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Welcome to the Spring 2016 issue of *The Journal of Structured Finance*. This issue focuses on residential mortgage loans and securities backed by them. Each article in the issue covers a residential mortgage-related topic.

The issue starts with an article by Laurie Goodman, director of the Housing Finance Policy Center at the Urban Institute. Goodman addresses what it will take to revive the private-label mortgage-backed securities (MBS) market. Doug Duncan, chief economist of Fannie Mae, writes about the primary mortgage market and how it is being shaped by both demographic factors and post-crisis policy forces. Andrew Davidson, president of Andrew Davidson & Company, writes about alternatives for government-sponsored enterprise (GSE) reform. Ron D'Vari, CEO of NewOak Capital, and Timothy Bernstein, an analyst at NewOak, write about the challenges of securitizing non-QM loans (i.e., loans that fall outside the CFPB definition of a "qualifying mortgage"). Steve Mackey, chief risk officer at MGIC Investment Corporation, and Ted Durant, a vice president and risk officer at MGIC, write about a potentially expanded role for mortgage insurance in absorbing credit risk and providing somewhat greater protection to the GSEs (and U.S. taxpayers) than in the past. Michael Fratantoni, chief economist of the Mortgage Bankers Association, examines the relationship between loan production costs and primary–secondary spreads. Diane Westerback of W Associates examines how post-crisis regulatory changes are affecting the quality and utility of credit ratings. Brian Grow, a managing director at Morningstar Credit Ratings, and Gaurav Singhania, a senior vice president at Morningstar, write about the flow of specialty deals (e.g., re-REMICs and deals backed by non-performing loans) against the backdrop of a meager flow of mainstream private-label deals.

Residential mortgage securitization clearly remains a key element of the U.S. housing finance system. Roughly $5.8 trillion of residential mortgage loans are packaged into federally sponsored securities. Another $800 billion is packaged into mortgage-backed securities issued by private companies—what we sometimes call private-label securities, or PLS. In all, about two-thirds of the nation's residential mortgage loans are packaged into mortgage securitizations. As a result, funds for residential mortgage loans are available all across the country, and regional differences in interest rates for residential home loans are virtually non-existent.

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Before the financial crisis, the securitization landscape included huge amounts of PLS, the mortgage-backed securities issued by private-sector issuers. The amount actually peaked at more than $2.7 trillion in 2007. Issuance of PLS virtually stopped with the onset of the crisis, and the sector has remained almost totally dormant since then.

Various industry initiatives focus on reviving the PLS market by restoring investor confidence. Proposals call for standardizing representations and warranties and including a "deal agent" in transactions to protect investor interests. Those measures are unquestionably essential for restoring investor trust, but it remains to be seen whether trust alone will be sufficient to bring investors back to the market. Investors trusted PLS issuers not to include large numbers of defective loans in their 2005–2007 PLS deals. Investors trusted PLS issuers to disclose what they were really doing in originating and underwriting loans. Investors trusted PLS issuers to honor their representations and warranties. Later on, investors learned that, in many cases, their trust had been misplaced. All that mattered were legally enforceable rights.

Investors, including insurance companies, banks, and pension funds, suffered hundreds of billions of dollars of losses on PLS. Some have managed to recover a portion of their losses through lawsuits against issuers and underwriters. Collectively, investors and government entities have recovered somewhat more than $100 billion through lawsuits relating to PLS.

When it came to enforcing their rights, some investors encountered unexpected challenges and disappointments. The federal securities laws provided zero protection to most PLS investors because of the short deadline for bringing lawsuits. Going forward, even with expanded disclosure requirements for publicly offered PLS, it seems unlikely that the federal securities laws will provide meaningful protection to PLS investors unless Congress extends the deadline for bringing cases.

Only government entities, like the Federal Housing Finance Agency (FHFA) and the FDIC, were successful in using the federal securities laws as the basis for lawsuits. They have the benefit of special laws that give them longer deadlines. Regular PLS investors had to pursue remedies under different legal theories, such as breach of contract (relating to representations and warranties) or violations of state securities laws.

And, to make matters even more interesting, a recent court decision in New York state has nullified the view previously held by many investors that representations and warranties on securitized mortgage loans last for the life of a deal. In *ACE Securities Corp. v. DB Structured Products*, 25 N.Y.3d 581 (2015), the New York Court of Appeals ruled that the deadline for bringing a lawsuit on a deal's representations and warranties is six years from the closing date. In light of that ruling, perhaps investors will insist on the law of a different state as the governing law for new PLS deals.

The PLS doldrums have persisted for so long that some firms have started to trim their staffing levels. This arguably warrants a renewed sense of urgency among PLS market participants toward engineering a revival of the sector. Although the cure for the market's malaise remains elusive, all market participants have an interest in finding it as soon as possible.

As always, we welcome your submissions. Please encourage those you know who have good articles or have made good presentations on subjects related to structured finance or project finance to submit them to us. Submission guidelines are online at http://www.iijournals.com/page/jsf/submitanarticle. If you have comments or suggestions, you can e-mail me directly at markadelson@nyc.rr.com.

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