



Converting the CSP into an Industry-Owned Utility*

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This article makes a case for converting the Common Securitization Platform into an industry-owned utility.

Some Background on the CSP

Under the supervision of the Federal Housing Finance Agency (FHFA), Fannie Mae and Freddie Mac (the GSEs) are developing a common platform to support the securitization of mortgages that they purchase. This platform, which is called the Common Securitization Platform or CSP and which is being developed by a legal entity jointly owned by the GSEs, will consolidate the core information technology functions associated with the GSEs' securitization business. Other key elements of the GSEs' guarantee business, such as underwriting standards, servicing standards, and loan delivery, will remain within each individual GSE.

FHFA has announced that it plans to implement the CSP for Freddie Mac's existing single class securities in 2016 and then use the CSP to implement a "single security" for both GSEs in 2018. This single security is intended to increase liquidity for mortgage securities by reducing the differences in the terms and conditions associated with the securities currently issued by each GSE.

FHFA also has announced that through mid-2015, the GSEs had spent \$146 million toward the development of the CSP.

The Rationale for Converting the CSP into a Utility

Converting the CSP into an industry-owned utility is not a new idea. Senator Shelby's pending regulatory reform bill envisions the eventual privatization of the platform.¹ FHFA also has acknowledged that there are certain "core functionalities of a securitization infrastructure that can be standardized and serve a utility function."²

Taxpayers would be a key beneficiary of the sale of the CSP to the industry. Currently, the cost of

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¹Section 705, S. 1484.

²Building a New Infrastructure for the Secondary Mortgage Market, Federal Housing Finance Agency, Oct. 2012, 5.

constructing the platform falls upon taxpayers, in the form of reduced payments from the GSEs to the Treasury. Industry ownership of the CSP would shift the costs of constructing and operating the platform to the industry, and away from taxpayers. Additionally, an industry-owned CSP likely would be classified as a financial market utility and, as such, would be subject to supervision and regulation by the Federal Reserve Board, in addition to FHFA. This federal oversight should address any concerns about safety and soundness and systemic risk associated with the utility.

Ownership of the CSP by the industry would permit the industry to control the design of the CSP (as well as the single security). Currently, the CSP is structured as a joint venture between the two GSEs, and they, along with FHFA, are in control of the design of the entity. While the industry has had some input into that process through the new advisory committee, that input has been limited. Industry ownership would ensure that the platform and the single security are structured to accommodate not only the GSEs, but all participants in the secondary mortgage market.

Industry-control of the CSP also is consistent with broader GSE reform efforts. The transfer of these back office functions to a utility is a natural step toward transferring some of the functions and risks of the GSEs away from taxpayers and to privately capitalized firms. Moreover, the purchase of the platform by the industry could trigger further legislative action on GSE reform. At the moment, comprehensive GSE reform legislation has stalled, and there are growing calls for policymakers to recapitalize the GSEs. Should these calls gain traction, the outlook for comprehensive reform may diminish. Removing the securitization platform from the GSEs, and placing it into the hands of the industry, would alter this dynamic and could spark legislative action on comprehensive reform.

Finally, FHFA has the authority to sell the CSP. FHFA, as the conservator of the GSEs, has the legal authority to transfer or sell systems and other assets of the GSEs. Section 1467(b)(2)(G) of the Federal Housing Enterprise Safety and Soundness Act of 1992 states that “The Agency may, as conservator or receiver, transfer or sell any asset or liability of the regulated entity in default, and may do so without any approval, assignment, or consent with respect to such transfer or sale.”³

Two Practical Considerations

It would be costly for the industry to acquire the CSP. As noted above, the GSEs had spent \$146 million on the development of the CSP as of mid-2015, and presumably that amount is somewhat higher today. Yet, if the industry is interested in purchasing the platform, it should be less costly to do so before it becomes fully operational.

More importantly, careful consideration must be given to the governance of the utility. As we have seen in the debate surrounding comprehensive GSE reform, there are many stakeholders in housing finance. No stakeholder should feel disadvantaged by industry ownership of the CSP.

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³12 U.S.C. 4617(b)(2)(G).