

MORTGAGE-BACKED SECURITIES

December 2013



CFA Institute

ABOUT THE SURVEY

Background and Purpose

- The purpose of this survey is to get the perspectives of members about whether a federal guarantee is needed for mortgage-backed securities and what might induce them to invest in MBS without the benefit of a federal guarantee. The proposed Corker-Warner bill in the Senate and the PATH Act in the House both propose to reform the mortgage market, and our goal is to ensure that the investors' perspective is thoroughly considered.
- The data from this survey will support and inform our advocacy efforts regarding the need for a federal guarantee for the trillion-dollar-plus MBS market. It also will inform the positions that CFA Institute staff will present to legislative and regulatory staff as they consider mortgage market reform this autumn.

Methodology

- On 11 November 2013, 14,767 CFA Institute members with a primary investment practice of Fixed Income and/or those with an occupation of Portfolio Manager were invited via email to participate in an online survey. One reminder was sent to non-respondents on 14 November and the survey closed on 17 November 2013. 393 valid responses were received, for a response rate of 3% and a margin of error of $\pm 4.8\%$.

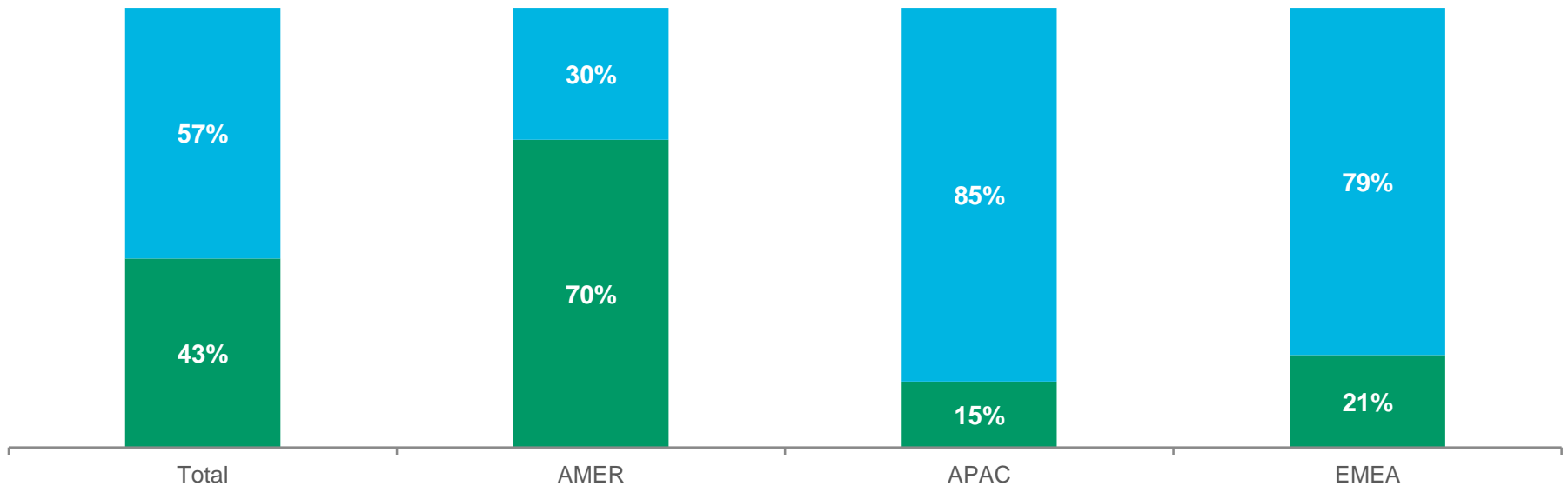
SURVEY RESULTS

CURRENT INVESTMENTS

Overall, 43% of respondents indicate they currently invest in U.S.-based mortgage-backed securities, with a significantly larger proportion of those in AMER (70%) compared to APAC (15%) and EMEA (21%).

Do you currently invest in U.S.-based mortgage-backed securities?

