expensive, fewer loans would be available, and widely available rate locks would be lost. Studies have estimated the specific rate benefit of the TBA market to be .25% or more, and higher in times of stress.<sup>3</sup>
- ***Constrained mortgage credit availability and the loss of a national mortgage market.*** The TBA market enables a national mortgage market, since all TBA-eligible loans may trade in the same market, and this would likely vanish. Without it, regional gaps in credit availability and pricing would likely arise.
- ***Dramatically reduced demand for GSE MBS.*** Many investors purchase securities issued by the GSEs specifically because they want exposure to mortgage prepayment risk but not credit risk. If credit risk caused the TBA market to dissipate, investor demand would drop precipitously.
- ***Curtailed funding, risk management, and liquidity mechanisms for banks and other holders of MBS.*** Banks had \$1.5tr conventional passthrough holdings as of 2q2025. TBAs and agency MBS are important hedging and funding instruments for these banks, as well as servicers, non-bank lenders, and other market participants. They would be forced to shift to less-preferred alternatives.
- ***Harm to individual investors.*** Individual investors are exposed to the agency MBS markets through their mutual funds, 401k plans, pension plans, and other investments. A diminution in value of the trillions of securities held by end investors, even a small one, would create significant losses for real people saving for retirement, education, or for other reasons.
- ***Failure of the \$2+ billion-dollar UMBS initiative.*** UMBS was an expensive and important change to the TBA market, and it requires a continual, delicate balancing and coordination of activities between the GSEs. Any value it created would be lost should the GSE TBA market fail.
- ***A shift of risk to Ginnie Mae markets, and consequently, FHA and other government programs.*** Investors who wanted to take on prepayment risk but not credit risk would have no other source for these instruments than Ginnie Mae MBS. Ultimately, this would shift risk away from the GSEs and onto the government balance sheet as loan programs supported by Ginnie Mae MBS became more attractively priced relative to alternatives.

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<sup>3</sup> See *TBA Trading and Liquidity in the Agency MBS Market*, Federal Reserve bank of New York, at 15. Available here: <https://www.newyorkfed.org/medialibrary/media/research/epr/2013/1212vick.pdf>.

3. *Any legislation or government action should articulate a clearly defined government role in the mortgage market that supports the “rates market” characteristic of the TBA market, and significant amounts of private capital should stand in front of the taxpayer.*

It is of paramount importance that any action or legislation ensure uninterrupted liquidity in secondary markets for GSE-issued MBS and preserve the TBA market. As mentioned above, TBA market will only be able to continue to function if GSE MBS remains a “rates product” – that is, subject to only prepayment and interest rate risk. We note that greater confidence in the level and durability of US support will draw in more capital on more favorable terms.

In doing this, policymakers would also be able to clearly outline the role of the private sector. A vibrant non-agency mortgage securitization market also needs to be available to adjust to changes in GSE/government footprint and provide financing for the non-GSE, non-government channel of lending. This market is not fully functional today - in particular, there is no issuance of SEC-registered MBS, which limits the capacity of non-GSE/non-government markets.<sup>4</sup> It is important to note that the TBA market is important to the non-GSE/non-government lending markets, in terms of its provision of pricing information, hedging, and liquidity mechanisms, and diminution of the TBA market will also harm these markets.

The taxpayer should be the last line of support for the guarantee on GSE MBS. Borrower downpayments, credit risk transfer, and GSE capital reserves should stand in front of the U.S. government in appropriate amounts.

All of this is complicated but very important. Changes to the status of the GSEs and the end to the conservatorships raise complex issues that should not be resolved in haste without considering all direct and indirect market impacts.

## **B. Review of TMPG Summary Note**

It is within this context that we examine the Summary Note and discuss certain aspects of it. As a general matter, SIFMA is supportive of the comments and conclusions discussed in the Summary Note. The summary note wisely reflects consideration of both direct and indirect effects of changes to the ownership structures of the GSEs. We set forth below some specific areas of agreement.

***TMFG Summary Note:** “If market participants’ perception of the strength of the government guarantee were to change, some investors could view agency MBS as having a higher credit risk exposure. Without a perceived firm guarantee, Fannie and Freddie would no longer have the price premium received today, and*

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<sup>4</sup> The SEC has requested comments regarding how it could amend the primary regulation of registered MBS products, Regulation AB. We are hopeful that the SEC will move forward with changes to this regulation that will promote a more active registered market.

