



**National Association of Federal Credit Unions**  
3138 10th Street North • Arlington, Virginia • 22201-2149  
703-522-4770 • 800-336-4644 • 703-522-0594

**B. Dan Berger**  
*Executive Vice President*  
*Government Affairs*

March 30, 2011

The Honorable Scott Garrett  
Chairman  
House Financial Services Subcommittee on Capital Markets  
and Government Sponsored Enterprises  
United States House of Representatives  
Washington, D.C. 20515

The Honorable Maxine Waters  
Ranking Member  
House Financial Services Subcommittee on Capital Markets  
and Government Sponsored Enterprises  
United States House of Representatives  
Washington, D.C. 20515

Dear Chairman Garrett and Ranking Member Waters:

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, I write today with respect to tomorrow's hearing on "Immediate Steps to Protect Taxpayers from the Ongoing Bailout of Fannie Mae and Freddie Mac." As you know, the future of housing finance is of great importance to our nation's credit unions.

I would also like to take this opportunity to recognize the first series of legislative initiatives unveiled by several Financial Services Committee Republicans earlier this week. We understand these eight proposals, in addition to the proposals put forward by the Treasury Department earlier this year, represent only the beginning of vigorous debate and discussion on the issues surrounding GSE reform, and we intend to remain fully engaged moving forward.

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. As you begin consideration of legislative proposals, NAFCU would like to reiterate a core set of principles we believe 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 their current government debts. Legislation to reform the

The Honorable Scott Garrett  
The Honorable Maxine Waters  
March 30, 2011  
Page 3 of 3


GSEs should ensure that taxpayer losses are not locked in, but should allow for time for the GSEs to make taxpayers whole.

- At this time, NAFCU does not support full privatization of the GSEs 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.

In summary, NAFCU strongly believes that any reforms must not disrupt the fragile housing finance system that is slowly beginning to recover. 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,



B. Dan Berger  
Executive Vice President of Government Affairs

cc: Members of the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises.