Testimony of

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On behalf of

The National Association of Federally-Insured Credit Unions

"Sustainable Housing Finance: Private Sector Perspectives on Housing Finance Reform"

Before the

Subcommittee on Housing and Insurance

United States House Financial Services Committee

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Introduction

Good morning, Chairman Duffy, Ranking Member Cleaver, and Members of the Subcommittee. My name is Rick Stafford and I am testifying today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU). I appreciate the opportunity to share NAFCU's views on housing finance and the importance of maintaining secondary market access for small lenders. In addition to our testimony, NAFCU member credit unions look forward to continuing to work with you beyond today's hearing to ensure access to the secondary mortgage market for credit unions and their 110 million members.

I currently serve as the President and CEO of Tower Federal Credit Union (Tower) in Laurel, Maryland. Tower Federal Credit Union is a $3 billion institution serving nearly 170,000 members with 16 branches in the Baltimore-Washington corridor. Tower was originally chartered in August of 1953 to serve a national security component of the Department of Defense. Today, we serve the defense and intelligence sectors, along with several associations and select employers. We offer our employer groups a full range of financial products and services, including checking accounts, deposit accounts, credit cards, auto loans, mortgages, and home equity loans. We also provide a suite of ancillary services including wealth management, residential real estate brokerage services and car buying services.

I have over 30 years of senior management experience in the financial services industry, including leading mortgage lending for community-based financial institutions. I am a graduate of Adrian College, and earned a Masters from Walsh College of Accounting & Finance. I also am a graduate of the School of Banking at Georgetown University. My number one priority every day at Tower is to manage the organization in a safe and sound manner. No exceptions. My second priority is to add value back to our members-owners by managing an incredible workforce focused on listening to member's needs, providing solutions to improve their financial well-being while delivering exceptional service.

NAFCU's Perspective on the Emerging House Debate

NAFCU applauds the Committee leadership for their continued attention to housing policy as the Committee pursues housing finance reform ideas from stakeholders. NAFCU is the only national organization exclusively representing the interests of the nation's federally-insured credit unions. NAFCU-member credit unions collectively account for approximately 69 percent of the assets of all federally-chartered credit unions. My testimony today will cover the longstanding and vital relationship between credit unions and the government-sponsored enterprises (GSEs) and how important it is for credit unions to continue to have unencumbered access to the secondary market with fair pricing based on loan quality, instead of volume.

We thank you for your thoughtful approach to housing finance reform, and urge the committee to carefully consider the practical implications of any potential changes. As the Committee considers reform, NAFCU and its member credit unions would urge you to narrowly tailor changes. At Tower, our business relationship and loan delivery/loan sale process with the GSE we use – Fannie Mae – is working just fine. With technologies deployed by Fannie Mae in recent years, it is easier in some ways today for credit unions to sell a loan than it was just 5 years ago. The current system is working for credit unions. However, we recognize the challenges to the current model that exist and appreciate this opportunity to offer our thoughts on reform.

Although we have not endorsed any particular plan at this time, we appreciate that the committee is holding this hearing today and has sought stakeholder input on reform. We have outlined several housing finance reform principles that should be included in any reform effort in order to guarantee the continued safety and soundness of the credit union industry. I will discuss those principles shortly.

If Congress opts to create a new system, we believe that funding of a new system should be done so as to limit the cost to smaller financial institutions as much as possible. High cost of entry into, or establishment of, a new system, could be a major barrier for small lenders. To date, we do not believe that any housing finance reform solution suggested in previous Congresses fully accounted for the needs of small lender access.

One of the first steps in housing finance reform should be to ensure that the GSEs are in a safe and sound condition. NAFCU supports recapitalization of the GSEs as part of a bigger reform discussion.

NAFCU would also like to stress the importance of large institutions not being given control of the market. Even though large institutions play an important role, including serving as loan purchasers for small lenders, their market dominance would have negative consequences for smaller institutions. In many instances, they compete for mortgage business with small lenders. Although they may be willing to buy and package small lender loans during good economic times, thereby ensuring liquidity for those small lenders, in an economic downturn, they may limit this activity, drying up liquidity for small lenders and reducing competition on the front-end. In that scenario, the consumers and communities that those small lenders serve lose access to mortgage credit. Congress must prevent such a scenario in a reformed housing finance system.

Credit Union Principles in Housing Finance Reform Efforts

As the future of housing finance has become a focal point in Congress, the Administration, and among regulatory agencies, NAFCU has established an updated set of principles that the association would like to see reflected in any reform efforts. The objective of these principles is to help ensure that credit unions are treated fairly during any housing finance reform process. The following are NAFCU's housing finance reform principles:

- **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 mortgage-backed securities (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 continues 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.

