3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

Independent Community Bankers of America®

October 19, 2017

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th St., SW
Washington, D.C. 20024

Dear Director Watt:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, and the Independent Community Bankers of America® (ICBA), the nation's voice for more than 5,700 community banks, we are writing to you regarding your recent statement before the U.S. House of Representatives Committee on Financial Services. We would like to thank you and your staff at the Federal Housing Finance Agency (FHFA) for your commitment to ensuring the continued stability of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, and championing reform within the GSEs. NAFCU and ICBA both agree, however, that internal reforms are not enough and that the time has come for Congress to act on comprehensive housing finance reform to create a more healthy and sustainable secondary market. We believe this process begins with allowing the GSEs to rebuild their capital buffers.

NAFCU and ICBA are pleased that you support this position. The GSEs have been in conservatorship for close to a decade now and have consistently been profitable since 2013, but the quarterly sweep of all GSE profits to the Treasury Department, as required under the Senior Preferred Stock Purchase Agreements (PSPA), puts taxpayers and the housing market at risk in the event of another financial downturn. With January 1, 2018 fast approaching, NAFCU and ICBA urge the FHFA to do everything within its authority to ensure the GSEs maintain a capital buffer to weather any short-term losses that may occur during the ordinary course of business.

Allowing the GSEs to rebuild their capital buffers to avoid another draw of taxpayer support would maintain investor confidence, which is essential to the safety and soundness of the secondary market, and prevent any further market disruptions. This would ensure the GSEs can continue to provide liquidity to credit unions, community banks and other lenders to support a vibrant housing finance system. It is essential that the GSEs maintain a modest capital buffer–perhaps only enough to cover losses in a single quarter–so that they are not forced to draw on the PSPA commitments at the expense of taxpayers. Such an occurrence would not only erode investor confidence but would also taint the public's perception of the housing finance system and the secondary market, putting the future of the housing finance system at risk. This self-inflicted outcome must be avoided.

We are optimistic that under your leadership, the FHFA will do what is necessary to ensure the GSEs continue to operate effectively and efficiently in a safe and sound manner. Thank you for your attention to the critical issue of housing finance reform and the opportunity to provide you with our perspective. If you have any questions or concerns, please do not hesitate to contact us directly.

Sincerely,

B. Dan Berger
President and CEO
National Association of Federally-Insured Credit Unions

Camden R. Fine
President and CEO
Independent Community Bankers of America