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National Association of Federally-Insured Credit Unions

March 15, 2021

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing,
& Urban Affairs
U.S. Senate
Washington, D.C. 20510

The Honorable Pat Toomey
Ranking Member
Committee on Banking, Housing,
& Urban Affairs
U.S. Senate
Washington, D.C. 20510

**Re: Tomorrow's Hearing, "Home = Life: The State of Housing in America"**

Dear Chairman Brown and Ranking Member Toomey:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing, "Home = Life: The State of Housing in America." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 124 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.

First, this pandemic has underlined the fact that housing is healthcare, and we thank you for passing important housing and rental assistance as part of the *American Rescue Plan Act*. Rental assistance not only enables financially struggling Americans to stay in their homes during this pandemic, but it also helps small landlords continue to make their mortgage payments. Considering the toll this pandemic has taken on many vulnerable families, we strongly support this additional assistance, which helps ensure this health crisis does not become another housing crisis. While credit unions have worked with their members to provide forbearance, that relief over time can strain a financial institution, making it harder to operate and provide additional credit to members. This assistance is necessary to help struggling Americans stay in their homes, while ensuring that financial institutions such as credit unions have the liquidity to continue to serve their members.

Second, as you look ahead to beyond the pandemic and the future of housing, we would like to take this opportunity to share 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 government-sponsored enterprises (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.

We were pleased to see Ranking Member Toomey release a set of guiding principles for housing finance reform in conjunction with this hearing, helping to advance the debate on this crucial topic. We thank Ranking Member Toomey for signaling his openness to a federal guarantee on GSE mortgages. This has long been a priority of NAFCU's, as an explicit guarantee will provide certainty to the market, especially for investors who will need to be enticed to invest in mortgage-backed securities (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.

Any new housing finance system must contain provisions that ensure credit unions can retain servicing rights to loans they make to their members. Many consumers turn to credit unions for lower rates and more palatable fee structures, but they also want to work with a reputable organization that they trust will provide them with high quality service. Because credit unions work so hard to build personal relationships with their members, relinquishing servicing rights has the potential to jeopardize that relationship in certain circumstances. A number of credit unions retain servicing rights on all of their loans. This was especially beneficial during the Great Recession, and has been again during this pandemic, as it allows credit union members to approach their institutions when they are facing economic hardship. In addition, maintaining the servicing rights throughout the life of the loan ensures no disruption to credit union members. The ability to retain servicing rights must be preserved for credit unions of all sizes in any new housing finance system. If national servicing standards are created, they should be done in such a way as to not create new burdens on credit unions.

While NAFCU has been supportive of the Federal Housing Finance Agency's (FHFA) 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, this should not come at the cost of increased guarantee fees. Excessive liquidity requirements that treat the GSEs like large banks and establish enhanced regulatory and supervision 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 liquidity build-up and other changes at the GSEs as this will serve to limit access to credit to the communities that are most in need. 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 transparently communicate its expectations regarding guarantee fees during this difficult economic time and on a consistent basis as the GSEs move closer to a release from conservatorship.

Furthermore, several housing finance reform proposals have advocated for a multi-guarantor model that permits new entities to enter the market to compete against the GSEs. The primary concern with such a model is that bank-affiliates and non-depository institutions, including fintech companies, may enter as competitors and achieve vertical integration in the housing finance market. This could reduce access and promote unfair pricing for credit unions and other community financial institutions. NAFCU is concerned about a race to the bottom in a multi-guarantor model and instead supports building upon and improving the GSEs' existing processes, procedures, and technologies to foster competition between the two GSEs. Regardless of the ultimate model chosen for a reformed housing finance system, any major changes should be implemented gradually to prevent market disruptions and provide a smooth transition.

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.

Finally, NAFCU strongly supports pilot programs for low- or zero-down payment mortgage loans that help borrowers build wealth. These types of loans are especially helpful for very low- and low-income borrowers and should be supported by the 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 housing issues. We look forward to continuing to work with you on pandemic relief and economic recovery. Should you have any questions or require any additional information, please contact me or Sarah Jacobs, NAFCU's Associate Director of Legislative Affairs, at (571) 289-7550.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

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