Background on Credit Unions and Credit Union Mortgage Lending

Historically, credit unions have served a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system was created, and has been recognized, as a way to promote thrift and make financial services available to all Americans, many of whom would otherwise have limited access to financial services. Every credit union is a cooperative institution organized "for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes." (12 § USC 1752(1)). Congress established credit unions as an alternative to banks and to meet a precise public need—a niche credit unions fill today for nearly 110 million Americans. Despite the passage of over 80 years since the *Federal Credit Union Act* (FCUA) was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

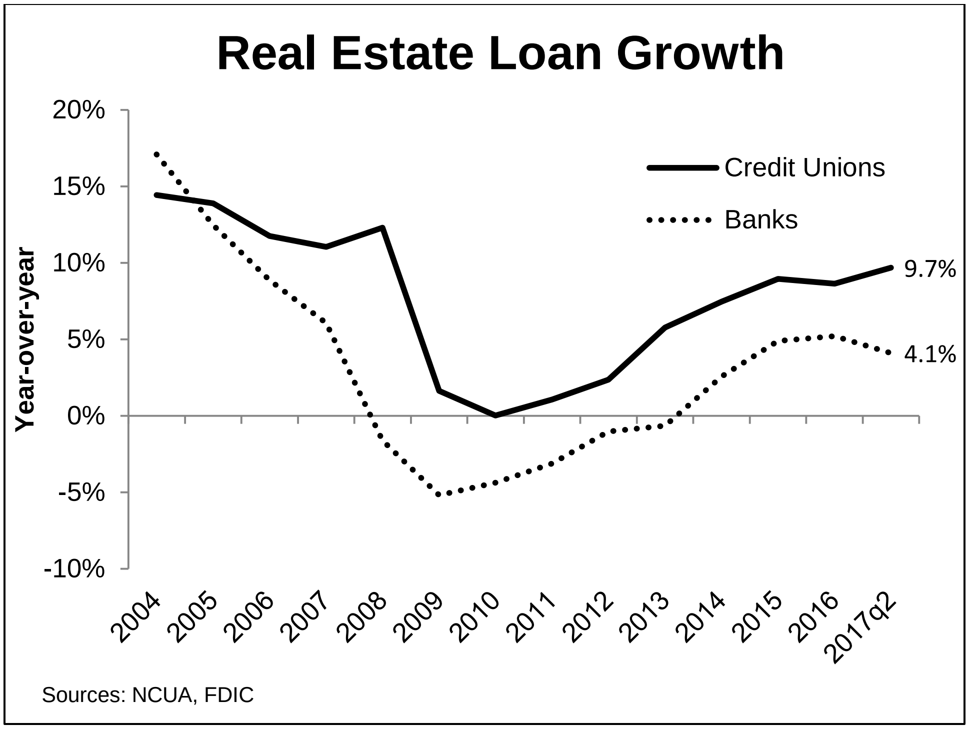
- Credit unions remain totally committed to providing their members with efficient, low-cost, personal financial service; and,
- Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism. Credit unions are not banks.

The nation's approximately 5,700 federally-insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions, united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors—something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true "volunteer spirit" permeating the credit union community.

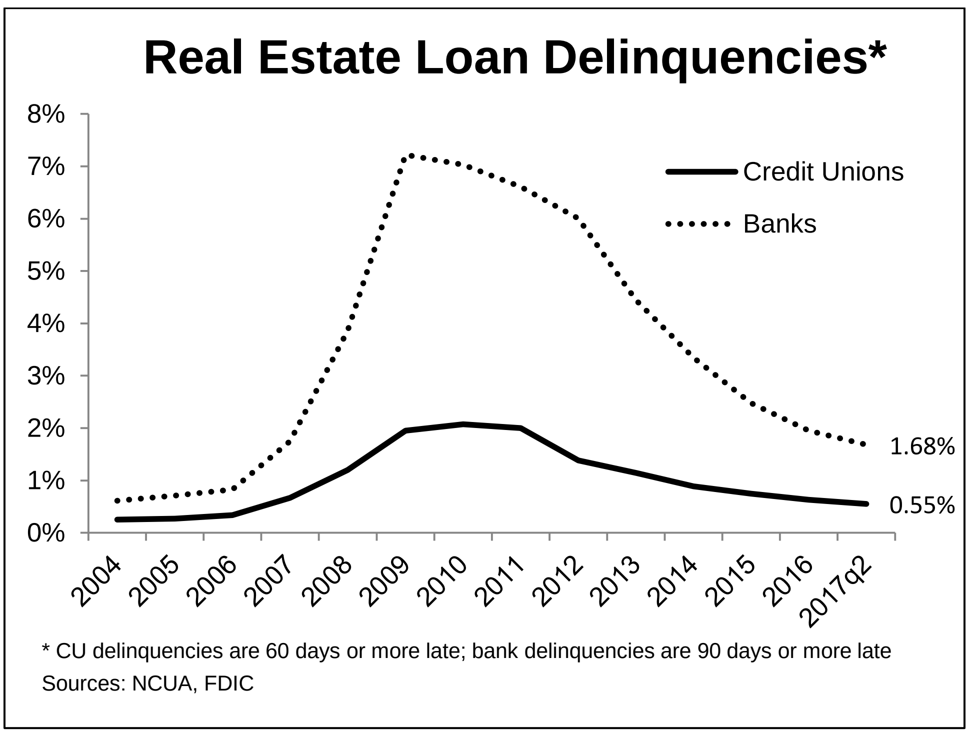
Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. Since the financial crisis of 2008, consolidation of the commercial banking sector has progressed at an increasingly rapid rate. With the resulting depersonalization in the delivery of financial services by banks, the emphasis in consumers' minds has begun to shift not only to services provided, but also—more importantly—to quality and cost of those services. Credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

