Center for American Progress

The Importance of the To-Be-Announced, or TBA, Market

By the CAP Housing Team

The TBA market allows for the easy trade of eligible mortgage-backed securities, or MBS. The homogeneity of and large demand for certain MBS enables this deeply liquid market. About $270 billion worth of MBS is traded each day in this market.

The TBA market is an important part of today's housing finance system, and proposals to reform the system must take into account how they would affect the TBA market's operation.

Why is the TBA market important to homebuyers?

- **It supports well-priced, long-term, fixed-rate mortgages.** The TBA market, which only allows trading of securities consisting of long-term mortgages, adds to the attractiveness of long-term, fixed-rate securities for so-called rate investors. This market ensures a steady supply of capital for long-term, fixed rate mortgages, making these products viable for lenders and affordable to consumers.

- **It allows rate locks for borrowers.** The TBA market allows for the sale of securities before they have been finalized—as in, before the mortgages that back the securities have been identified. Because not-yet-completed loans can be sold to investors, the TBA market allows lenders to offer borrowers a pre-determined interest rate, or "rate lock," in advance of their loan closing. This protects borrowers from a rate increase while they finalize the loan.

- **It stabilizes markets for other mortgage products such as jumbo mortgages.** The TBA market also helps stabilize the entire MBS market by enabling all lenders and investors to see the market clearing price of TBA securities at different settlement dates. Without this stable base market, sellers would find it more difficult to price or hedge private-label MBS, or other interest rate-sensitive investments such as jumbo mortgages.

Why does the TBA market work?

- **The government guarantee draws investors from around the globe.** Only securities guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae can trade in the TBA market. A guarantee insulates investors from credit risk, making these securities more homogenous and among the most widely traded and secure assets available.

- **The abundance of investor demand for TBA securities makes the market very liquid and reliable.** Given the constant demand for TBA securities, investors can enter and exit the market confidently.

- **Securities are standardized and easily traded.** There are clear rules for underwriting, originating, and servicing for the mortgages that will be delivered into TBA-eligible securities, which helps standardize the securities. Further, buyers of TBA-eligible MBS only have access to basic information about the security without the need to know the characteristics of individual loans or borrowers within the loan pool. This makes each security easily interchangeable with securities that have the same basic attributes.

How can we ensure a viable TBA market in any new system?

- **Preserving a government guarantee is an essential step in reform.** If investors are required to take full credit risk, securities will lose an important component of their homogeneity.

- **Any securities-based risk-sharing mechanisms must be sufficiently standardized.** If MBS issuers lay off credit risk through individualized or widely varying deals, there will not be the homogeneity necessary for a TBA market.