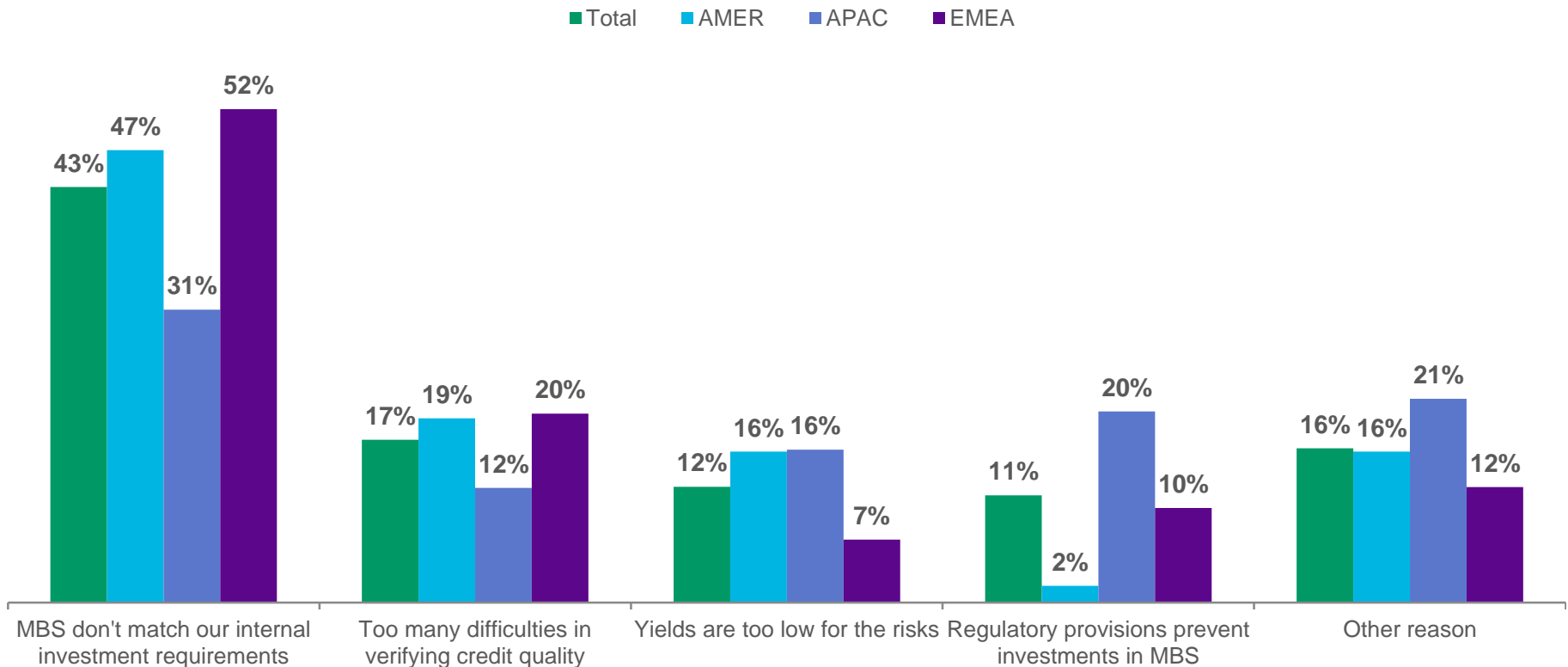
■ No ■ Yes



REASONS FOR NOT INVESTING

43% of respondents indicated they do not currently invest in U.S.-based mortgage-backed securities because MBS do not match their internal investment requirements, with a larger proportion of those in EMEA (52%) than in AMER (47%) and APAC (31%).

Why do you not currently invest in U.S.-based mortgage-backed securities?