*investors would be expected to anticipate interest rate risk (as they do today) and also credit risk”... “If agency MBS were viewed as a credit product, this would likely decrease overall liquidity in mortgage markets and consequently pass on increased costs more broadly for mortgage borrowers. Agency MBS could start trading directionally with credit risk, making rate hedges put on by agency MBS holders less efficient.” (pages 3-4)*

We strongly agree with this statement. It is critically important that GSE MBS retain their character as a rates product – an investment where interest rate risk and liquidity are driving factors, and credit risk is not. Policies or decisions that increase uncertainty regarding the government’s support for the GSE’s could introduce elements of credit risk for agency MBS, reduce investor demand, and increase the risk that the future mortgage market will not function as well as today’s market. This would harm consumers, originators, banks, servicers, investors, the construction industry, service providers, and everyone else who depends on a healthy mortgage finance market.

***TMPG Summary Note:*** *“Changes to the structure of the GSEs could lead to changes in TBA securitization and trading activity”... “If the perceived differences in credit risk reemerged, it may be necessary for Fannie Mae and Freddie Mac MBS to again trade as separate securities, reversing the single security initiative... A return to separate securitization of Fannie Mae and Freddie Mac securities could hinder the goal of streamlining the mortgage securitization process.” (Pages 4-5)*

We strongly agree with this statement and note that in many discussions of GSE reform this point is far too often overlooked, simply not known, or ignored. It took from 2012 to 2019 to launch UMBS, and the process was very expensive for the Enterprises (>\$2 billion total cost) as well as market participants who had to adapt trading systems, operational back ends, allocation infrastructure, and risk management frameworks.

The UMBS structure works today because Fannie Mae and Freddie Mac MBS are considered rates products and are fungible, so investors are generally indifferent to the name of the issuer they purchase. FHFA-mandated rules and procedures promote the alignment of prepayment speeds and servicing policies across the entities. To the extent a policy change caused the MBS issued by the GSEs to present distinct credit risks, or prepayment performance began to materially diverge, the UMBS structure would be compromised and likely fail (possibly very quickly, in the case of the introduction of credit risk). GSE MBS could once again trade in separate markets, with distinct pricing and unequal liquidity.

The implementation of the UMBS limits the GSE’s policy and program flexibility, and this limitation is a core and necessary component of UMBS. Without forced alignment, the GSEs would likely “race to the bottom” in search of market share, the prepayment performance of their MBS would likely diverge, and TBA execution would be weakened. After all, TBA is a worst-to-deliver market. This would harm investors, originators, and the millions of borrowers served by the TBA market. For UMBS to continue, in any future state under conservatorship or otherwise, the MBS must

remain a rates product and there must be strong monitoring and enforcement of policy and program alignment that results in effectively interchangeable MBS performance. Without it, UMBS will fail.

If there is not a policy goal to retain UMBS, or UMBS otherwise fails due to a lack of prepayment alignment, then there would be the challenge of unwinding the changes made from 2012-2019 to facilitate the implementation of UMBS. This would be no simple task. If UMBS does not survive, numerous questions will need to be answered: How much disruption will a transition back to separate TBA markets cause? How will existing cross-guaranteed securities be treated by the GSEs as well as by the market? Would this transition this weaken one Enterprise vs. the other? How much will pricing diverge? Will an Enterprise need to subsidize loan sellers, as happened in the past? What would be the impact on in-process originations and rate locks during the transition? What would be the follow-on impacts into the non-agency lending market which uses the TBA market for pricing and hedging? How would the banks that hold over \$1tr in GSE MBS handle this transition? These are but a small subset of the questions that would need to be answered.

***TMPG Summary Note:*** “Internal risk control and regulatory requirements in banks and other regulated entities may put limits on total exposure to Fannie Mae and Freddie Mac securities if their perceived creditworthiness were to change. Originators may need more capital to manage their business to account for greater perceived credit risk. Agency MBS would likely trade at higher rates, resulting in the passthrough of increased borrowing costs to homeowners and tightening conditions for borrowers in the housing market. There would be open questions about the eligibility of agency MBS for various types of trades and margin were the perception around the government guarantee to change. For example, were the perceived credit quality of agency MBS to change, there may be questions around whether these securities would be eligible to meet margin calls and/or for central bank operations.” (Pages 5-6)

We agree that each of these issues are valid concerns should the ownership structure of the GSEs change in such a way that the rates nature of the product is diminished and credit risk becomes a factor.

### **C. Conclusion**

SIFMA is pleased that policymakers and others have recently resumed consideration of the future of the GSEs and the housing finance system. We believe that a deep and liquid TBA market is a critical component of any future state, and that the loss of the TBA market would be catastrophic to the entire mortgage finance system. We appreciate the TMPG contributing to this discussion with this Summary Note and stand ready to assist TMPG or any other policymakers as they consider these issues.

If you would like to discuss any of our comments further, please contact me at [ckillian@sifma.org](mailto:ckillian@sifma.org) or 212-313-1126.

Sincerely,



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