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

March 14, 2012

The Honorable Robert Menendez
Chairman
Subcommittee on Housing, Transportation & Community Development
Senate Banking Committee
United States Senate
Washington, D.C. 20510

The Honorable Jim DeMint
Ranking Member
Subcommittee on Housing, Transportation & Community Development
Senate Banking Committee
United States Senate
Washington, D.C. 20510

Re: Strengthening the Housing Market and Minimizing Losses to Taxpayers

Dear Chairman Menendez and Ranking Member DeMint: Chairman Menendez

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 in conjunction with tomorrow's subcommittee hearing, "Strengthening the Housing Market and Minimizing Losses to Taxpayers." NAFCU appreciates the continued focus on changes in housing policy that will improve the health of the market and lay the groundwork for the future of housing finance reform. This issue is of great importance to credit unions and their nearly 94 million member-owners.

NAFCU would like to briefly comment on the strategic plan for conservatorship of the government sponsored enterprises (GSEs) recently put forward by the Federal Housing Finance Agency (FHFA). 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.

Still, the strategic plan put forward by the 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.

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. NAFCU would like to reiterate to the Subcommittee 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. <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 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.

Finally, with a focus on minimizing loss to the taxpayer, NAFCU would urge the Subcommittee to examine the strategic default issue and the impact such defaults may have on straining the recovery and the FHA. 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 his or her loan and after three years, can then obtain a FHA loan. Clearly this policy fails to provide adequate disincentive against strategic default 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, are obligations to the taxpayer. NAFCU and its members are hopeful that this issue will be further examined by Congress moving forward.

Again, thank you for the opportunity to provide input before tomorrow's hearing. 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,

Fred R. Becker, Jr.
President and CEO

cc: Members of the Subcommittee