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National Association of Federally-Insured Credit Unions

February 27, 2019

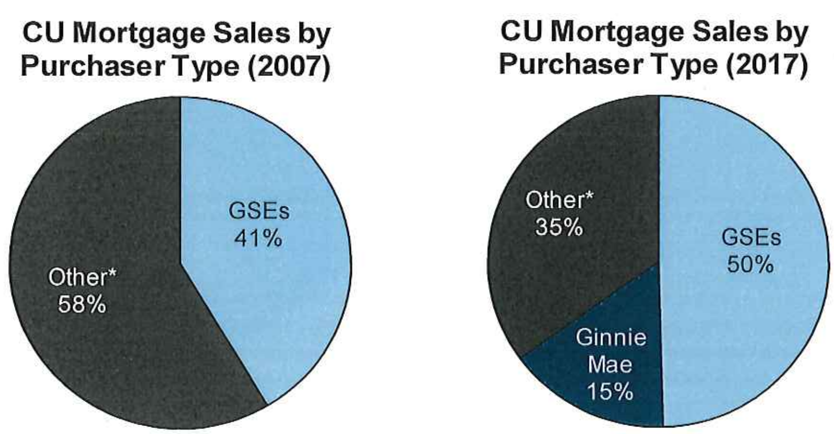
The Honorable Joseph Otting
Acting Director
Federal Housing Finance Agency
400 7th St., SW
Washington, D.C. 20024

Re: Credit Union Principles for Housing Finance Reform

Dear Acting Director Otting:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), and in anticipation of our meeting in the coming weeks, I would like to share with you our principles for housing finance reform. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 115 million consumers with personal and small business financial service products. I look forward to discussing with you a variety of mortgage lending and housing finance reform matters. These issues are critical to credit unions because of their heavy reliance on the ability to sell mortgages to the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac.

The most recent *Home Mortgage Disclosure Act* (HMDA) data indicates just how much credit unions have come to rely on the GSEs to access the secondary market. Between 2007 and 2017, the portion of credit union first mortgages that were sold to Fannie Mae and Freddie Mac grew from 41 percent to 50 percent.



*Includes banks, mortgage banks, credit unions finance or life insurance companies, affiliate institutions, and other types of purchasers
Source: FFIEC

Responses to NAFCU's 2018 Federal Reserve Meeting Survey also highlight the growing utilization of the GSEs among credit unions. Survey respondents indicated that 23 percent sell mortgages to Fannie Mae, 10 percent sell to Freddie Mac, and another 23 percent sell to both. In addition, many credit union board of directors' policies restrict the percentage of mortgage loans that may be held on their balance sheet in order to help mitigate risk. Accordingly, any housing finance reform discussions should place a strong emphasis on evaluating the potential impact on the credit union industry.

In light of your recent comments regarding housing finance reform, in addition to those of the Administration more broadly, NAFCU would like to outline a set of principles that should be reflected in any housing finance reform efforts. The overarching goal of these principles is to ensure that credit unions are treated fairly with respect to accessing the secondary market. Above all else, as you have acknowledged, a bipartisan legislative solution is the ideal mechanism for reforming our nation's housing finance system. Below are NAFCU's housing finance reform principles:

- **A healthy, sustainable and viable secondary mortgage market must be maintained.**
  Credit unions must have unfettered, legislatively-guaranteed access to the secondary mortgage market. In order to achieve a healthy, sustainable and viable secondary market, there must be vibrant competition among market participants in every aspect of the secondary market. Market participants should include, at a minimum, at least one GSE, the Federal Home Loan Banks (FHLBs), Ginnie Mae, and private entities.

- **The U.S. government should issue an explicit government guarantee on the payment of principal and interest on mortgage-backed securities (MBS).**
  The explicit guarantee will provide certainty to the market, especially for investors who will need to be enticed to invest in MBS, and facilitate the flow of liquidity through the market.

- **The GSEs should be self-funded, without any dedicated government appropriations.**
  Although the U.S. government should be involved in the secondary mortgage market, the GSEs should not be government-funded mortgage programs. The GSEs' fees should provide the revenue necessary for sustained independent operation. Those fee structures should, in addition to size and volume, place increased emphasis on the quality of loans. Risk-based pricing for loan purchases should reflect that quality difference. Credit union loans provide the high quality necessary to improve the salability of the GSEs' securities.

- **Creation of a Federal Housing Finance Agency (FHFA) board of advisors.**
  A board of advisors made up of representatives from the mortgage lending industry should be formed to advise the FHFA regarding the GSEs and the state of the secondary mortgage market. Credit unions should be represented in such a body.

- **The GSEs should be allowed to rebuild their capital buffers.**
  Rebuilding capital buffers ensures the safety and soundness of the GSEs, maintains investor confidence, prevents market disruption, and reduces the likelihood of another taxpayer bailout

in the event of a future catastrophic market downturn. The GSEs should be permitted to begin rebuilding capital slowly over a period of several years.

- **The GSEs should not be fully privatized at this time.**
  There continues to be serious concerns that in a fully privatized system, in which the GSEs are sold off to the secondary market, small, community-based financial institutions could be shut out of the secondary market. Any privatization efforts should be gradual and ensure that credit unions have continued access to the GSEs and the secondary mortgage market.

- **The FHLBs must remain a central part of the mortgage market.**
  The FHLBs serve an important function in the mortgage market as they provide their credit union members with a reliable source of funding and liquidity. Housing finance reform must take into account the consequence of any legislation on the health and reliability of the FHLBs.

- **Credit risk transfer (CRT) transactions should be expanded and the Common Securitization Platform (CSP) and Single Security retained.**
  Although there are concerns regarding credit unions' ability to participate in certain CRT transactions, the GSEs should continue to expand CRT as well as initiatives to create deeper mortgage insurance to further disperse risk among private investors. Credit unions should be permitted to participate in transactions such as front-end CRTs through a special purpose vehicle, such as a credit union service organization or the FHLBs. The CSP and Single Security have the potential to simplify the sale of loans to the GSEs and allow greater, more affordable access to the secondary mortgage market.

- **The FHFA or its successor should continue to provide strong oversight of the GSEs and the new system, whatever it may look like.**
  A strong, reliable single federal regulator helps to provide consistency and focus to the GSEs so they can stay on track with their core missions and objectives. The FHFA helps maintain safety and soundness in the secondary mortgage market. A new system should also utilize the current regulatory framework and GSE pricing and fee structures.

- **The transition to a new system should be as seamless as possible.**
  Regardless of whether the GSEs in their current form are part of a new housing finance system, credit unions should have uninterrupted access to the GSEs or their successor(s) and the secondary mortgage market as a whole, in particular through the cash window and small pool options.

NAFCU and its member credit unions could only support a housing finance reform plan that incorporates the above principles in some fashion. Housing finance reform truly is the last piece of unfinished business from the financial crisis – an event in which credit unions played no part. Before, during, and after the financial crisis, credit unions have been committed to helping the portions of their communities that are most in need with high quality products and services. This member-first approach is what makes credit unions unlike any other financial institution. Considering the vital role of credit unions in communities across the country, NAFCU urges you to carefully consider the potential impact any administrative housing finance reform efforts may have on the industry.

Thank you for your consideration and attention to these important matters. We look forward to meeting with you to discuss these principles. If we can answer any questions or provide you with additional information, please do not hesitate to contact me.

Sincerely,

B. Dan Berger
President and CEO