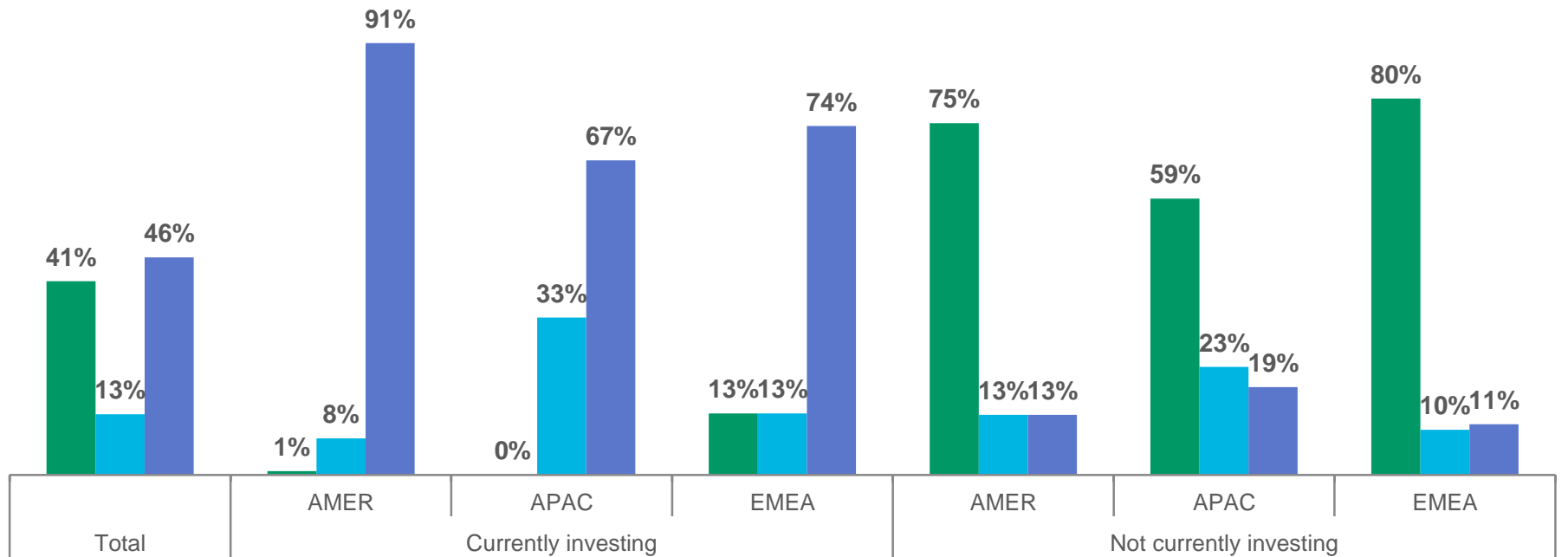


FUTURE INVESTMENTS

46% of respondents are likely to invest in U.S.-based mortgage-backed securities in the future. A larger proportion of those currently investing are likely to invest in the future compared to those not currently investing.

How likely, if at all, are you to invest in U.S.-based mortgage-backed securities in the future?