As has been noted by Members of Congress across the political spectrum, credit unions were not the cause of the economic crisis, and an examination of their lending data indicates that credit union mortgage lending outperformed bank mortgage lending during the recent downturn. This is partly because credit unions did not contribute to the proliferation of sub-prime loans. Before, during, and after the financial crisis, credit unions continued to make quality loans through sound underwriting practices focused on providing their members with solid products they could afford.

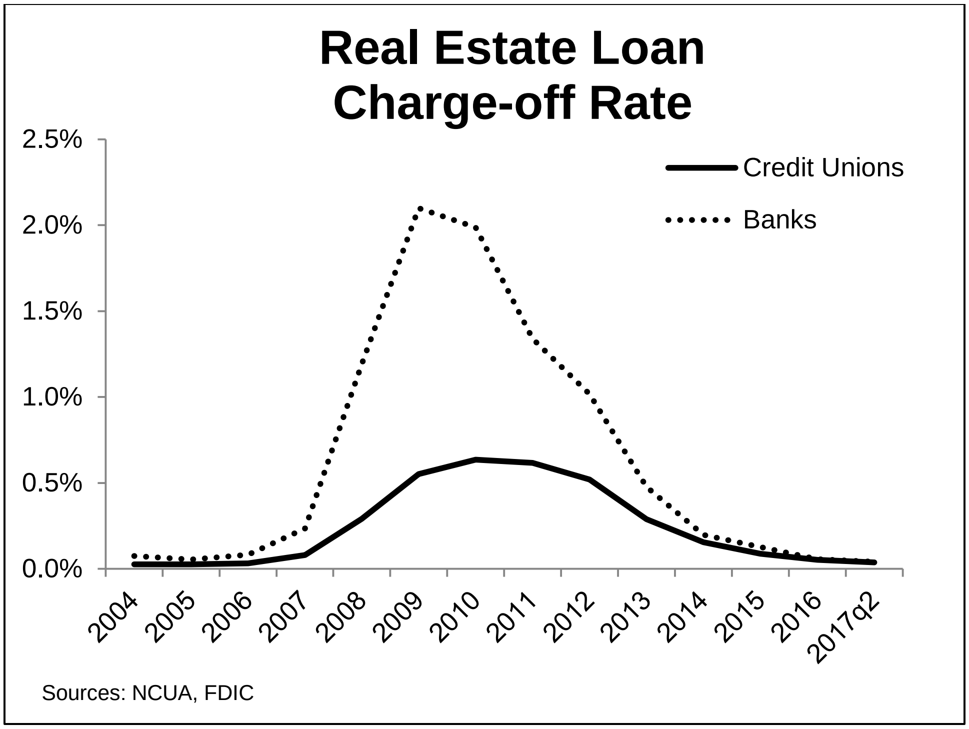
As the housing market continues to recover from the financial crisis, and Congress works to put into place safeguards to ensure such a crisis never happens again, credit unions continue to focus on providing their member-owners with the basic financial products they need and demand. The graphs below highlight how credit union real estate loan growth has outpaced banks since the downturn and how credit unions have fared better with respect to real estate delinquencies and real estate charge-offs. It is with this data in mind that NAFCU urges members of the Committee to recognize the historical performance and high quality of credit union loans as housing finance reform moves forward.

