Diversified Mortgage Guarantee Model: 
Securitization through TBA

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This article addresses the transition of government-sponsored entities (GSEs) into a more restricted role in creating access to funding and liquidity in the mortgage market through to-be-announced mortgage-backed securities (TBAs), with private equity taking the bulk of the credit risk. The advantages of the TBA market for originators, investors, and borrowers should be preserved. The GSE role should be primarily that of defining the credit parameters for securitization through TBAs and acting as the securitization agency. Our model then proposes a multitude of credit guarantors that would participate in the issuance of securities in a single TBA market. The guarantors would primarily be fully owned AA+ subsidiaries of diversified financial institutions, such as commercial and investment banks and insurance companies, as well as properly capitalized real estate investment trusts (REITs) and mortgage insurance companies. The government's role would be to define and enforce a strict capital regime that would be a combination of Basel III guidelines as well as a stress-based economic capital framework. The government would also act as the insurer of last resort for the securities thus created by charging an explicit reinsurance fee.

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