



Prerequisites for Mortgage Funding through Debt Instruments

4 February 2003

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Ideal Conditions for Secondary Market Development

- Sufficient legal, tax and regulatory framework
- Robust primary market operations and standardization
- Capital market preparedness
- Economic incentives for secondary market participation

Legal, Tax, and Regulatory Framework

- Evaluate existing laws and regulations to determine whether interventions are required to either develop a secondary mortgage market or support an existing market
- Laws should be representative, concise, transparent, enforceable, and amendable
- Applicable laws and regulations include:
 - Standards in the real estate industry
 - Title and registration infrastructure
 - Enforceable liens on property
 - Effective and efficient foreclosure laws

Legal, Tax, and Regulatory Framework

- **Seamless transfer of ownership of mortgage assets - to secondary market and capital market investors**
- **Comprehensive tax and accounting rules to support securitization of mortgage assets**
 - **sales treatment for transfer of loans**
 - **liability for recourse**
 - **structure of securitization vehicles**
 - **accounting treatment of investing in mortgage assets**
 - **accounting treatment for servicing mortgage assets**
 - **off-balance sheet accounting for MBS**
- **Well-informed and effective regulators**

Robust Primary Market Operations and Product Standardization

- Assess mortgage loan originations, underwriting, funding and servicing
- Specific factors to assess include:
 - Stability of macroeconomic environment
 - Marketability and liquidity of the housing market
 - Sufficient network of quality primary market lenders
 - Standardization across industry
 - Products
 - Business practices
 - Documentation
 - Data and information access
 - Alternative credit enhancement options to overcome insufficient credit quality or lack of data

Capital Market Preparedness

- Assess the existing state of development of the capital market
- Specific factors to assess include:
 - Interested and active investor base
 - Supportive broker/dealer environment
 - Efficient and regulated clearinghouse infrastructure
 - Information service providers

Economic Incentives for Secondary Market Participation

- Conditions supporting securitization include:
 - Financial incentives which encourage sale or securitization of assets
 - alternative source of funding
 - credit risk management
 - interest rate risk management
 - risk-based capital requirements
 - Execution flexibility for lenders