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National Association of Federally-Insured Credit Unions

May 12, 2023

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

RE: Enterprise Regulatory Capital Framework Rule (RIN: 2590-AB27)

Dear Mr. Jones:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the proposed rule issued by the Federal Housing Finance Agency (FHFA) to amend several provisions in the Enterprise Regulatory Capital Framework (ERCF) for Fannie Mae and Freddie Mac (together the GSEs). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 135 million consumers with personal and small business financial service products. NAFCU generally supports the proposed amendments but urges the FHFA to swiftly implement the bi-merge credit report requirement and the median credit score calculation. NAFCU additionally urges the FHFA to implement a pricing specific adjustment of the base risk weight for mortgages originated by credit unions

General Comments

On December 17, 2020, the FHFA adopted the ERCF to ensure that the GSEs operate in a safe and sound manner as well as fulfill their statutory mission to provide stability and ongoing assistance to the secondary mortgage market. The ERCF became effective February 16, 2021, and has since been amended three times, the amendments became effective throughout 2022. The amendments refined the prescribed leverage buffer amount (PLBA) and the risk-based capital treatment of credit risk transfer (CRT), implemented a more comprehensive set of public disclosure requirements for the standardized approach, and required the GSEs to submit capital plans to the FHFA on an annual basis. NAFCU generally supported the previous amendments as they provided the GSEs with sufficient incentives to engage in more CRT transactions without compromising safety and soundness.

According to the FHFA, the GSEs remain severely undercapitalized, subsequently causing the FHFA to again enhance the ERCF through this proposal. NAFCU has always supported strong capital requirements for the GSEs, in order to move the GSEs toward a more stable financial footing and eventually out of conservatorship. Specifically, this proposed rule is introducing a 5 percent risk weight and 50 percent credit conversion factor for guarantees on commingled securities; a risk multiplier of 0.6 for multifamily mortgage exposures secured by properties with certain government subsidies; a standardized approach for counterparty credit risk as the method for computing risk weights for derivatives and cleared transactions; a modified procedure for determining a representative credit score for single-family mortgage exposures; a modified credit score for assumption for single-family mortgage exposures originated without a representative credit score; a 20 percent risk weight for guarantee assets; and a timing alignment between the application of single-family countercyclical adjustments and property value adjustments. NAFCU applauds the FHFA for its continued attention to the capitalization of the GSEs and its willingness to adjust the capital requirements as needed.

Commingled Securities

NAFCU supports a level playing field for both GSEs especially when it comes to commingled securities. Commingled securities are resecuritizations that include underlying collateral issued and guaranteed by both Fannie Mae and Freddie Mac. The ERCF includes risk-based, leverage, and buffer capital requirements for these guarantees. The current ERCF requires a GSE to apply a 20 percent risk weight on exposures to commingled securities owned by the other GSE. For leverage capital and buffer calculations, a GSE is required to apply a 100 percent conversion factor. Under this proposal the risk weight is reduced to 5 percent and the credit conversion factor is reduced to 50 percent for guarantees on commingled securities by the other GSE.

This proposed change builds on the FHFA's 2019 rule on Uniform Mortgage-Backed Security (UMBS) to ensure the equality of UMBS by the GSEs.[1] Essentially, this proposed change ensures that the investor benefits from both the original guarantee of the underlying collateral and the additional guarantees of the resecuritizing GSE, which will make purchasing these securities more appealing to investors. The proposed change to the credit conversion factor enhances the liquidity of UMBS and the overall stability of the secondary mortgage market. Additionally, this proposed change in risk weight decreases the incentive for the GSEs to only guarantee Supers, single class resecuritizations of UMBS, of their own UMBS. NAFCU appreciates the FHFA ensuring a stable secondary mortgage market because liquidity has become increasingly important in today's rising interest rate environment.

Credit Scores

In October 2022, the FHFA announced that the GSEs will begin requiring two credit reports, the bi-merge credit report requirement, rather than three, the tri-merge credit report requirement. There has yet to be an implementation date announced, but the proposed changes to the ERCF will prepare the GSEs for implementation. This proposed rule will modify the current procedure for selecting a representative credit score by requiring the GSEs to calculate the average credit score for each borrower in step one rather than selecting the median or lowest score.

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[1] FHFA, Uniform Mortgage-Backed Security Final Rule (March 5, 2019). https://www.federalregister.gov/d/2019-03934

NAFCU applauds the FHFA for dropping the tri-merge credit report requirement and the use of the median score among the three. While NAFCU has consistently advocated for the usage of a single credit report, NAFCU appreciates the FHFA eliminating the tri-merge credit report requirement. A bi-merge credit report is not only less expensive than a tri-merge credit report, but calculating the average scores is also a better way of weighing the scores and will provide more consistent results mathematically.

NAFCU additionally supports this proposed change to the credit score calculation and urges the FHFA to act swiftly in its implementation as credit unions are eager to begin reaping the benefits that these changes will provide, such as more accurate pricing, increased access to credit, scoring transparency throughout the process, and reduced costs in the long run. Frequently, borrowers in underserved areas have limited credit history and don't always qualify for mortgages that can be sold on the secondary market. Changing the credit requirements will expand the access to credit that is available to these borrowers and aid in closing the racial wealth gap. Under the FHFA's duty to serve final rule[2], the GSEs are directed to improve access to mortgage financing. This change in credit requirements does just that.

While NAFCU acknowledges that there will be significant changes that need to be made to credit unions' systems the benefits will outweigh any inconvenience the change may cause. NAFCU applauds the FHFA for making the necessary changes to the outdated credit score and report requirements. In the end having to pull two credit reports instead of three will be cheaper for credit unions and that savings can be passed to the borrower. Additionally, using the average score will be easier for systems to adopt once it has been implemented. This update to the credit score requirements will allow more borrowers to qualify for mortgages as it will essentially provide a more accurate view of consumers' financial picture and qualifications. The updates to the credit score calculation and report requirements have been long overdue and are welcomed by credit unions.

Base Risk Weight Adjustment for Credit Union Mortgages

In addition to the proposed amendments to the ERCF, NAFCU urges the FHFA to implement a pricing-specific adjustment of the base risk weight for mortgages originated by credit unions to account for the high quality and historically strong performance of those loans. If not, NAFCU at least recommends an adjustment for all lower-risk originator classes. The ERCF should include a discount for the low-risk mortgages that credit unions originate, which will in turn incentivize the GSEs to purchase high-quality loans from credit unions and ensure that the cost of credit remains low, allowing credit unions to continue to serve low-income, moderate-income, and underserved borrowers.

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[2] FHFA, Enterprise Duty to Serve Underserved Markets (December 29, 2016).
https://www.federalregister.gov/d/2016-30284

Conclusion

NAFCU appreciates the opportunity to comment on this proposed rule and applauds the FHFA for amending the ERCF as needed for proper capitalization of the GSEs. NAFCU generally supports the proposed changes and recommends that the FHFA act swiftly in its implementation of the bi-merge credit report requirement and the median credit score calculation. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2268 or amoore@nafcu.org.

Sincerely,

Aminah M. Moore
Senior Regulatory Affairs Counsel