

US

Morrison & Foerster

The way we were

In the middle years of disco and the early days of securitisation, mortgage-backed bonds were on balance sheet and government-sponsored enterprises (GSEs) were a factor, albeit not a dominant one, in the market. Over time, securitisation became an off-balance-sheet financing approach that provided enormous leverage, and GSEs became central to the growth of the market.

Since the advent of the financial crisis, GSEs have purchased at least 70% of residential originations in the United States. In early February 2011, the Department of the Treasury and the Department of Housing and Urban Development published a report outlining a three-pronged approach to restructure the US housing finance system.

The report also outlines the need to reduce government support for housing finance, by, in part, winding down Fannie Mae and Freddie Mac. The report acknowledges that this will take some time and advances three options to address the future of housing finance in the United States. Although it is too early to venture a guess regarding the direction that this highly politicised discussion will ultimately take, it is clear that the profoundly American view of home ownership as a virtual entitlement may be a thing of the past.

Just as this debate is getting started, a covered bond Bill has once again been introduced in the House. The proposed legislation would create a statutory framework for the issuance of covered bonds by US depository institutions.

Covered bonds may provide one private market solution to fund mortgage loan originations. At the same time, financial institutions are considering a variety of secured financing approaches that resemble the mortgage-backed bonds the way they were.

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