■ Not at all likely 1 + 2 ■ 3 ■ 4 + Very likely 5



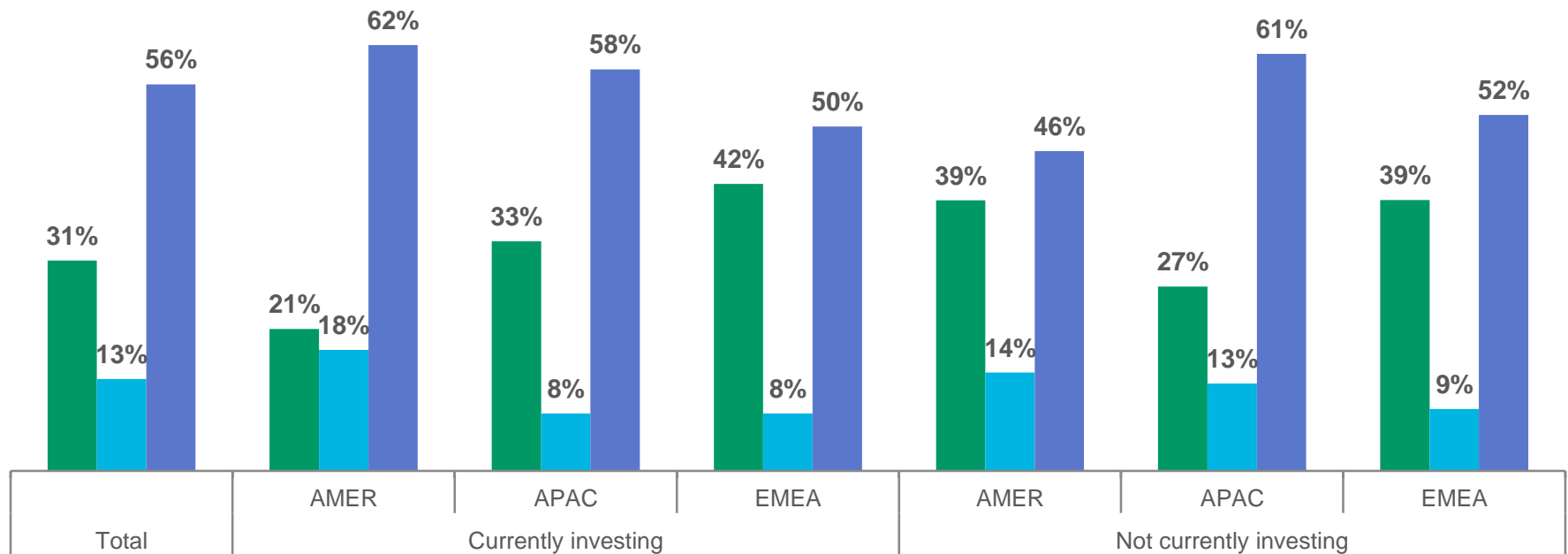
Excludes 'Don't know'

IMPORTANCE OF FEDERAL GUARANTEES

56% of respondents indicate federal guarantees are important in determining whether or not they will invest in mortgage-backed securities.

How important are federal guarantees to you in determining whether or not you will invest in mortgage-backed securities?