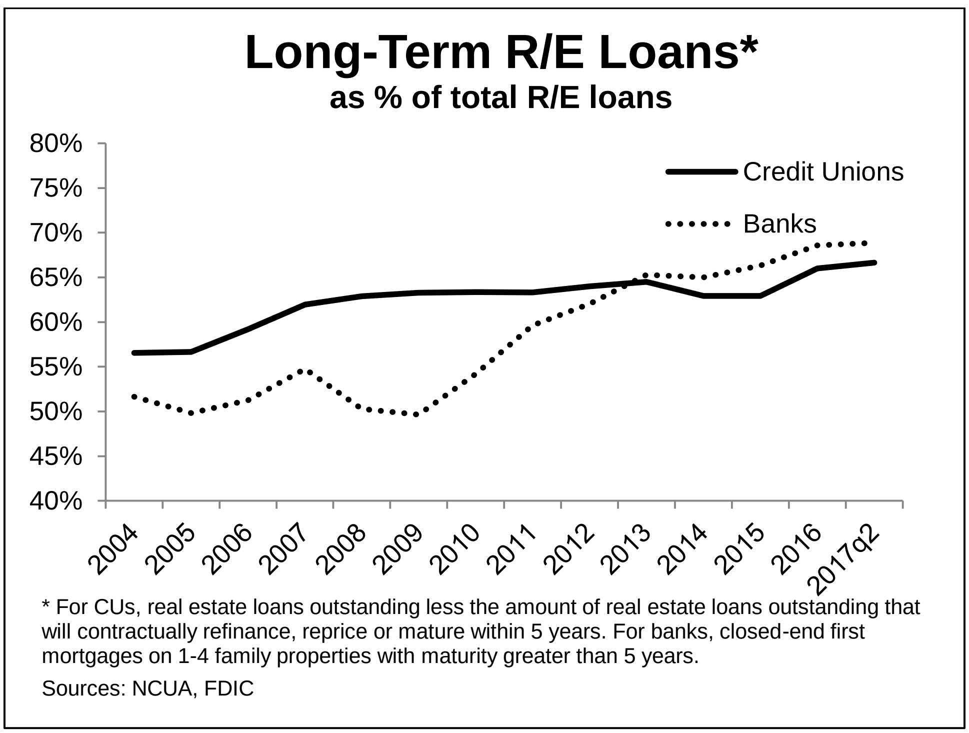


Real Estate Loan Growth
Year-over-year
20%
15%
10%
5%
0%
-5%
-10%
Credit Unions
Banks
9.7%
4.1%
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017q2
Sources: NCUA, FDIC

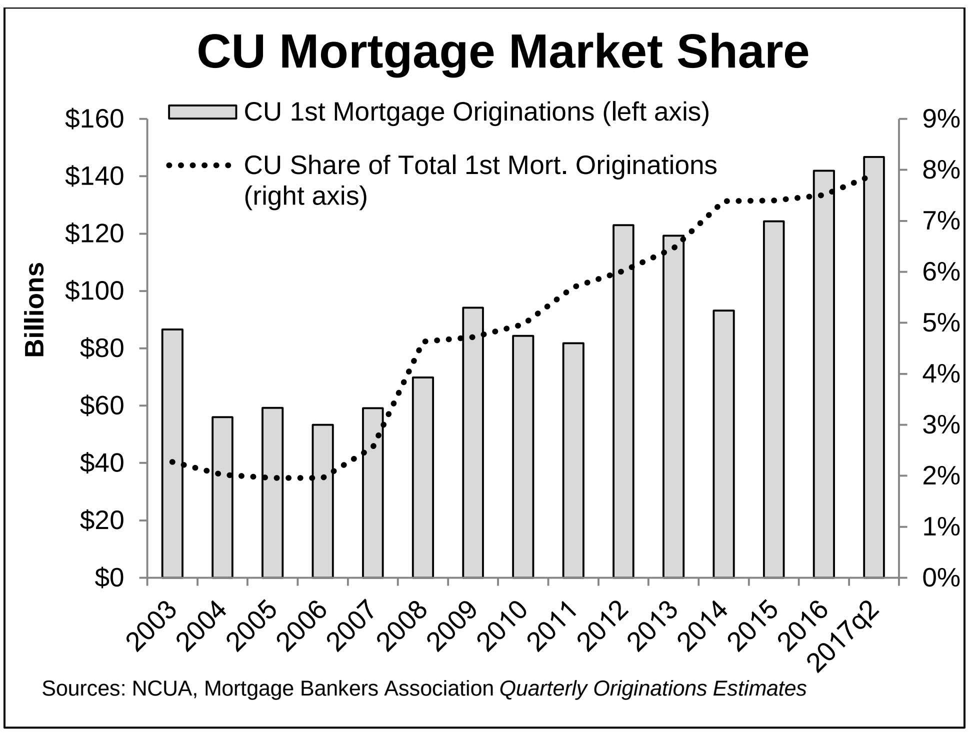


Real Estate Loan Delinquencies*
8%
7%
6%
5%
4%
3%
2%
1%
0%
Credit Unions
Banks
1.68%
0.55%
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017q2
* CU delinquencies are 60 days or more late; bank delinquencies are 90 days or more late
Sources: NCUA, FDIC


