

FHFA and Ginnie Mae Public Listening Session: FHFA's Re-Proposed Minimum Financial Eligibility Requirements for Fannie Mae and Freddie Mac Single-Family Seller/Servicers and Ginnie Mae's Eligibility Requirements for Single-Family MBS Issuers

Kevin Silva: Good afternoon, everybody. Good afternoon and thank you for joining us today for a joint listening session on Proposed FHFA and Ginnie Mae Eligibility Requirements. My name is Kevin Silva. I'll be your moderator today. Before we turn over to industry participants, I'd like to turn it over to FHFA's Acting Director Thompson and Ginnie Mae's President McCargo, for opening remarks. Director Thompson.

Sandra Thompson: Great. Thank you so much. Good afternoon and welcome. As Kevin just mentioned, today's joint listening session is focused on two things. FHFA's re-proposing minimum financial eligibility requirements for Fannie Mae and Freddie Mac seller servicers, and Ginnie Mae's eligibility requirements for single family MBS issuers.

We're fortunate to be joined by Ginnie Mae President Alanna McCargo, who will deliver remarks in just a few minutes. And we also have Chuck Cross from CSBS on the line.

FHFA is committed to securing our regulated entities safety and soundness. As part of this commitment, we have a responsibility to ensure that the Enterprises consider risk exposure from their contractual relationships with sellers and servicers and to assess, monitor and take actions to address the risks to which they are exposed in their business relationships with third parties.

FHFA first created minimum financial eligibility requirements in 2015. Those standards set minimum capital levels for both capital and liquidity to be maintained by approved seller servicers to service single family mortgage loans guaranteed or owned by the Enterprises.

The Enterprises use these requirements to monitor and manage risk exposures to their non-depository seller

servicers, while largely relying on banking regulators, prudential capital and liquidity standards as financial requirements for depository counterparties.

In January of 2020, FHFA released proposed updates to the minimum financial requirements. However, as a result of market reactions to the pandemic, we announced five months later that we would assess and repropose the requirements.

During the pandemic, there was a lot of uncertainty stemming from mortgage forbearance options allowed for by the CARES Act. Servicers did not know how long they would need to advance on behalf of borrowers and forbearance. They were also concerned about the impact of higher delinquency rates and costs associated with servicing nonperforming mortgage loans.

This resulted in the Enterprises being exposed to increased levels of counterparty risk and highlighted risks that had previously not been considered. We found the need to cover seller risks stemming from liquidity challenges in the origination market at the onset of the pandemic.

Additionally, the importance of more robust financial requirements for non-depository servicers that hold a substantial portion of Enterprise servicing became quickly apparent.

Lastly, we recognize the need for a more nuanced view of servicer liquidity requirements linked to the liquidity demands of a servicer for remittance type, as noted by some market participants. Accordingly, on February 24th of this year, we repropose minimum financial eligibility requirements for Fannie Mae and Freddie Mac seller servicers.

We met with Ginnie Mae and CSBS to discuss the proposed requirements prior to its release. We understand how important it is for the governing bodies to meet and discuss requirements that impact both Ginnie Mae issuers and Enterprise sellers and servicers while reserving the right to differ, if needed.

The repropoed minimum financial requirements are designed to achieve three goals. They are to (1) more accurately reflect seller servicer capital and liquidity needs, (2) enhance the quality of capital held by seller servicers, and (3) incorporate lessons learned from market volatility associated with the pandemic.

We've appreciated all of the input that we've received on these proposed requirements. We've approached these proposed requirements carefully and deliberately and are well aware that sellers and servicers vary in size and business model. And we look forward to listening to your feedback. And we'll consider your suggestions.

We've been holding listening sessions on a range of topics, either to seek input on emerging issues, or feedback on proposed rules or plans for several years now. These sessions represent FHFA's commitment to furthering transparency by providing the public an additional forum in which to share their views on important public policy issues.

I also want to recognize and thank those who have tirelessly worked on these repurposed requirements, as well as on this listening session. This session would not be possible without their dedication and commitment.

Lastly, I want to take a moment to thank all of the people who are joining today's session. We firmly believe input from people of various backgrounds and viewpoints strengthens decision making, and we value your participation and thoughtful participation as well. And with that, I'll now turn things over to my distinguished colleague, Ginnie Mae President Alanna McCargo.

Alanna McCargo:

Thank you, Sandra. I appreciate that and appreciate the opportunity to be here today. I just want to say I think this is the first time --you've been doing these listening sessions at FHFA for a long time. This is the first time that we've been invited to join you and do this jointly. And this is such important work that requires this kind of collaboration. And I just, I cannot thank you for your leadership and for the team's engagement on this issue thus far.

It is a pleasure to cohost this event with you. The housing finance world has seen and observed a remarkable evolution since the global financial crisis some years back. Including a change in the composition of who performs the all-important mortgage lending and servicing functions.

Ginnie Mae and FHFA, as well as the Conference of State Banking Supervisors, have invested a great deal of time and effort contemplating what changes need to be made within government to respond to this evolution. And today's session is another example of this, ensuring that key stakeholder concerns are broadly heard and discussed collaboratively.

So, I really do appreciate everyone who has joined today and those of you that are going to speak to your concerns and issues and the impacts of a policy in this space from your various perspectives.

