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The Honorable Jeb Hensarling
Chairman
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

Re: Credit Unions and the Federal Housing Finance Agency

Dear Chairman Hensarling and Ranking Member Waters:

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, *"Sustainable Housing Finance: An Update from the Director of the Federal Housing Finance Agency."* NAFCU members appreciate the work of Director Watt and FHFA in helping to stabilize the nation's mortgage market as they oversee Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System.

As you know, sustainable housing finance is of great importance to our nation's credit unions. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBs) are valuable partners for credit unions who seek to hedge interest rate risks by selling their fixed-rate mortgages on the secondary market. Not only does a safe and sound secondary market allow credit unions to better manage risk, but it also provides credit unions the ability to reinvest funds into their membership by offering new loan products or additional forms of financial services. Without these critical relationships with the Government Sponsored Entities (GSEs) and the FHLBs, credit unions would be unable to provide the services and financial products their members demand and expect. Therefore, NAFCU and our members strongly support a robust FHFA system.

NAFCU would also 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 100 million members across the country.

Relative to oversight of FHLBs, NAFCU would like to discuss our concerns with FHFA's pending proposal that would make significant changes to the agency's FHLB membership regulation. As the committee is aware, in September 2014, FHFA released a proposed rule that would establish new asset thresholds for both FHLB applications and ongoing membership. Specifically, FHLB members and applicants would be required to keep 1 % of assets in home mortgage loans. Also, current FHLB members would be required to hold at least 10 % of assets in residential mortgage loans on an ongoing basis – a marked change from the current rule, which only requires this 10 percent threshold at the application stage. The proposal would also require FHLBs to evaluate member compliance annually and to terminate membership after two consecutive years of noncompliance.

This proposed rule 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. In 2007, 11.4% of credit unions were members of an FHLB, representing 61.7% of total credit union assets. Today, however, 19% of all credit unions are members of an FHLB, and these credit unions represent 75.8% of the total credit union assets and this number continues to grow. This growth of credit union membership in FHLBs only underscores the need to ensure that the eligibility requirements for membership in FHLBs are set appropriately. Unfortunately, this proposal would disenfranchise over one million credit union member-owners from receiving the benefits of FHLB resources as their institution's membership would be terminated under the newly proposed requirements.

While NAFCU appreciates FHFA's intention of fostering FHLB's housing finance missions, we believe the current regulatory requirements effectively ensure that FHLB members demonstrate ongoing commitments to mortgage lending in their communities. For example, when an FHLB member borrows an advance, it must provide eligible collateral to secure the advance. Nearly all eligible types of collateral, which are determined by Congress, are related to housing. In addition, current members must certify their active support of housing for first-time homebuyers to FHFA every two years through the Community Support Statement. Further, FHFA has failed to provide any data or empirical evidence to support its claims that the FHLB system is at risk because some members may not meet the proposed asset percentage requirements on an ongoing basis. Given the sufficient existing requirements, and the lack of statistical support for the proposed changes, NAFCU does not believe FHFA needs to move forward with the newly proposed "ongoing" membership requirements for depository institutions in this rulemaking.

Further exacerbating this issue for credit unions is the statutory exemption for FDIC-insured banks with under $1.1 billion in assets from the 10% requirement as outlined in the *Federal Home Loan Bank Act*. In addition to seeking changes to the underlying FHFA proposal, NAFCU believes this discrepancy also needs to be addressed to ensure an even playing field between all financial institutions including credit unions on this matter. We would urge the committee to act on this matter and create parity for credit unions.

NAFCU would also like to take this opportunity to discuss FHFA's recent Request for Input on the guarantee fees (g-fees) that Fannie Mae and Freddie Mac charge lenders. The primary goal of 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 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.

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 House Financial Services Committee