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Carrie R. Hunt
Executive Vice President of Government Affairs
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National Association of Federally-Insured Credit Unions

May 10, 2017

The Honorable Mike Crapo
Chairman
Committee on Banking, Housing,
And Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Re: Credit Unions and the Federal Housing Finance Agency

Dear Chairman Crapo and Ranking Member Brown:

On behalf of the National Association of Federally-Insured Credit Unions, the only trade association that exclusively represents the federal interests of our nation's federally-insured credit unions, I write with respect to tomorrow's hearing, "The Status of the Housing Finance System After Nine Years of Conservatorship." NAFCU members appreciate the work of Director Watt and the Federal Housing Finance Agency (FHFA) in helping stabilize the nation's mortgage market by overseeing Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLB).

As you know, the future of housing finance is of great importance to our nation's credit unions. NAFCU would like to reiterate to the committee the importance of retaining a housing finance system that provides credit unions with unrestricted access to the secondary mortgage market and offers them a fair price for their loans based on quality. This source of liquidity is critical in enabling credit unions to serve the mortgage needs of their over 107 million members across the country.

In addition to a healthy and viable secondary mortgage market that provides necessary access for community-based financial service providers like credit unions, Congress, in any reform effort, must put into place safeguards that will prevent discrimination based on the type of institution, an institution's asset size, or any geopolitical issues. To ensure this type of discrimination does not take place, NAFCU believes there needs to be a heavy focus on fair pricing that reflects loan quality as opposed to standards almost exclusively based on loan volume. Loan quality and underwriting standards are the best way to ensure a healthy and efficient secondary market and a strong housing economy. As has been widely recognized by Congress and various other stakeholders, credit unions did not contribute to the financial crisis and pride themselves on solid underwriting that creates high-quality loans.

NAFCU and our member credit unions welcome the opportunity to work with the committee as you pursue a comprehensive overhaul of the nation's housing finance system. As the committee prepares to hear from the FHFA, we would like to share a few thoughts on some of the agency's recent initiatives.

The FHFA's work on the Common Securitization Platform and Single Security as well as experiments with various credit risk transfer transactions are a step in the right direction and should be preserved in any new housing finance system. Nonetheless, NAFCU has some concerns regarding the logistics of fully implementing these programs and cautions the FHFA against rushing this process. Hasty

implementation may harm credit unions' access to the secondary mortgage market – a consequence that must be avoided.

CSP and Single Security:

The FHFA's efforts to create a Single Security have the potential to reduce compliance burdens for credit unions that transact business with the GSEs, allow greater accessibility to the to-be-announced market, and create an efficient and resilient national housing market. NAFCU and its member credit unions are, however, hesitant to fully endorse this project because of the risk that the consolidation of securitization programs will make it prohibitively expensive for credit unions to sell their loans to Fannie and Freddie. NAFCU urges the FHFA to provide safeguards for existing GSE securities held by credit unions so they do not lose their marketability after the introduction of a single security. The FHFA should strive to create full fungibility between legacy and new securities and, if the market demonstrates a distinct preference for the new single security, allow credit unions to exchange legacy securities for new ones.

Credit Risk Transfer:

NAFCU and its member credit unions support the FHFA's efforts to reduce overall risk at Fannie Mae and Freddie Mac, but are concerned that limiting front-end credit risk transactions to only those that are "economically sensible" has the potential to force credit unions out of the mortgage market. Currently, only large financial institutions have the necessary capital to participate in such transactions. If the FHFA would like to truly create a level playing field, other avenues should be explored. Establishing a level playing field for all lenders must include consideration of the unique structure and constraints of credit unions so they are not disadvantaged against larger lenders. Credit unions must be able to participate through the use of an aggregator or special purpose vehicle, such as the Federal Home Loan Banks (FHLBs). Alternatively, NAFCU believes that the time has come for the FHFA to consider permitting the FHLBs to begin securitizing and selling mortgage loans in addition to Fannie and Freddie. This would not only provide credit unions with greater access to the secondary mortgage market, but also reduce mortgage rates for borrowers and lower systemic risk in the secondary mortgage market.

Chattel loans/duty to serve:

The FHFA's December 2016 Duty to Serve final rule includes the NAFCU-backed provision that credits shall be extended for loans made on manufactured housing units titled as personal property, or chattel. NAFCU and our members believe that including chattel loans extended to finance manufactured housing units squarely meets the statutory intent of the *Housing and Economic Recovery Act of 2008* (HERA) to "facilitate a secondary market for mortgagees on housing for very low, low-, and moderate-income families." However, NAFCU recognizes that the chattel loans market is unique and complex and there is limited data about chattel lending. The FHFA should allow the GSEs more time to fully evaluate the chattel loans market before fully launching a pilot program as part of their three-year Underserved Markets Plans.

Again, thank you for holding this important hearing. We look forward to continuing to work with you on the issue of housing finance reform. If my colleagues or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

A handwritten signature in black ink, appearing to read "Carrie Hunt", with a long horizontal flourish extending to the right.

Carrie Hunt

Executive Vice President of Government Affairs & General Counsel

cc: Members of the Senate Banking Committee