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National Association of Federally-Insured Credit Unions

May 22, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing, "FHFA Oversight: Protecting Homeowners and Taxpayers"

Dear Chairman McHenry and Ranking Member Waters:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) ahead of tomorrow's hearing, "FHFA Oversight: Protecting Homeowners and Taxpayers." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 135 million consumers with personal and small business financial service products. NAFCU and our members appreciate the Committee's continued oversight of the Federal Housing Finance Agency (FHFA) and its activities.

Ahead of the hearing, we would like to share some thoughts on issues impacting credit unions before the FHFA.

<u>Capital Requirements and Guarantee Fees</u>

Last week, the FHFA issued a request for information (RFI) on the government-sponsored enterprises' (GSEs) single-family pricing framework. NAFCU is supportive of the FHFA's efforts to allow the GSEs to rebuild capital, and we believe strong liquidity and funding requirements are an important step toward preventing another government bailout in the event of an economic downturn and ultimately removing the GSEs from conservatorship. However, this should not come at the cost of increased guarantee fees which can ultimately harm consumers. NAFCU has continuously advocated for lower guarantee fees for credit unions selling loans to Fannie Mae and Freddie Mac. Excessive capital requirements that treat the GSEs like large banks by establishing enhanced regulatory and supervisory requirements will likely increase compliance costs for the GSEs. This has the potential to lead to negative impacts on credit unions and their members in the form of higher mortgage costs.

Increased guarantee fees on the sale of loans should not be the trade-off for the short-term capital build-up and other changes at the GSEs, as this will serve to limit access to credit for the communities that are most in need. Guarantee fees should not be used as a tool to address political concerns. Now is not the time to impose additional costs on borrowers who are relying on access to mortgage credit through a loan that will be sold to the GSEs. Accordingly, in the absence of legislative action, NAFCU asks the Committee to urge the FHFA to continue to transparently communicate its expectations regarding changes to guarantee fees or other fees on sellers during this difficult economic time and on a consistent basis as the GSEs move closer to a potential release from conservatorship. Ultimately, the FHFA and U.S. Department of the Treasury should reevaluate whether it may be more appropriate for the GSEs to retain a higher level of capital to be able to operate effectively and provide greater avenues for lenders to better serve their communities.

Fintech in Mortgage Origination

Fintechs are changing the entire mortgage process, including how lenders identify potential borrowers, verify data, appraise properties, and verify title, as well as lenders' interactions with each other, borrowers, and regulators. To the extent that any part of the mortgage process is outdated and can benefit from fintech integration, NAFCU supports its innovation and technological advancement. Credit unions work with fintech companies to improve efficiency in the mortgage process and improve member service when possible. Fintech systems can quickly process large amounts of data, thus introducing speed into the mortgage process. Credit unions' collaboration with fintechs can make processing mortgage loans much faster than traditional methods, which can provide a huge advantage for borrowers who may be racing the clock, especially in times of lower interest rates and competitive housing sales.

Conversely, fintech innovation within housing finance has limits and may not be accepted by all borrowers. Nonbank fintech lenders that are completely digital, with no option for human interaction, are not beneficial to the housing finance system or most borrowers. Fintech is invaluable for certain steps in the mortgage origination process, such as completing an application online or through an app, uploading documents electronically, and automating the risk assessment process. But buying a home is, for most borrowers, the most expensive purchase they will ever make, and is also a complicated process, so higher levels of customer service and human interaction are necessary throughout the process.

NAFCU has urged the FHFA to mitigate the risks posed by non-depository fintech lenders in order to protect the safety and soundness of the housing finance system, and we urge the Committee to evaluate the most appropriate means by which the FHFA should mitigate these risks. NAFCU has also long advocated for the GSEs to consider integrating new technologies into mortgage origination. Additionally, we call on the Committee and the FHFA to engage with the industry and look into how new technologies could benefit fintech lenders in the mortgage origination process.

Along those lines, we are pleased to see the FHFA's recently established Office of Financial Technology encouraging credit unions to participate in its upcoming Velocity TechSprint meeting this July that will "bring together experts and practitioners from the technology and the mortgage finance sectors to propose solutions for reducing mortgage costs and delivery times, while creating a more inclusive and transparent process."

Affordable Housing and Community Development Financial Institutions (CDFIs)

NAFCU appreciates the FHFA's commitment to fostering liquidity in the mortgage markets and ensuring equitable access to the secondary market by qualified institutions and borrowers. However, there are more opportunities available to the GSEs that can further close the racial homeownership gap and ensure that government-sponsored programs are benefiting the individuals and communities that most need them. For example, NAFCU has encouraged the FHFA to consider pilot programs for low- or zero-down payment mortgage loans that help borrowers build wealth. The FHFA should require the GSEs to launch such pilot programs and consider additional programs targeted toward buying mortgages from CDFIs, as this will help underserved borrowers and first-time homebuyers achieve homeownership while allowing credit unions to better support their communities. Collectively, such programs will go a long way in closing the racial homeownership gap.

We thank you for the opportunity to share our thoughts in advance of tomorrow's hearing on FHFA oversight. Should you have any questions or require any additional information, please contact me or NAFCU's Senior Associate Director of Legislative Affairs Amber Milenkevich at amilenkevich@nafcu.org or (703) 842-2266.

Sincerely

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Financial Services Committee