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Father of securitization doubts easy return to private mortgage bonds

By: Christina Mlynski – June 17, 2013

Known as the father of securitization, Lewis Ranieri dubbed himself "Dr. Frankenstein" during a forum at the Bipartisan Policy Center Monday, claiming the once profitable securitization market has yet to claw its way back.

The current status quo of the mortgage finance system is not only unsustainable, but it's unacceptable due to a variety of hiccups, including government dominance, rising interest rates and the tightening of the current credit box, Ranieri, chairman and founding partner of Ranieri Partners explained.

"One of my greatest fears is that Congress and the market will become very comfortable with the status quo now that Fannie Mae and Freddie Mac are very profitable," Ranieri cautioned.

While the consensus from Capitol Hill and the investment community is to lessen the government's role in the mortgage market, the remaining obstacle is still the private sector and concerns about whether it's capable of taking over.

There are many indications that the secondary market could become a bright spot, including the emergence of new private mortgage insurance companies and the existing ones staying afloat by restructuring to keep up with the changing landscape.

Additionally, private-label residential mortgage-backed securities are making a modest comeback.

As a result, Ranieri expects RMBS issuance to hit somewhere between $12 billion and $15 billion this year.

Although this projection is double from what last year's issuance accounted for, the main factor keeping the private-label RMBS market from making a moderate comeback is fear of interest rates rising and the way in which loans are being priced, Ranieri explained.

"It's not simply a function of a lack of market. It's widened more than we would like, but the deals will get done and there has to be an education process and a period where you're going to have to create investor confidence," he said.

While Mark Calbaria, director of financial regulation studies atCato Institute, partially agrees that the status quo of the government is politically unsound, he believes the current mortgage market is sustainable.

Similar to Ranieri, Calbaria believes with both government-sponsored enterprises producing profit for the government, there will be less incentive to want to wind down the enterprises and as a result, a longer lag from Congress on any type of legislation in place will continue.

"FHFA should pull the trigger, take Fannie and Freddie into receivership that has a five year grace period" in order to light a fire under Congress to establish some type of reform.

On the other hand, Sarah Wartell, think-tank executive and housing finance expert for the Urban Institute, believes the GSEs profitability is not the main factor for a lack of reform and private-label resurgence.

The first issue is that investors need to gain confidence back into the private RMBS market and witness some type of stability, Wartell claims.

The Federal Housing Finance Agency has taken steps to try and bring back private capital such as the single-securitizationplatform, which will create a model of what that type of market plumbing might look like for the future.

Once a clear infrastructure is in place and effectively working, Wartell is confident that this will show the market a path forward to an ultimate reform solution.

"I’m not feeling that we’re at the moment that we’re ready to legislate a final bill into Congress," Wartell said.

She concluded, "What I do think we are starting to see is a direction being set. The conservation is emerging around a number of consensus solutions as the plumbing gets into place."