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B. Dan Berger
President & Chief Executive Officer

National Association of Federally-Insured Credit Unions

January 9, 2020

The Honorable Dr. Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th St., S.W.
Washington, D.C. 20024

RE: Guarantee Fees for Small Lenders

Dear Director Calabria:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to you regarding the Federal Housing Finance Agency's December 2019 report titled, "Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2018" (the Report). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 119 million consumers with personal and small business financial service products. NAFCU and its member credit unions appreciate the FHFA's September 2019 directive to the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, prohibiting the practice of volume-based pricing discounts. The results of this Report are troubling as they highlight the need for such a directive as well as further action to ensure the GSEs are implementing fair pricing based on the quality not quantity of loans sold.

Based on NAFCU's analysis of data released under the *Home Mortgage Disclosure Act*, 97 percent of the reporting credit unions that sold loans to the GSEs in 2018 would be classified as extra-small lenders, using the classifications from the Report. Their combined volume represents 87 percent of total covered loans sold to the GSEs by the credit union industry during 2018. Therefore, the credit union industry is uniquely harmed by pricing which favors large institutions over smaller lenders. NAFCU urges the FHFA to take all necessary steps to ensure credit unions are not being unfairly disadvantaged in the guarantee fees applied to the sale of their mortgages simply because they are small-volume lenders using the cash window.

The *Housing and Economic Recovery Act of 2008* (HERA) requires the FHFA to provide a report to Congress each year tracking developments in guarantee fees charged by the GSEs.¹ In December 2019, the FHFA released this annual Report, which provides an analysis of guarantee fees by type and size of lender. The Report compares estimates of the cost to the GSEs of providing loan guarantees to the fee charged to the lender. The "gap" is defined as the difference between the two,

¹ See Public Law 110-289, § 1601, 122 Stat. 2654.

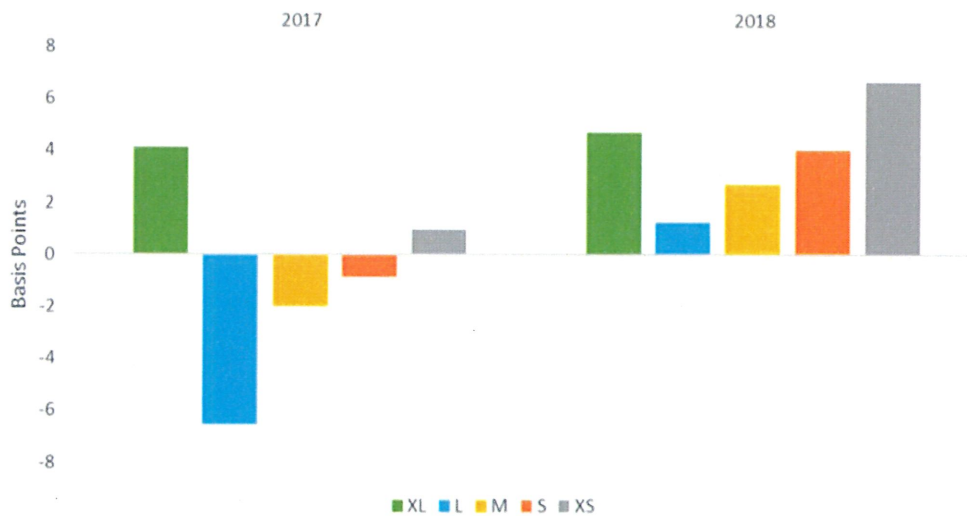
and it serves as a measure of profit to the GSEs relative to their cost of capital. The findings from the Report show that pricing for small lenders worsened in 2018 compared to the prior year.

The GSEs acquire loans either through a swap transaction where the lender receives a mortgage-backed security (MBS), or lenders may sell loans to the GSEs for cash via the “cash window.” The Report finds that small lenders overwhelmingly use the cash window, while large lenders tend to use the MBS option.² During 2018, “61 percent of MBS acquisitions were by extra-large (XL) lenders, and 61 percent of cash acquisitions were by the small (S) and extra-small (XS) lenders.”

The Report then reviews pricing and the estimated gap for each asset size cohort, both for those loans that were swapped for MBS and for those sold through the cash window, respectively, accounting for variations in loan characteristics (debt-to-income ratio, loan-to-value ratio, credit score, property type, etc.). The fee charged to extra-small lenders using the MBS channel fell by one basis point, from 53 basis points in 2017 to 52 basis points in 2018. The gap for extra-small lenders on MBS transactions in 2018 was negative and lower than for any other asset cohort. But these lenders are far less likely to use the MBS swap option than larger lenders.

As for the cash window, guarantee fees for extra-small lenders rose by two basis points, from 55 basis points in 2017 to 57 basis points in 2018. The gap for the extra-small cohort increased substantially over 2017 and was higher than for any other cohort (see chart below, reproduced from the Report). This implies that the GSEs earned their highest risk-adjusted profits on cash-window transactions from extra-small lenders in 2018.

Chart 12b: Gap by Lender Volume Group, Cash Window



² The Report divides lenders into five categories by rank, according to their asset size: the top 5 lenders (XL), 6 through 15 (L), 16 through 25 (M), 26 through 100 (S), and all remaining lenders (XS).

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NAFCU is concerned by the results of the Report as it appears that while the GSEs collect considerable profits from small lender sales through the cash window, the pricing methodology used in 2018 disadvantaged small lenders. Considering the credit union industry is primarily populated with small lenders and many of them rely on the GSEs for access to the secondary market, these practices disproportionately harm credit unions. This reliance on the GSEs, coupled with the findings in this Report, means that more work must be done at the GSEs to ensure fair pricing and equal access for credit unions and other small lenders. NAFCU requests that the FHFA take immediate action to resolve this issue and protect small lenders' ability to access the secondary market to obtain liquidity to continue to provide mortgages to members of their communities.

Thank you for your continued attention to issues important to the credit union industry. I look forward to continuing this dialogue as the FHFA, the U.S. Department of the Treasury, and Congress contemplate housing finance reform and guarantee equal access for institutions of all sizes. If you have any questions about the report or if I may be of assistance to you in any way, please do not hesitate to contact me or Ann Kossachev, NAFCU's Director of Regulatory Affairs, at (703) 842-2212 or akossachev@nafcu.org.

Sincerely,



B. Dan Berger
President and CEO

*Thanks for your continued support
and friendship!*