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National Association of Federally-Insured Credit Unions

November 15, 2018

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Uniform Mortgage-Backed Security (RIN 2590-AA94)

Dear Mr. Pollard:

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, I am writing in response to the Federal Housing Finance Agency's (FHFA) proposed rulemaking on Uniform Mortgage-Backed Securities (UMBS). NAFCU members appreciate and support the FHFA's efforts to enhance liquidity, efficiency, and competition. Effective housing finance reform that preserves a government guarantee, maintains unfettered access to the secondary market and ensures fair pricing for credit unions based on loan quality, not volume, has remained a top priority for NAFCU and its members. Generally, NAFCU supports the FHFA's proposed rule because it has the potential to positively impact credit unions and consumers alike. NAFCU encourages the FHFA to include credit union professionals in its Single Security/CSP Industry Advisory Group (IAG) so that credit unions are represented during and after the implementation of this important initiative.

General Comments

The securitization processes of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, are a key component of the safety and soundness of credit unions across the country. Historically, the GSEs have been a valuable partner to credit unions, enabling them to obtain the necessary liquidity to provide new mortgages to their member-owners by utilizing the secondary market, and to manage interest rate and concentration risks.

In 2012, the FHFA released its white paper entitled *Building a New Infrastructure for the Secondary Mortgage Market*, which proposed the Common Securitization Platform (CSP). A year later, the FHFA established the Common Securitization Solutions, LLC (CSS) to develop the CSP. In response to the FHFA's 2014 request for information, it was determined that each GSE would issue and guarantee first-level UMBS backed by mortgage loans that the GSE had acquired, the GSEs would not cross-guarantee each other's first-level UMBS, and mortgage lenders would continue to be able to sell mortgage loans to multiple-lender pools, among other things. NAFCU is supportive of the efforts to increase liquidity, as the FHFA projects the addition of $1.3 trillion in liquidity for Fannie Mae and $2.3 trillion for Freddie Mac as a result of the implementation of the UMBS.

NAFCU members are actively involved in selling to the secondary market. According to NAFCU's February 2018 *Economic & CU Monitor* survey, 35 percent of members are selling to Fannie Mae, 12 percent to Freddie Mac, and 12 percent to both GSEs. Further, 39 percent of NAFCU members sell mortgages to the Federal Home Loan Banks and 6 percent use FHA or VA. It is important that any proposed rulemaking ensures credit unions' ability to provide loans and services to their members is not compromised, and their access to the secondary mortgage market is not diminished.

The UMBS Creates Standardization that Results in Benefits to Both Market Participants and Homeowners

The creation of a fungible security removes some barriers for market participants to enter. Not only will the UMBS create competition within the GSEs with equalized pricing, but the reduced barriers to entry will encourage private financial institutions to again enter the market as they were prior to the financial recession. Creation of a standardized interface and software system allows for easier access, as well as incentivizes future market participation with reduced infrastructure burdens. The UMBS bolsters some of the objectives contained in the *FHFA's Perspectives on Housing Finance Reform*, which include creating and promoting a fair and competitive secondary marketplace and attracting new private securitizers to the housing finance system.

Greater competition in the marketplace will reduce costs for both market participants and homeowners. According to NAFCU's 2018 *Federal Reserve Meeting Survey*, 26 percent of credit unions base their decision to utilize the GSEs on ease of access relative to alternatives, while 23 percent are persuaded by pricing. As NAFCU members have reported that they are persuaded by pricing when looking to utilize the GSEs, equalized pricing models will benefit credit unions by reducing costs, and likely lead to credit unions selling to both GSEs. NAFCU agrees that a fungible security levels the playing field for institutions of all sizes and provides enhanced access to the secondary marketplace, fulfilling a key FHFA reform objective. The existing To-Be-Announced (TBA) trading market already provides market participants with a simplified approach to analytical and risk management challenges. Market participants only have to analyze a set of risks associated with the parameters. The creation of a simplified, fungible security further simplifies those analytical and risk management challenges for market participants.

Moreover, NAFCU agrees that the successful adoption of the UMBS will result in the marketing of lesser-traded TBA-eligible MBS. According to NAFCU's 2018 *Federal Reserve Meeting Survey*, on average, 59 percent of credit unions' first-mortgage loans outstanding qualified to be sold to the GSEs, with about 29 percent of qualified mortgages actually being sold to the secondary market in 2018. More credit unions expect to sell a larger portion of their mortgage originations to the secondary market than in the previous year. The GSEs' charters restrict the types of loans that may be securitized, which impacts credit unions' ability to sell. Under the current securitization regime, the GSEs are competing for a more dominant security. However, with the creation of a fungible market, the incentive for the GSEs to compete for market share to create a dominant security is removed. Thus, those eligible credit union first-mortgage outstanding loans that were previously less traded may become more attractive purchase options. Implementation of the UMBS will result in the enhanced ability of credit unions to sell outstanding mortgage loans in the secondary market, which will lead to greater liquidity. Greater liquidity allows credit unions to better assist their communities by providing additional products and services to members, and ultimately leads to overall credit union growth.

NAFCU supports the general alignment of programs, policies, and practices between the GSEs. However, the required alignment may potentially prohibit innovation in new programs implemented by either GSE. The de minimis exception eliminating unnecessary administrative burdens for pilot and small scale programs will allow the GSEs to continue to work on individual programs and execute new initiatives without aligning with one another. Although the general alignment will create a streamlined and efficient approach, the GSEs need the freedom to implement small scale programs that are beneficial to sellers and specific cohorts, such as credit unions, without forcing the other GSE to implement the program. This de minimis exception allows for the GSEs to implement important small scale programs while still adhering to the goal of providing a streamlined approach to access the secondary marketplace.

The FHFA Should Include Credit Union Industry Professionals in the IAG

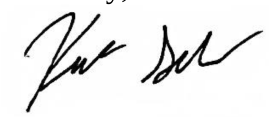
The IAG was formed to provide feedback and share information with CSS and the GSEs related to the UMBS and development of the CSP. Credit unions are unique when compared to other financial services providers but were unfortunately not represented in the IAG, whereas all other banking sectors were adequately represented. Given that a majority of credit unions sell to the GSEs, their feedback is vital to the development and implementation of the CSP and the UMBS. Since the recession and start of conservatorship in 2008, almost 22 percent of NAFCU members have reported selling proportionally more mortgage loans to the GSEs than prior to 2008. Further, the volume of credit union loans sold to the GSEs is almost equal to the volume sold by banks and other depository institutions.

According to Fannie Mae, in Q1 2016 credit unions accounted for 47 percent of GSE loan purchases, while depository institutions accounted for 52 percent. Accordingly, NAFCU requests that the credit union industry be adequately represented in the IAG going forward to ensure seamless implementation before the launch of the UMBS on June 3, 2019 and after. Credit unions should have the opportunity to share their perspectives on any implementation challenges that may arise. NAFCU has always supported a mechanism for credit unions to provide direct feedback to the FHFA, especially as the credit union presence in the mortgage market continues to increase.

Conclusion

NAFCU supports the FHFAs proposed rule to increase liquidity in the secondary market, and we ask that credit unions be represented in the IAG to ensure seamless implementation of the UMBS. NAFCU appreciates the opportunity to share its members' views on this matter. Should you have any questions or require additional information, please do not hesitate to contact me at (703) 842-2249 or kschafer@nafcu.org.

Sincerely,



Kaley Schafer
Regulatory Affairs Counsel