NAFCU
3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
F: 703.524.1082
nafcu@nafcu.org
National Association of Federal Credit Unions | www.nafcu.org

February 27, 2012

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 of Housing Finance Reform

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, Part II." NAFCU appreciates the Committee's focus on changes in housing policy that will improve the health of the market and lay the groundwork for the future of housing finance. As you know from previous correspondence, these issues are of great importance to credit unions and their nearly 94 million member-owners.

Last week the Federal Housing Finance Agency (FHFA) released a strategic plan for conservatorship of the government sponsored enterprises (GSEs). NAFCU appreciates the FHFA's continued work to stabilize the nation's mortgage market and the commitment of the agency's officials to understanding the unique nature of credit unions and the need they have to ensure secondary mortgage market access to their members moving forward.

Still, the strategic plan put forward by FHFA raises more questions than it does answers in the ongoing GSE reform debate. Whether a government guarantee will be a part of any reform plan, a key issue for NAFCU members, was not addressed. Other details including the potential impact of a single securitization platform, the role of pricing, and the degree to which the secondary housing market will be under the control of for-profit private entities also remain unclear in FHFA's vision. In short, NAFCU remains concerned about any housing finance reform proposal that lacks a government guarantee. It is unclear how a private market would attract investors as the housing market struggles to recover from the worst recession since the Great Depression. Furthermore, privatization could freeze out community based lenders by leaving the secondary market dominated and controlled by a handful of large banks. Undoubtedly, this is the worst-case scenario for credit unions and their members.

In addition, with Housing and Urban Development (HUD) Secretary Shaun Donovan also scheduled to testify, NAFCU would like to reiterate our concerns regarding the Federal Housing Administration's (FHA) policy on strategic defaults. The increasing trend of homeowners who have the capacity to make their mortgage payments, but instead choose to default is troubling to credit unions. As you may know, earlier this month, NAFCU formally requested that HUD and the FHA institute policies as soon as possible to discourage strategic defaults.

As detailed in previous correspondence, under FHA's current policy, persons who strategically default on their mortgage will not be able to obtain another FHA loan for a minimum of three years. Comparatively, Fannie Mae has instituted a policy that prohibits a borrower that has strategically defaulted from obtaining a Fannie-backed mortgage for seven years. The consequence of FHA's shorter three-year lockout period, among other things, is that a borrower with a GSE-backed loan can strategically default on their loan and then, after three years, can obtain a FHA loan. This policy fails to provide adequate disincentive against strategic defaults in the housing market. In addition, it advertises the FHA as the place to obtain another loan even after a borrower fails to meet previous obligations, which in the case of mortgages backed by the GSEs, become obligations to the taxpayer. NAFCU and its members are hopeful that this issue will be further examined by the Committee moving forward.

Once again, thank you for allowing NAFCU the opportunity to provide input before tomorrow's hearing. We welcome the Committee's deliberative approach to the complex set of policy questions surrounding the state of the housing market. 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 Senior Associate Director of Legislative Affairs, Jillian Pevo, at 703-963-7082.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Senate Banking Committee