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

January 30, 2018

The Honorable Michael D. Crapo
Chairman
Committee on Banking, Housing, &
Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, &
Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Re: FHFA's Perspectives on Housing Finance Reform

Dear Chairman Crapo and Ranking Member Brown:

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 to share our thoughts on the Federal Housing Finance Agency's (FHFA) views on housing finance reform. NAFCU agrees with several of the principles and perspectives laid out in FHFA Director Mel Watt's January 16, 2018, letter to you with the attachment entitled "Federal Housing Finance Agency Perspectives on Housing Finance Reform" (FHFA's Perspectives).

We agree with the FHFA that the current conservatorship of Fannie Mae and Freddie Mac (the GSEs) is unsustainable in the long term and a legislative solution is needed. In particular, NAFCU is pleased to see an emphasis placed on providing a level playing field for institutions of all sizes to access the secondary market. Any reform bill must include legislative text that guarantees credit unions unfettered access to the secondary market and a level playing field in terms of fair pricing based on loan quality instead of loan volume.

NAFCU's Housing Finance Reform Principles (see attached) recognize the importance of a limited government role in the housing finance system, particularly in the form of an explicit government guarantee on mortgage-backed securities (MBS). Such guarantee must be the backbone of any successful future housing finance system. Large banks should never again be permitted to capture the secondary market at the expense of small, community-based, member-owned financial institutions.

NAFCU supports the FHFA's continued work on implementing the Common Securitization Platform (CSP) and Single Security as well as its continued activities with respect to credit risk transfer (CRT) transactions. CRT transactions are a critical component of reducing systemic risk because they shift risk from the GSEs onto private investors, thereby protecting our nation's taxpayers. NAFCU recognizes this initiative as essential to maintaining investor confidence in the housing finance system and believes it should be part of any potential reforms to the system. NAFCU urges you to carefully consider the progress the FHFA has made with such initiatives and the crucial role a strong, independent regulator could play in a future system. Nonetheless, we believe it is critical that you recognize the importance of maintaining continued, unfettered credit union access to the secondary mortgage market. NAFCU encourages you to pursue reform initiatives through the lens of fostering a level playing field for lenders of all sizes and appreciates work already done in this regard.

On the regulatory front, NAFCU will continue to work to ensure that credit unions' access to the secondary market is not hampered by regulatory actions. The FHFA, under the leadership of Director Watt, has been receptive to credit union needs in general, but NAFCU will continue to monitor rulemakings, including those relative to the Federal Home Loan Banks (FHLBs) as they are another crucial source of liquidity for credit unions. NAFCU is committed to working with the FHFA to ensure credit unions continue to have the ability to sell their mortgages into the secondary market. NAFCU appreciates the Committee's ongoing work toward a legislative solution because it is the best way to ensure a healthy and sustainable housing finance system, which will mean a more safe and sound environment for credit unions.

Thank you for your consideration and attention to these important matters. We look forward to working with you to address these priorities. If we can answer any questions or provide you with additional information on any of these issues, please do not hesitate to contact me or NAFCU's Vice President of Legislative Affairs Brad Thaler, at 703-842-2204, or bthaler@nafcu.org.

Sincerely,

Carrie R. Hunt
Executive Vice President of Government Affairs and General Counsel

cc: Members of the Senate Banking Committee

Attachment: NAFCU's Housing Finance Reform Principles

HOUSING FINANCE REFORM PRINCIPLES

NAFCU

National Association of Federally-Insured Credit Unions

The National Association of Federally-Insured Credit Unions (NAFCU) is a direct membership association that serves the needs of federally-insured credit unions through unparalleled federal advocacy, education, and compliance assistance. NAFCU and its member credit unions have long supported a vibrant secondary mortgage market that provides equal access to lenders of all sizes. NAFCU's members play a significant role in the mortgage lending industry and strive to provide high-quality loans all while increasing member access to credit.

Since 2008, when the federal government took control of Fannie Mae and Freddie Mac (the government-sponsored enterprises or GSEs) from their stockholders and placed them into conservatorship, the future of the GSEs and the secondary mortgage market has become an important topic of debate among lawmakers and three administrations. NAFCU and its members have been intimately involved in housing finance reform efforts in Congress since that time. Representatives from several of NAFCU's member credit unions have provided testimony on various legislative proposals, including the *Protecting American Taxpayers and Homeowners* (PATH) *Act* and *the Housing Finance Reform and Taxpayer Protection Act* introduced by Senators Bob Corker (R-TN) and Mark Warner (D-VA). These testimonies provided Congress with vital insight into the credit union perspective on the secondary mortgage market. NAFCU also participated in the discussion surrounding the Housing Finance Reform and Taxpayer Protection Act of 2014 (Johnson-Crapo) and has consistently commented on proposals coming out of the Federal Housing Finance Agency (FHFA) to provide the agency with information on the potential affects their proposals may have on credit unions. As the FHFA has become more active in their internal piecemeal efforts at GSE reform, NAFCU has stepped up to the plate as the leader in the credit union industry regarding housing finance reform.

