NAFCU

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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:

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 "Housing Finance Reform: Access to the Secondary Market for Small Financial Institutions." NAFCU member credit unions appreciate the committee prioritizing this issue and carefully reviewing all aspects housing finance reform before moving forward.

Tomorrow's hearing focusing on small lenders is a first step in ensuring that any reforms made to our country's housing finance system will result in equal and uninterrupted access to the secondary mortgage market for credit unions and other community-based financial institutions. Nearly 93 million Americans are members of their local credit union, and each deserves to be on an even playing field should they desire to purchase a home. Credit unions didn't contribute to the financial crisis and pride themselves in solid underwriting that creates high quality loans. Moving forward, the past performance of credit unions should be taken into consideration by ensuring that they can still effectively meet the needs of their members.

NAFCU would like to reiterate to the Committee on Banking, Housing, and Urban Affairs a core set of principles that must be taken into account for credit unions to be 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

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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) as each of these functions serve 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.

As you know from previous correspondence, NAFCU has 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 believe this outcome would restrict otherwise qualified borrowers from achieving homeownership.

Equally as troubling about the approach outlined in the Administration's report, and other proposals that have been put forward in the House of Representatives, is opening the door for a handful of large banking institutions to dominate the secondary market. Clearly, this would create a situation that would limit options for smaller community financial institutions, such as credit unions, or even drive some out of the mortgage business entirely. Further consolidation of the mortgage market among the same mega-banks who contributed to the worst financial crisis since the Great Depression defies commonsense and is not good public policy. NAFCU urges the Senate to reject all proposals that would create such a scenario.

Housing finance reform involves consideration of many highly complex issues, thus requiring careful treading, and should not be done quickly. Fannie Mae and Freddie Mac own or guarantee a significant amount of mortgages in the United States, and any piecemeal Congressional action could have serious unintended consequences for current and perspective homeowners. For example, implementing changes too quickly could lead to traditional mortgage products like the 30-year fixed rate being priced out of the market, only further disintegrating the American dream of owning a home. In addition, as you know, disruptions could trigger a "double-dip" recession wreaking havoc on our country's economy and the broader global finance system. In short, NAFCU urges Congress to move in a comprehensive and deliberative manner.

Lastly, 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 holding this important hearing and shining a spotlight on the role of small financial institutions in the secondary mortgage market. NAFCU welcomes 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, Government Affairs

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