Real Estate Loan
Charge-off Rate
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
Credit Unions
Banks
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017q2
Sources: NCUA, FDIC

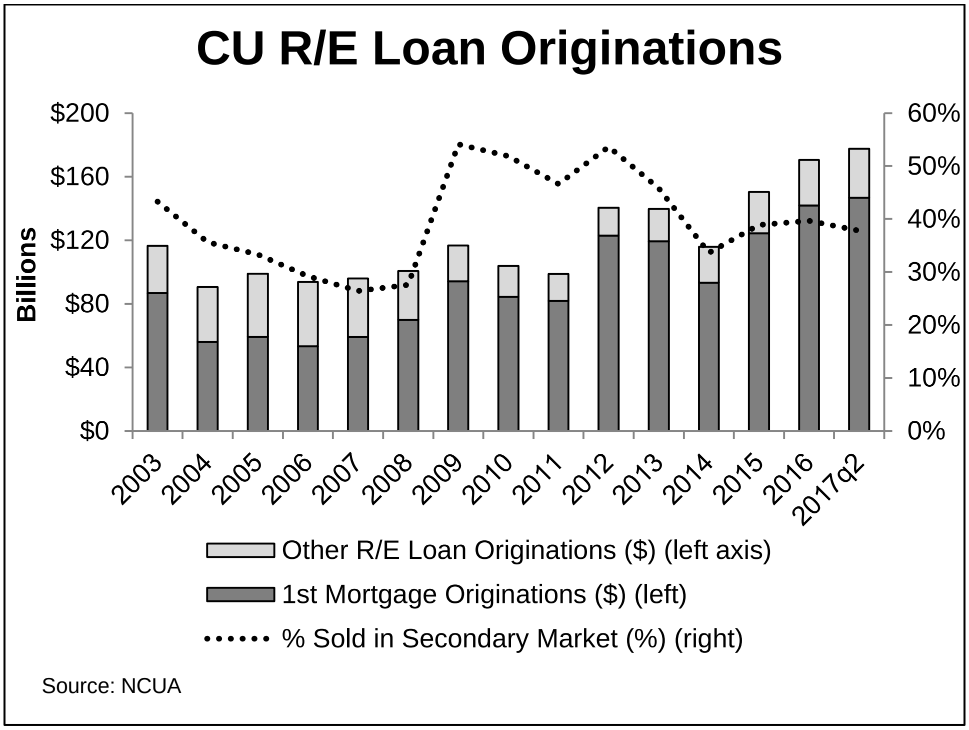

Long-Term R/E Loans*
as % of total R/E loans
80%
75%
70%
65%
60%
55%
50%
45%
40%
Credit Unions
Banks
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017q2
* For CUs, real estate loans outstanding less the amount of real estate loans outstanding that will contractually refinance, reprice or mature within 5 years. For banks, closed-end first mortgages on 1-4 family properties with maturity greater than 5 years.
Sources: NCUA, FDIC

A primary concern of credit unions is continued, unencumbered access to the secondary mortgage market. This includes adequate transition time to any new system. A second concern, which is equally as important, is the GSEs' recognition of the quality of credit union loans through a fair pricing structure. Because credit unions originate a relatively low number of loans compared to others in the marketplace – federally-insured credit unions had less than 8 percent of first mortgage originations in 2017 through the second quarter (see chart below). NAFCU's member credit unions are opposed to any pricing structure based on loan volume, institution asset size, or other geopolitical issues that could lead to discrimination and disadvantage their member-owners. As such, credit unions should have access to pricing focused on quality, not quantity.



