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The Honorable Jon Tester
Chairman
Subcommittee on Securities, Insurance,
and Investment
Senate Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Mike Johanns
Ranking Member
Subcommittee on Securities, Insurance,
and Investment
Senate Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Tester and Ranking Member Johanns:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federal credit unions, I write today with respect to tomorrow's hearing, "Creating a Housing Finance System Built to Last: Ensuring Access for Community Institutions." As you know from previous correspondence, the future of housing finance is of great importance to our nation's credit unions. Accordingly, NAFCU members are encouraged by the title of the hearing and the acknowledgement that secondary mortgage market access is critical for community institutions.

First, we would like to praise your role in crafting the *Housing Finance Reform and Taxpayer Protection Act* (S. 1217). This bipartisan effort, led by Senators Bob Corker (R-TN) and Mark Warner (D-VA), is an important step in the housing finance reform debate and we acknowledge the hard work put forward by the cosponsors and their staffs in crafting this comprehensive proposal. We are pleased that, through your leadership, the bipartisan approach put forth in S. 1217 makes an effort to help address the concerns of community financial institutions.

It is with the these concerns in mind that NAFCU would like to reiterate to the subcommittee 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 allowing credit unions to manage interest rate risk and enables them to serve the mortgage needs of their 95 million member-owners across the country. As the housing market continues to recover from the financial crisis, it is especially critical that lawmakers and regulators strike the necessary and proper balance for the government's role in the housing finance sector.

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. Because credit unions originate a relatively few number of loans compared to others in the marketplace – federally insured credit unions had about 7% of the first mortgage originations in 2012 – they cannot support a pricing structure based on loan volume, institution asset size, or any other geopolitical issue that will lend itself to discrimination and disadvantage their member-owners. Loan quality and underwriting standards are the best way to ensure a healthy and efficient secondary market and a strong housing economy.

In 2010, as the future of housing finance became a focal point in Congress, with the Administration, and among the regulatory agencies, the NAFCU Board of Directors was the first in the credit union industry to establish a set of principles that credit unions would like to see reflected in any reform efforts. These principles were aimed to help ensure that credit unions are treated fairly during any housing finance reform process. They are outlined below:

- NAFCU believes a healthy, sustainable and viable secondary mortgage market must be maintained. Credit unions must have unfettered, legislatively-guaranteed access to such market. In addition, in order to achieve a healthy, sustainable and viable secondary market, NAFCU believes there must be healthy competition among and between market participants in every aspect of the secondary market. Market participants should include, at a minimum, multiple Government Sponsored Enterprises (GSEs), Federal Home Loan Banks, Ginnie Mae (as insurer of FHA, VA, and other government-backed loans), and private entities.

- 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.

- 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.

- Credit unions 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.

- 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 and risk-based pricing for loan purchases should reflect that quality difference. Credit union loans provide the high quality necessary to improve the salability of many 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.

- NAFCU does not support full privatization of the GSEs at this time 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 mortgage market as they provide their credit union members with a reliable source of funding and liquidity. 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.

We hope that these principles can ultimately be reflected in any housing finance reform proposal that the Committee may consider.

Finally, while we still have some questions over the practicality of the approach proposed in S. 1217, the attention to market-access for community lenders is an important aspect of this legislation. We look forward to working with you, the bill's sponsors, and the Committee to address the concerns of credit unions as this bill makes its way through the legislative process.

Thank you for this opportunity to provide input on this critical issue. NAFCU welcomes the opportunity to provide additional views on housing finance reform as the legislative process progresses. 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 Vice President of Legislative Affairs, Brad Thaler at (703) 842-2204.

Sincerely,

B. Dan Berger
Executive Vice President, Government Affairs

cc: Members of the Subcommittee on Securities, Insurance, and Investment