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AllianceBernstein Issues White Paper Proposing Greater Role for Private Capital in the U.S. Mortgage Market

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NEW YORK, Dec. 13, 2011 /PRNewswire/ -- The future role of the government in housing finance is a current subject of debate among legislators, policy makers, regulators and market participants. All agree, however, that attracting private capital into the \$10.4 trillion US mortgage market is integral to building a stable foundation to support the market's future growth. A new white paper written by key members of AllianceBernstein's Structured Asset Portfolio Management and Research team, Matthew D. Bass and Michael S. Canter -- "**Increasing the Role of Private Capital in the Mortgage Market**" -- provides valuable insight into how to address this critical issue.

The purpose of the white paper is to advance the discussion regarding how to attract private capital into the mortgage market based on AllianceBernstein's perspective as an investor in mortgage assets. Specifically, the paper details three key principles regarding the role of private capital in the mortgage market; provides two potential market-based solutions for private capital sharing credit risk with the government; and proposes a transition path.

First, government involvement in the mortgage market is necessary to ensure a stable, well-functioning market;

Second, because the private market is better positioned to price risk, private investors should provide first-loss capital to the mortgage market to protect taxpayers from losses, while the government should provide catastrophic loss insurance to ensure stability in periods of market stress and to maintain the credit risk-free nature of Agency MBS;

Third, in order to provide a more stable foundation for the housing market going forward, private first loss capital should be unlevered and the first loss piece should not be credit tranced.

By way of highlighting solutions for private capital sharing credit risk, Bass and Canter suggest that to ease the transfer of risk to private capital the government can begin to move forward quickly without the need for new legislation by reintroducing transactions that enjoy successful precedents such as Freddie Mac's Mortgage Default Recourse Notes (MODERNS) and K-Series transactions.

Noting that transition will take time, Bass and Canter advocate that the greatest chance of success will depend on the development of multiple private-capital based options to provide the broadest and deepest investor base. They note that there is secular demand for income producing assets like first loss mortgage risk from longer-term investors such as pension funds, sovereign wealth funds and insurers with longer-duration liabilities.

In conclusion, Bass and Canter emphasize that "quality" of housing finance, or the long-term stability, should not be sacrificed for "quantity," or lower mortgage rates achieved through increased leverage in the system, noting that in the past the result was an unacceptable degree of volatility in home prices. "The process of bringing private capital into the mortgage market will take time," say Bass and Canter. "If these changes are well communicated and the market is structured appropriately, we believe that there is a deep investor base that is ideally positioned to invest in first-loss mortgage risk over the long term."

You can access the white paper "Increasing the Role of Private Capital in the Mortgage Market" by clicking [here](#).

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At September 30, 2011, AllianceBernstein Holding L.P. owned approximately 37.8% of the issued and outstanding AllianceBernstein Units and AXA, one of the largest global financial services organizations, owned an approximate 63.1% economic interest in AllianceBernstein.

Additional information about AllianceBernstein may be found on our internet site, www.alliancebernstein.com.

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Andrea Prochniak, Investors, +1-212-756-4542, andrea.prochniak@alliancebernstein.com, or Margot Olcay, Media, +1-212-843-8284, molcay@Rubenstein.com