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National Association of Federally-Insured Credit Unions

February 8, 2023

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Re: Tomorrow's Hearing: "The State of Housing 2023"

Dear Chairman Brown and Ranking Member Scott:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing, "The State of Housing 2023." 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. We thank you for holding a hearing on this important topic and would like to take this opportunity to share our thoughts on a few key issues related to housing.

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 members. In the years since the Great Recession and hardships during the COVID-19 pandemic, it has become increasingly clear that efforts to modernize the housing finance system should continue. 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 and COVID-19 pandemic, credit unions provided and continue to provide 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 (GSEs) 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.

As you look ahead to beyond the pandemic and the future of housing, we would like to take this opportunity to share again with you our Housing Finance Reform Principles that we would like to see reflected in any reform efforts. NAFCU has long advocated for housing finance reform because the current conservatorship of the GSEs, Fannie Mae and Freddie Mac, is unsustainable in the long term, and we are pleased to see the Committee's continued focus on this issue. We believe legislative reforms are essential before the GSEs are released from conservatorship so smaller lenders like credit unions have guaranteed, fair access to the secondary mortgage market. Congress should prioritize advancing legislation that provides fair pricing based on quality and not quantity as well as a level playing field that permits equal access to lenders of all sizes through services such as the cash window. Without such legislative protections, credit unions' access to the secondary market and ability to lend to more members of their communities, particularly those individuals of low and moderate income, may be in jeopardy in reforms.

A long priority of NAFCU's in reform efforts is an explicit government guarantee to 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. Such a guarantee is a key part of the foundation of any successful future housing finance system and should help ensure the continued availability of the 30-year fixed rate mortgage. We are committed to continuing to work with the Committee in a bipartisan manner as it considers this proposal and others so that credit unions are afforded the protections necessary to ensure they can continue to provide their communities with access to credit.

Additionally, on the housing front, access to the Federal Home Loan Bank (FHLB) system is also an important tool for credit unions. 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. Updating the outdated definition of a "Community Financial Institution" in the Federal Home Loan Bank Act would be an important step Congress can take, as the current definition under the Act does not include credit unions. Updating the definition will help make access to FHLBs easier for credit unions.

Finally, NAFCU strongly supports pilot programs for low- or zero-down payment mortgage loans that help borrowers build wealth and make housing more affordable. These types of loans are especially helpful for very low- and low-income borrowers and should be supported by the Federal Housing Finance Agency (FHFA) and the GSEs as part of their annual housing goals, which would, in turn, help credit unions make more of these loans to support their communities. One such loan is the Wealth Building Home Loan (WBHL), as developed by the American Enterprise

Institute, which is structured as either a 15- or 20-year fully amortizing loan with either a fixed interest rate or a two-step rate structure (an initial fixed-rate for about 7 years and then an adjustable rate), strong underwriting, and zero or low-down payment. NAFCU again reiterates its support for products like this that encourage wealth building among the communities most in need and urges the Committee to advance such programs.

We thank you for your leadership and appreciate the opportunity to share our thoughts on the state of housing in 2023. Should you have any questions or require any additional information, please contact me or Jake Plevelich, NAFCU's Associate Director of Legislative Affairs, at jplevelich@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Senate Committee on Banking, Housing, and Urban Affairs