■ Not at all important 1 + 2 ■ 3 ■ 4 + Very important 5

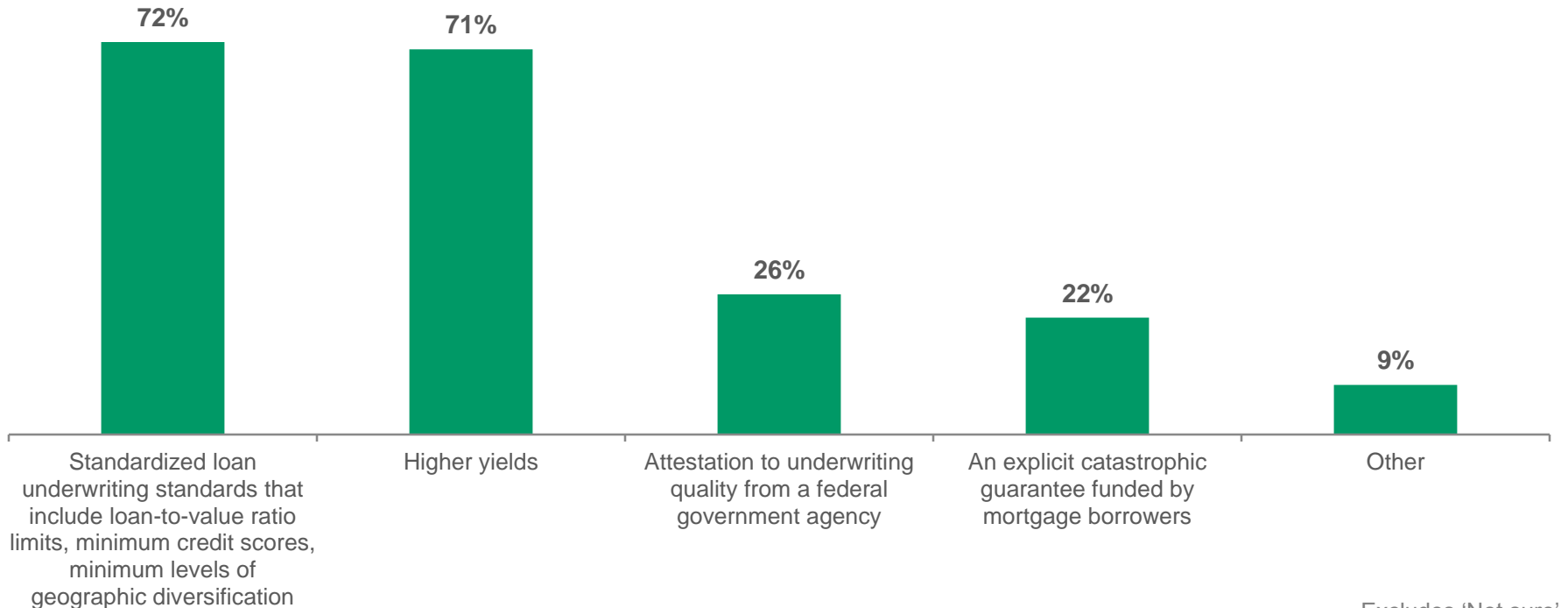


Excludes 'Don't know'

REQUIREMENTS FOR INVESTING

To invest in mortgage-backed securities if there were no federal guarantees, respondents would require standardized loan underwriting standards that include loan-to-value ratio limits, minimum credit scores, and minimum levels of geographic diversification (72%) and higher yields (71%).

If there were no guarantees from the federal government, what requirements would you find necessary in order to invest in mortgage-backed securities?



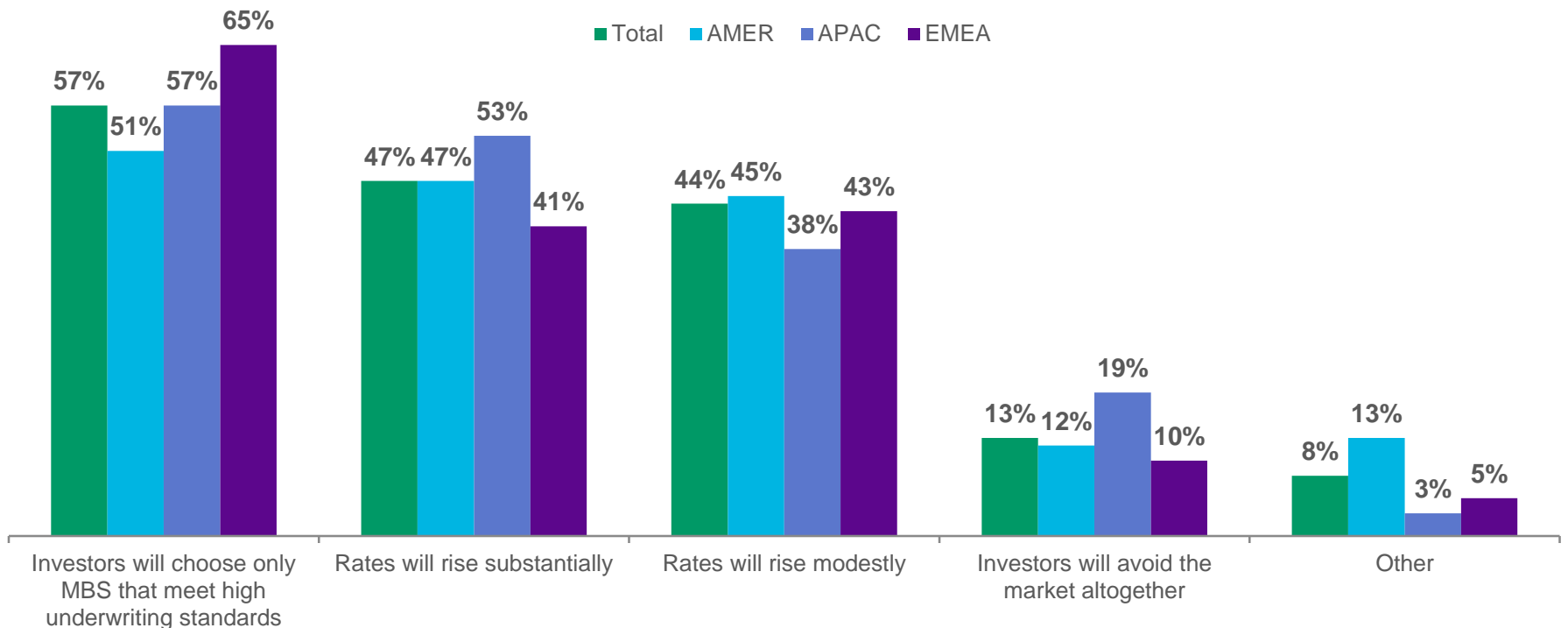
Excludes 'Not sure'