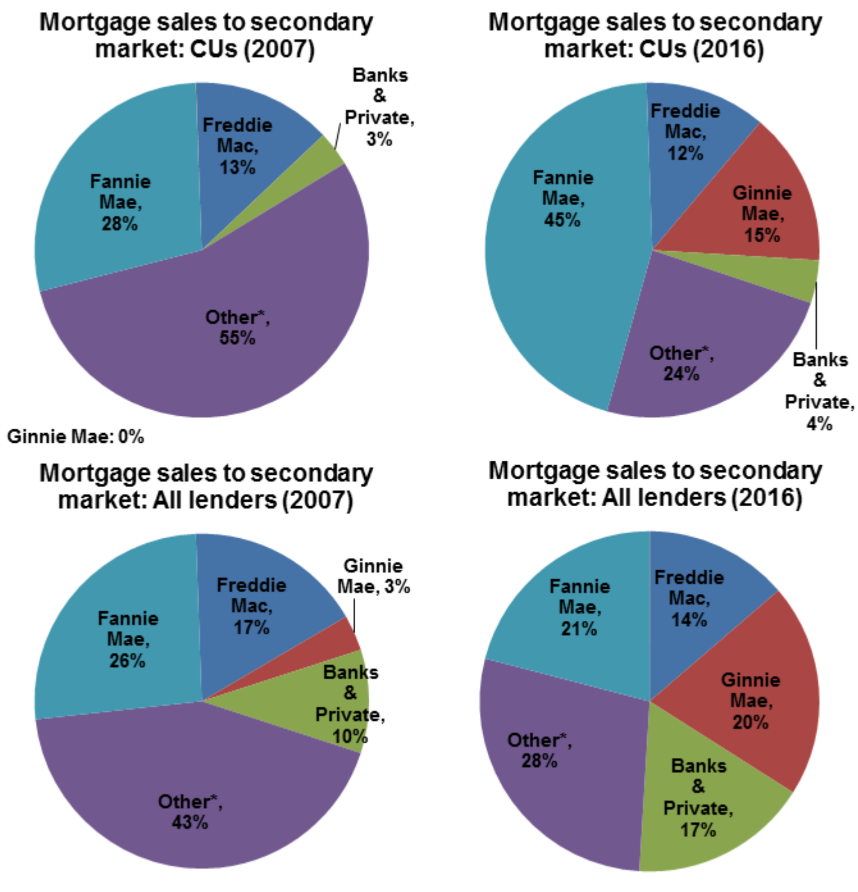
Recent trends in asset portfolios, coupled with the current interest rate environment, present a unique challenge to credit union management. Until recently, interest rates had fallen to record lows, credit unions experienced vigorous share growth, and credit union participation in the mortgage lending arena increased to historic heights. Even though interest rates have started rising again, credit union first mortgage originations have continued to grow. Between 2007 and

2017, the credit union share of first mortgage originations expanded from 2.6 to 7.9 percent. The portion of first mortgage originations sold into the secondary market increased overall from 26 percent in 2007 to 38 percent in 2017, according to National Credit Union Administration (NCUA) call report data (see chart below).



Credit unions hedge against interest rate risk in a number of ways, but selling products to be securitized and sold on the secondary market remains a key component of safety and soundness. Lenders must have guaranteed access to secondary market sources including Fannie Mae, Freddie Mac, Ginnie Mae and the FHLBs because they are valuable partners for credit unions that seek to sell their fixed-rate mortgages. Not only does the selling of mortgage loans allow credit unions to better manage their risk, but it also means they are able to reinvest those funds to provide new loan products and additional financial services for their members. A 2015 NAFCU real estate survey highlights the growing utilization of the GSEs among credit unions. More than three-quarters of respondents indicated that credit union board policy restricted the percentage of real estate loans that could be held on their balance sheet, with a median limitation of 40 percent of total loans. Without these critical relationships, credit unions would be unable to provide the services and financial products their memberships demand and expect.

Home Mortgage Disclosure Act data also shows how heavily credit unions have come to rely on the GSEs. Between 2007 and 2016, the portion of credit union first mortgages that were sold to Fannie Mae grew from 28 percent to 45 percent. The portion sold to Freddie Mac fell slightly from 13 percent to 12 percent over the same period. In 2015, 57 percent of all credit union first mortgages sold to the secondary market were initially sold to the GSEs. The total market for mortgage resales is also heavily dependent on the GSEs.



* Includes credit unions, mortgage banks, finance or life insurance companies, affiliate institutions, and other types of purchasers

Source: FFIEC Home Mortgage Disclosure Act (HMDA) data

Mortgage Lending at Tower

The ability to sell to Fannie Mae on the secondary market is very important to Tower. Without selling to a GSE, we would not have been able to originate a number of loans and would not have been able to serve the needs of our membership. We currently sell approximately 80% of our loans to Fannie. In the last 5 years, this is a total of $1.2 billion in funding, assisting 2,700 members in our community.

Tower, like many credit unions, never participated in the type of risky mortgage lending that contributed to the economic downfall of 2008 and 2009. We did not get into negative amortizing ARMs, ALT-A loans, subprime loans, or “no income, no job, no assets (NINJA)” loans. The demand existed. We had members who asked for these types of loans, but we took our fiduciary responsibility to our members seriously and refused to put them into a home they could not realistically sustain.

We sell our loans directly to Fannie Mae because they offer competitive pricing for affordable lending to our members, as well as diverse mortgage products and the ability to maintain a servicing relationship with our members. To us, these are more than just loans. Each one represents a family in a home, and each mortgage application is a new opportunity to help make a family’s dream of home-ownership come true. Even though most of our mortgage business is within Maryland, we do originate loans for our members across the country.