Now, more than ever since the financial crisis, Washington D.C. is abuzz with talk of housing finance reform. This paper outlines NAFCU's principles for the future state of housing finance reform. Although this paper is not an official proposal for GSE reform, NAFCU believes that whatever reform option is ultimately adopted must include these core principles to ensure the safety and soundness of credit unions nationwide. The time has come for Congress to take action on housing finance reform to establish a safe and viable housing market for the foreseeable future.

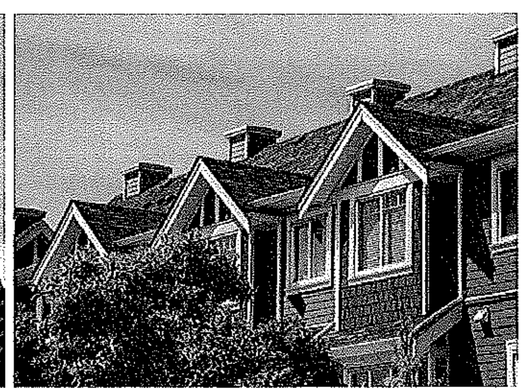
THE CREDIT UNION PERSPECTIVE

The housing market is a critical aspect of our nation's economy and the future of the housing finance system is of great importance to our nation's credit unions and their 108 million members. In the years since the Great Recession, it has become increasingly clear that the status quo for our housing finance system is an unsustainable long-term option. It is essential that we now devote time to establishing workable principles through which to guide potential housing finance reform efforts.

Before, during, and after the financial crisis, credit unions continued to make quality loans through solid underwriting practices. Regulatory restrictions, however, have made it difficult for credit unions to hedge against interest rate risk. The government-sponsored enterprises are of particular importance to credit unions because they serve as an important management tool to access the liquidity necessary to enable credit unions to serve the mortgage needs of their member-owners. Overall, the GSE securitization process remains a key component of the safety and soundness of credit unions nationwide.

In addition to maintaining access to a healthy and viable secondary mortgage market, fair pricing is equally as critical in ensuring community-based financial service providers have a seat at the table. Credit unions serve communities of varying compositions and believe that the GSEs should continue to do the same and not discriminate against a financial institution based on the type of institution, an institution's asset size or any other geopolitical factors. As such, GSE pricing for loans should be based on loan quality and not quantity.

These general positions underlie the following specific GSE reform principles that NAFCU believes must be a central part of any legislative reform effort. The ultimate goal is to create a thriving and sustainable market for mortgage-backed securities (MBS) that will provide equal access to lenders of all sizes and will not require another taxpayer bailout.



PRINCIPLES FOR HOUSING FINANCE REFORM:

› **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 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 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 continue 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 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 credit risk transfer (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'S VISION FOR THE FUTURE OF HOUSING FINANCE

NAFCU's vision is two-fold: continued access to the secondary mortgage market and a level playing field for lenders of all sizes. Currently, the GSEs provide credit unions with the liquidity necessary to offer new mortgages to their member-owners. In the future, credit unions must continue to be able to sell directly to the GSEs without having to aggregate their loans through larger lenders. The GSEs must also continue to offer fair prices and fees.

Although NAFCU does not support full privatization at this time, the GSEs should be permitted to begin rebuilding their capital buffers. This is imperative to preserving liquidity and overall market stability. Additionally, in a new housing finance system, the GSEs should provide an explicit guarantee backed by the full faith and credit of the United States government. If the GSEs are to continue to attract private investors, an explicit guarantee is necessary to ensure market continuity in the event of a financial downturn.

As Congress considers housing finance reform, the process will not be easy and it will be undeniably filled with uncertainties. The above principles provide a concrete foundation for reform. Credit unions play a vital part in the mortgage market and their ability to sell loans to the GSEs must remain uninterrupted through any potential transition to a new housing finance system. Unfettered access to the secondary mortgage market for credit unions with fair pricing based on loan quality as opposed to volume must be maintained to ensure the continued safety and soundness of our nation's housing market.