EFFECT OF WITHDRAWING FEDERAL GUARANTEES ON THE MARKET FOR MBS

Respondents indicate withdrawing federal guarantees would have the following effects on the market for MBS: investors will choose only MBS that meet high underwriting standards (57%), rates will rise substantially (47%) and rates will rise modestly (44%).

What effect, if any, would withdrawing federal guarantees have on the market for mortgage-backed securities?

Select all that apply

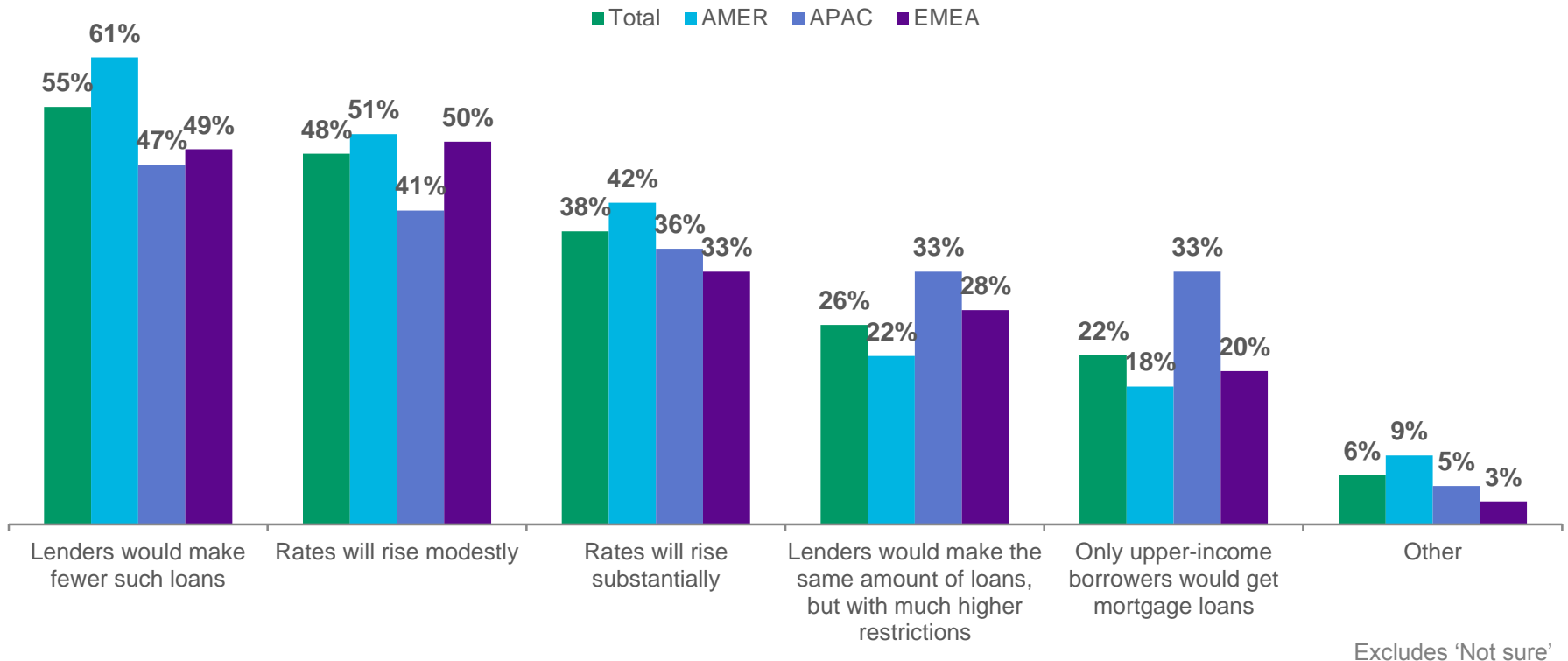


Excludes 'Not sure'

