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Fred R. Becker, Jr.
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The Honorable Tim Johnson
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington DC 20510

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

Dear Chairman Johnson and Ranking Member ~~Shelby~~: Chairman Johnson

I write today on behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federal credit unions, with respect to tomorrow's hearing "The Administration's Report to Congress: Reforming America's Housing Finance Market." The future of housing finance reform is of great importance to our nation's credit unions, and NAFCU commends the commitment of Department of Treasury in developing its proposal and of the Senate Banking Committee in ensuring that all proposals are carefully reviewed moving forward.

As potential options for reform begin to take shape, NAFCU would like to stress the importance of retaining a system that provides credit unions with the liquidity necessary to serve the mortgage needs of their 92 million members. NAFCU would like to share with the Committee on Banking, Housing and Urban Affairs, a core set of principles that must be considered to ensure that credit unions are treated fairly during any housing finance reform process:

- 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 need 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, and in turn, the secondary market.

- 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.

- While a central role for the U.S. government in the secondary mortgage market is pivotal, 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. <u>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</u>.

- NAFCU does not support full privatization of the GSEs at this time because of serious concerns that small community-based financial institutions could be shut-out from the secondary market.

- 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 have concerns about the Administration's report on the future of housing finance and the proposals contained therein. We applaud the Administration for their efforts in crafting this report, however, as the report recognizes, the cost of mortgage credit "would likely increase" under each of the options for unwinding the GSEs. We agree, and we would add that this outcome could lead to the further disintegration of the American dream of owning a home.

Furthermore, we believe that the approaches outlined in the report could open the door for a handful of large banking institutions to dominate the secondary market, creating a situation that could limit options for smaller community financial institutions, such as credit unions, or even drive some out of the mortgage business entirely. As such, we would urge the Senate to reject the Administration's options as proposed and seek a solution that addresses these concerns while following the principles outlined above.

We also have concerns about the report's treatment of the FHLBs. As stated in the report, the administration recognizes the vital role FHLBs have played in helping smaller financial institution access liquidity. Still, concerned that the FHLBs have developed significant weakness, the report proposes reforms of these entities. Notably, the administration proposes that "each financial institution to be an active member in only one single FHLB Bank."

NAFCU does not believe that limiting active membership to only one FHLB is either advisable or warranted. First, such limitation raises the potential of increased concentration risk. Secondly, it should be left for each credit union to determine, both based on cost and other business factors, whether obtaining different services from different FHLBs is best for their institution. We see no reason why, for example, a credit union should not be able to obtain liquidity services from one FHLB because it best suits its operations while seeking risk management services from another because it provides it the best option.

In summary, NAFCU strongly believes that any reforms must not disrupt the fragile housing finance system that is slowly beginning to recover. We do not believe that the options as proposed by the Administration would do that. As you know, any such disruption could trigger a "double-dip" recession and such an occurrence will have a devastating impact on our country's economy as well as the global finance system. In addition, we believe it is critical that the essential functions of Fannie Mae and Freddie Mac are retained until taxpayer capital that the federal government injected into the GSEs is recovered. The essential functions include, but are not limited to, purchasing and guaranteeing mortgages originated by credit unions.

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 colleagues 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 Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

Fred R. Becker, Jr.
President/CEO

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