Tower firmly believes that access to affordable credit for homebuyers is essential to the financial well-being of working-class Americans. Without the GSEs, our capacity to lend would be outstripped by demand. The GSEs also benefit consumers because access to the secondary market and access to capital provides us with additional lending capacity. Our ability to sell loans, as opposed to keeping them on our balance sheet, also mitigates our long-term interest rate risk, reduces concentration risk, and keeps rates competitive overall. If not for access to the GSEs, our capacity to meet local demand would be greatly diminished, and local consumers would suffer from higher rates and fees, more stringent credit requirements and overall fewer options. NAFCU urges you to keep this in mind as you consider the important business of housing finance reform.

Key Elements of the Current System

Our partnership with Fannie Mae is critical to Tower's mortgage lending function. We use Fannie's Desktop Underwriter® platform to underwrite all mortgage loans that we originate. This ensures conformity and consistency across our portfolio, whether we sell the loan or not.
Using Desktop Underwriter® provides Tower with a level of efficiency that we might not otherwise achieve. Additionally, it enhances the member experience by automating and expediting parts of the loan process. If comprehensive housing finance reform includes any significant changes to the Desktop Underwriter® platform, it would have widespread effects on our operations. In general, the use of the GSE underwriting platform and parameters create conformity for the industry as a whole.

If and when Congress considers reform, access to such technology must be preserved in any new model. The GSEs' tools provide critical benefits to small lenders. Desktop Underwriter® is an important tool for Tower and we want to ensure continued utilization. There are some opportunities for improvement, including updating the Agency's antiquated credit risk scoring platform, which would subsequently lessen some punitive results in loan level pricing adjustments borne by the consumer.

Consequently, we are wary of efforts to eliminate the GSEs. The current aggregation model at the GSEs has had benefits for credit unions. We do not want to see a regression to the previous aggregation model used before conservatorship - where market share agreements with the largest lenders created underwriting exceptions and lower guarantee fees based on volume, not on the underlying loan risk. This priced out smaller lenders and forced them to sell to larger lenders, instead of directly to Fannie Mae. These practices created huge volumes of underpriced risk that were a part of the predatory culture that precipitated the financial crisis. We want a system that ensures equal market access for lenders of all sizes and business models and maintains a deep, liquid market for long-term options. Furthermore, even though Tower is not currently using it, the function of the cash window at the GSEs as a single loan execution process and best-efforts loan commitments are also vital to credit unions moving forward. The cash window serves as a quick and efficient means of liquidity for credit unions that would otherwise be unable to sell to the GSEs.

Transition to a New Housing Finance System

If Congress acts to bring broad reforms to the nation's housing finance system, getting the transition right will be critical. It is of the utmost importance to ensure a smooth transition to a reformed system because credit unions need certainty that changes outlined in legislation and accompanying regulation will function as intended. Credit unions must be kept up-to-date during this transitional period and lawmakers should build flexibility into the transitional period to account for unforeseen implementation challenges. NAFCU and its member credit unions believe that Congress should first agree on a set of reforms and then, based on the nature and complexity of the reforms, establish a timeframe for transition. Arbitrarily pledging to adhere to a transitional timeframe before finalizing reforms could create otherwise avoidable issues for the GSEs or their successor(s) as well as outside stakeholders.

If a new system is established, and in order to ease the transition, Congress should consider moving currently approved Fannie and Freddie lenders into a new system en bloc and giving them an expedited certification. This could reduce confusion and, if executed properly, could make the process run more smoothly for all involved. It can take time for lenders to be certified with the GSEs, and this time should be factored in to the transition time.

NAFCU and its member credit unions also believe it is important that a new system be up and running before Fannie Mae and Freddie Mac's ability to securitize MBS is shut down. One way to accomplish this may be slowly winding down the two entities throughout the early stages of a new system.

The Importance of Servicing Rights to Credit Unions

Any new housing finance system must contain provisions to 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 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.

At Tower we retain servicing rights on all of our loans. This was especially beneficial during the economic crisis, as it allowed our members to approach us when they got in trouble and allowed us to work closely with them to help keep them in their home. In addition, maintaining the servicing rights for the life of the loan ensures no disruption to our members. This ability to retain servicing rights must be kept 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.

Underwriting Criteria in Any New System

NAFCU has concerns about using the "Qualified Mortgage" (QM) standard as the standard for loans eligible for the government guarantee, as some have proposed. We believe underwriting standards should not be statutorily established and are best left to the FHFA or its successor. This would allow the regulator to adapt to changing market conditions and act in a counter-cyclical manner if necessary.

Furthermore, given credit unions' unique member-relationship, many credit unions are making good loans that work for their members but do not fit into all of the parameters of the QM box. At Tower, we are comfortable making credit worthy non-QM loans, but not all credit unions are. Using the Consumer Financial Protection Bureau's (CFPB) QM standard for the guarantee, as some have proposed in the past, could discourage many credit unions from making non-QM loans.