EFFECT OF WITHDRAWING FEDERAL GUARANTEES ON MORTGAGE LOANS

Respondents indicate withdrawing federal guarantees would have the following effects on mortgage loans: lenders would make fewer such loans (55%), rates will rise modestly (48%) and rates will rise substantially (38%).

What effect, if any, would withdrawing federal guarantees have on mortgage loans, in general?

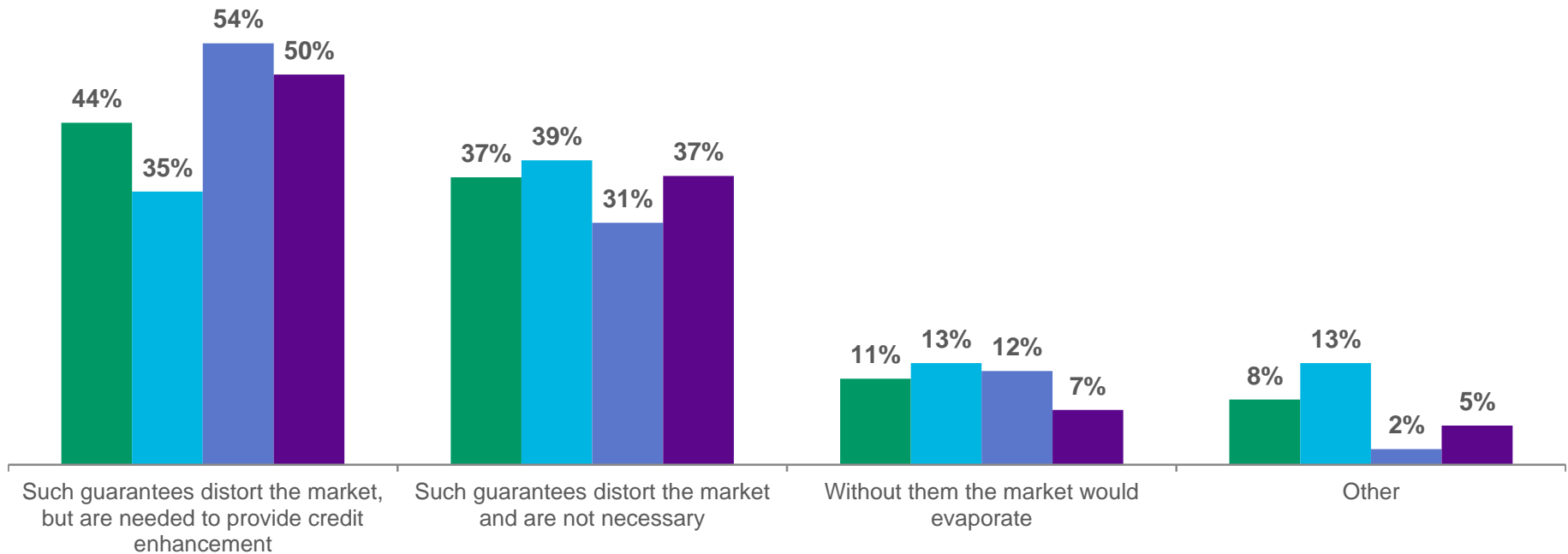


GOVERNMENT GUARANTEES FOR MBS

The majority of respondents (44%) feel that government guarantees distort the market, but are needed to provide credit enhancement, with a larger proportion of those in APAC (54%) than in AMER (35%) and EMEA (50%).

Which of the following best describes your opinion of government guarantees for mortgage-backed securities?

■ Total ■ AMER ■ APAC ■ EMEA



Excludes 'No opinion'