



National Association of Federal Credit Unions
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Fred R. Becker, Jr.
President and CEO

December 7, 2010

The Honorable Christopher Dodd
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Re: The Future of Housing Finance Reform: Ensure Credit Unions Have Access to Necessary Liquidity in the Secondary Mortgage Market

Dear Chairman Dodd and Ranking Member Shelby:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write today regarding the future of the housing finance system.

As the Senate Banking, Housing and Urban Affairs Committee continues to discuss this critical issue, and the Department of Treasury prepares to release the administration's proposal early next year, NAFCU would like to take this opportunity to share with lawmakers a core set of principles that must be considered to retain a system that provides credit unions with the liquidity necessary to enable them to serve the mortgage needs of their 93 million member's across the country:

- A healthy and viable secondary mortgage market must be maintained. A secondary mortgage market, where mortgage loans are pooled and sold to investors, is essential in providing the liquidity necessary for credit unions to create new mortgages for their members.
- There should be at least two Government Sponsored Enterprises (GSEs). To effectuate competition in the secondary market and to ensure equitable access for credit unions, NAFCU supports the creation or existence of multiple GSEs that would perform the essential functions currently performed by Fannie Mae and Freddie Mac. These entities should have the ability to purchase loans and

convert them into mortgage backed securities (MBSs). Each of these functions serves to facilitate mortgage lending.

- The U.S. government should issue explicit guarantees on the payment of principal and interest on MBSs. The explicit guarantee will provide certainty to the market, especially for investors who will be needed to be enticed to invest in the MBSs and facilitate the flow of liquidity.
- Fannie Mae and Freddie Mac have been crucial partners for credit unions and have served an important function in the mortgage lending industry. Both have been valuable entities to the nation, particularly to the nation's economy. It is important that during any transition to a new system (whether or not current GSEs are to be part of it) credit unions have uninterrupted access to the GSEs.
- We could support a model for the GSEs that is consistent with a cooperative or a mutual entities model. Each GSE would have an elected Board of Directors, be regulated by the Federal Housing Finance Agency, and be required to meet strong capital standards. The GSEs should also meet other appropriate regulatory standards to limit their ability to take on risk while ensuring safety and soundness. Rigorous oversight for safety and soundness is also paramount.
- A board of advisors made up of representatives from the mortgage lending industry should be formed to advise the FHFA regarding GSEs. Credit unions should be represented in such a body.
- A central role for the U.S. government in the secondary mortgage market is pivotal, including an explicit government guarantee on the principle and interests of all securities issued by the GSEs. The GSEs should be self-funded, without any dedicated government appropriations. GSE's fee structures should, in addition to size and volume, place increased emphasis on quality of loans. Credit union loans provide the quality necessary to improve the salability of agency securities.
- Fannie Mae and Freddie Mac should continue to function, whether in or out of conservatorship, and honor the guarantees of the agencies at least until such time as necessary to repay substantially all their current government debts. Legislation to reform the GSEs should ensure that taxpayer losses are not locked in, but should allow for time for the GSEs to make taxpayers whole.
- NAFCU does not support full privatization of the GSEs.

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- The Federal Home Loan Banks (FHLBs) serve an important function in the U.S. mortgage market. Most importantly, they provide their credit union members with a reliable source of funding and liquidity. Throughout the financial crisis, despite experiencing financial stress, the FHLBs continue to be a strong partner for credit unions. Reform of the nation's housing finance system must take into account the consequence of any legislation on the health and reliability of the FHLBs. Importantly, access to FHLBs for small lenders should not be impeded in any way.

We thank you for this opportunity to provide our input on this crucial issue and NAFCU would welcome the opportunity to provide additional views on housing finance reform as the legislative process moves forward. If my staff or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact myself, or NAFCU's Director of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

A handwritten signature in black ink, appearing to read "Fred R. Becker, Jr.", written in a cursive style.

Fred R. Becker, Jr.
President/CEO

cc: Members of the United States Senate