NAFCU would also like to caution Congress against perpetuating of the use of just one brand of credit-scoring model. Both Fannie Mae and Freddie Mac require loans that are underwritten using FICO scoring models. A new housing finance system should be open to alternative credit scoring models as well. NAFCU supports legislation that would allow alternative credit scoring models to be used.

Regulatory Relief and Mortgages

As Congress considers housing finance reform, we urge you to look for ways to provide community institutions such as credit unions relief from overly burdensome regulatory restrictions on mortgages that can serve to constrain mortgage credit. We were pleased to see a number of provisions to provide relief in Title IV of the *Protecting American Taxpayers and Homeowners* (PATH) *Act*, which was passed by the Committee in 2013.

NAFCU supports certain changes to the QM standard to make it more amenable to the quality loans credit unions are already making. We would like to highlight the following recommended changes:

Loans Held in Portfolio

NAFCU supports exempting mortgage loans held in portfolio from the QM definition as the lender, via its balance sheet, already assumes risk associated with the borrower's ability-to-repay. The following is a real-life example of a loan we would have approved to hold in portfolio but would not approve now:

- Non-conforming loan (jumbo)
- 53% LTV
- Existing long relationship
- Substantial deposit relationship
- 810 FICO score
- DTI is above 43% creating a non-QM loan

Debt-to-Income Ratio

NAFCU supports Congress directing the CFPB to revise the aspect of the 'ability-to-repay' rule that dictates that a consumer have a total debt-to-income (DTI) ratio less than or equal to 43 percent in order for that loan to be considered a QM. This arbitrary threshold prevents otherwise healthy borrowers from obtaining mortgage loans and has a particularly serious impact in rural and underserved areas where consumers have a limited number of options. The CFPB should either remove or increase the DTI requirement on QMs.

Inclusion of Affiliate Fees in the 3% QM Points/Fee Test

After witnessing our members being charged exorbitant fees, Tower started a wholly-owned title company, which, by regulation is defined as an affiliate, to provide better services and more affordable benefits to our members. On occasion, when these fees are added to the Tower loans points/fees they exceed 3%. When this happens, the loan becomes ineligible for sale to Fannie and we have to portfolio the loan. This means Tower has diminished capacity to provide more loans and services to its members. The same or perhaps worse fee structure by an independent title company under the same scenario would not be counted towards the 3 percent. Thus lenders are penalized for having affiliated title companies even though they provide a benefit to borrowers.

TRID Reforms

Tower also supports changes to the TILA/RESPA requirements, such as removing the requirement to deliver the Closing Disclosure (CD) 3 business days prior to closing. There are myriad reasons why this issue creates hardship for all involved. A "real-life" situation includes a final property inspection triggering "last minute" changes to the contract, which are in the best interest of the borrower. Because of the rigid, mandatory, "no exception" nature of the CD requirement, these examples "re-start" the timer and push back closing, which affects the borrower's moving schedule, utility setups, and other important events. There are also examples where a borrower may be able to get better terms on rates, but cannot afford to move the closing and cannot waive this requirement. Tower finds this requirement is especially frustrating to our members who do not understand why it is a requirement that penalizes them. At a minimum, consumers should be given some freedom to waive the requirement.

Another frustration relates to third party fees. The lender is required to know exactly what third parties will charge and if the actual invoice exceeds the tolerance, the lender must pay the difference. Situations arise where an inspection or appraisal may be more involved than originally thought and vendors may justifiably incur more expenses to perform the work. Again, the rigidity of the rules requires credit unions to absorb these amounts, which impacts their bottom line and makes it harder to offer additional loans and services to their members.

Finally, there may be specific provisions in the *Federal Credit Union Act* that would have to be amended to ensure a new housing finance system works for credit unions. One example is the limitation on credit union investments that could hinder the ability of credit unions to participate in a new system. NAFCU welcomes the opportunity to work with the Committee on potential changes that may be needed as part of any housing finance reform effort.

Conclusion

NAFCU appreciates the Subcommittee's attention to this important issue. The current system works for credit unions and we urge you to move cautiously with any reforms. As you consider housing finance reform, we urge you to adhere to the credit union principles outlined in my testimony. Whatever approach is taken to reform the system, it is vital that credit unions continue to have unfettered access to the secondary market and get fair pricing based on the quality of their loans. The government must also continue to play a role by providing an explicit government guarantee to help stabilize the market.

Thank you for the opportunity to provide our input on this important issue. NAFCU and its member credit unions look forward to working with you as housing finance reform legislation moves forward.

I thank you for your time today and welcome any questions you may have.