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February 8, 2011

The Honorable Tim Johnson
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 State of the Housing Market & the Future Housing Finance Reform Efforts

Dear Chairman Johnson 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 in conjunction with tomorrow's hearing, "State of the Housing Market: Removing Barriers to Economic Recovery." The overall health of the housing market is of great importance to credit unions and their member-owners. As the committee focuses on changes in housing policy to will assist our nation's fragile recovery, including how to address housing finance reform, NAFCU asks that you continue to keep an open dialogue with credit unions.

As you know from previous correspondence, liquidity in the secondary mortgage market and equal access to such liquidity by lenders of all size is critical in meeting the mortgage needs of credit union members across the country. On the heels of Treasury Secretary Geithner's announcement last week that the Administration plans to provide additional views on how to address the Government Sponsored Enterprises (GSEs), NAFCU would like to reiterate to the committee a core set of principles that we believe must be considered in order to ensure 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 implement 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 enticing 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. <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>.

- At this time, NAFCU does not support full privatization of the GSEs due to 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 have continued 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. Notably, access to FHLBs for small lenders should not be impeded in any way.

Once again, thank you for allowing us the opportunity to provide input before tomorrow's hearing. NAFCU recognizes the deliberative approach the Committee has taken on housing finance reform thus far and welcomes the opportunity to further assist the Committee and its members moving 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 Associate Director of Legislative Affairs, Jillian Pevo at (703) 842-2836.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Senate Banking Committee