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The Honorable Tim Johnson
Chairman
Committee on Banking, Housing,
And Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Re: Credit Unions and the Federal Housing Finance Agency

Dear Chairman Johnson and Ranking Member Crapo:

On behalf of the National Association of Federal Credit Unions, the only trade association that exclusively represents federal credit unions, I write with respect to tomorrow's hearing, "The Federal Housing Finance Agency: Balancing Stability, Growth, and Affordability in the Mortgage Market." NAFCU members appreciate the work of Director Watt and the FHFA in helping to stabilize the nation's mortgage market as they oversee Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (FHLB).

As you know, the future of housing finance is of great importance to our nation's credit unions. NAFCU would like to reiterate to the committee the importance of retaining a housing finance system that provides credit unions with unrestricted access to the secondary mortgage market. This source of liquidity is critical in enabling credit unions to serve the mortgage needs of their 98 million members across the country.

In addition to a healthy and viable secondary mortgage market that provides necessary access for community-based financial service providers like credit unions, Congress, in any reform effort, must put into place safeguards that will prevent discrimination based on type of institution, an institution's asset size or any geopolitical issues. To ensure this type of discrimination does not take place, NAFCU believes there needs to be a heavy focus on fair pricing that reflects loan quality as opposed to standards almost exclusively based on loan volume. Loan quality and underwriting standards are the best way to ensure a healthy and efficient secondary market and a strong housing economy. As has been widely recognized by Congress and various other stakeholders, credit unions did not contribute to the financial crisis and pride themselves on solid underwriting that creates high-quality loans.

Relative to oversight of the Federal Home Loan Banks, NAFCU would like to take this opportunity to reiterate our position on the proposal currently under consideration at the FHFA that would alter the ability of financial institutions to become FHLB members. Credit union membership in FHLBs has been increasing as these partnerships serve as an important source of liquidity for credit unions, with 19% of credit unions having a FHLB membership as of June 2014. As the committee is aware, in September the FHFA released a proposed rule that would require financial institutions to hold 10% of assets in residential mortgage loans, not only to become a member, but also to maintain that 10%

on a constant basis to remain a member. This proposed rule change threatens to severely hamper credit unions access to the valuable services the FHLBs provide and must be carefully considered for its full impact before moving forward. We appreciate your successful request for a needed extension of the initial comment period and hope that the agency will listen to the concerns of industry and amend its proposal.

Further exacerbating this issue for credit unions is the statutory exemption for FDIC-insured banks with under $1 billion in assets from the 10% requirement as outlined in the *Federal Home Loan Bank Act*. In addition to changes to the underlying FHFA proposal, NAFCU believes this statutory discrepancy also needs to be addressed to ensure an even playing field between all financial institutions including credit unions on this matter.

NAFCU would also like to take this opportunity to discuss the FHFA's recent Request for Input on the guarantee fees (g-fees) that Fannie Mae and Freddie Mac charge lenders. The primary goal of the FHFA in setting g-fees should be to ensure that Fannie Mae and Freddie Mac remain sustainable, while not raising fees to a level that would significantly drive up the cost of borrowing and reduce lending. In line with that goal, NAFCU appreciates Director Watt's statement that the FHFA's strategic goals no longer involve specific steps to contract the Enterprises' market presence, as it could have a negative effect on liquidity. Again, secondary mortgage market access is vital for our nation's credit unions. Fannie Mae and Freddie Mac enable credit unions to obtain the necessary liquidity to create new mortgages for their members by utilizing the secondary market.

Raising g-fees would result in a negative impact on the housing market. The cost of borrowing will greatly increase and lending will inevitably slow down. Rather than increasing g-fees, NAFCU believes reducing g-fees or keeping them at their current level is necessary to the continued recovery and stabilization of the housing market. In NAFCU's August 2014 *Economic and CU Monitor survey,* 81% of NAFCU members polled indicated that the current level of g-fees should remain. Further, loan originations would inevitably decrease if the Enterprises continued to raise g-fees because the rising cost of mortgage lending would either need to be absorbed by the lender or passed on to the borrower, in the form of risk based fees or higher interest rates.

Again, thank you for holding this important 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 me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

Carrie R. Hunt
Senior Vice President of Government Affairs & General Counsel

cc: Members of the Senate Banking Committee