Our current issue of eligibility requirements are a useful tool in promoting successful participation in Ginnie Mae's MBS program. Today with the knowledge gained through our current and ongoing monitoring of our issue issuers, our own liquidity risk mitigation efforts in response to the pandemic as well as other modeling and analysis, we've determined that Ginnie Mae's issuer eligibility requirements must be enhanced, not only to protect the program and create resiliency during adverse market conditions, but also to ensure the stability of Ginnie Mae, MBS marketplace for generations to come.

As the team undertook this initiative, several core principles were embraced. First, enhancing the level of confidence so that issuers are positioned to be successful through any economic cycle is key. Ginnie Mae wants issuers to succeed through volatile cycles because they are integral to ensuring the housing capital markets and providing consistent and essential access to credit for homeowners and renters, the beneficiaries of our insuring and guaranteeing agencies' programs. This is particularly important given the increased dependence of today's industry on external financing.

Second, making certain that enhanced requirements immediate impact on the existing issuer base is manageable. Just as it would be wrong to ignore the need for change, so it would be wrong to introduce change that ends up destabilizing the market.

Third, to the greatest extent possible, harmonizing with the requirements proposed by FHFA is important. This kind of alignment simplifies issuers capital and liquidity planning, as well as makes compliance easier to measure, report and govern. We must also acknowledge, however, that the risks inherent to the government mortgage sector are quite different and that cannot be ignored. Meaning it's possible that we may in some places diverge from selected tenants ultimately implemented for the Enterprises.

We believe we have achieved these three key objectives thus far. Our proposed new eligibility requirements that will ultimately be released will do three important things. One, assess the total risk profile of an issuer rather than only looking at the risks related to Ginnie Mae MBS exposure. Two, account for capital and liquidity impacted by interest rate risk and risk nation activities. And three, differentiate the relative risk issuers take, such as leverage and interest rate and credit sensitive assets like MSRs and non-QM.

This is naturally a subject that issuers will have strong opinions about, and we appreciate the input that we've received thus far. We opened up our period of comment last year and closed in October and received tremendous input from the industry and stakeholders alike.

Some brief comments on the risk-based capital proportion of our proposed requirements I wanted to make before we jump into the rest of the session.

As many pointed out, there are fundamental differences between the business model of a bank and a non-bank and liquidity is the primary risk for the latter. But that doesn't change the fact that the protection afforded by different asset classes can vary considerably, and we continue to believe that this difference should be

recognized in our eligibility standards and risk management.

Further, as some have pointed out, stronger capital standards are credit positive for institutions generally, which is favorable for bank supplied lending and ultimately, we believe, for MSR value.

There have been concerns that these requirements would negatively affect smaller issuers or impede lending to low to moderate income or minority borrowers. In fact, our analysis shows that smaller issuers on the whole are closer to full compliance with our proposed requirements, and nothing about the requirements is punitive for loans to the borrowers that are subject of this express concern.

There is a view that the government's focus should be on broad emergency liquidity facilities rather than on enhanced financial standards at the individual institution level. Whether that makes sense is indeed an important and interesting public policy question, but it is not a viable rationale to otherwise maintain the same standards when the institutional risk profile of the industry has changed dramatically, while the Ginnie Mae guarantee fee has remained exactly the same through all these changes.

We will continue to evaluate the merits of such a facility alongside our counterpart agencies. Nevertheless, there are some areas where the feedback received on our proposal was compelling and will have an influence as we work to adjust our proposal.

We deeply appreciate all of you that took the time to provide thoughtful submissions in response to the Ginnie Mae request for input last year, and we've taken the time to carefully review and consume it and fully analyze the various scenarios as well as the larger context in which we are working alongside FHFA.

This effort has taken time, but it was really important. And Secretary Fudge and I want to be sure that all considerations and priorities are appropriately considered, and that our fundamental commitment to the Administration's goals of ensuring equity in our housing finance system is reflected in our policies.

Through our ongoing dialogue with industry stakeholders, including our work with FHFA, I am confident that Ginnie Mae will arrive at final enhancements that encourage issuers to engage in higher levels of capital and liquidity planning and governance and take into account all lines of an issuer's business model contemplating both origination and servicing activities and risks.

As we work towards finalizing our eligibility requirements, we will continue to study event driven risks and refine our issuer stress testing analytical framework.

My remarks this afternoon will be incomplete without placing some emphasis on the critical mission of Ginnie Mae, established at its inception in 1968 to make affordable housing a reality for millions of Americans by ensuring liquidity and stability to the government in short programs that serve some of the most underserved populations in our country. As well as critical segments of consumers, including seniors, veterans and tribes.

And doing so while protecting taxpayers. Ginnie Mae is the only federal agency with the Administration and oversight of an explicit full faith and credit guarantee on MBS. For our ensuring and guaranteeing agency partners including FHA, VA, USDA, rural housing and HUDs Public and Indian Housing, we're the only game in town.

Ginnie Mae's legacy is that even in difficult times an investment in Ginnie Mae MBS has proven to be one of the safest an investor can make as evidenced by the global investor demand for these securities.

Our stewardship of this legacy and responsibility to our stakeholders is always at the forefront of all decision making and risk management approaches that we take. And for me, at the forefront since I became president of Ginnie Mae.

So, with that in mind, I want to just say I'm grateful for this opportunity to listen to your feedback and look forward to working closely with our sister agency FHFA and to advance this important work. Thank you so much.

Kevin Silva:

Thank you. Thank you very much for those remarks. I'm going to go ahead and turn it over to Dinah Knight for a

minute or two here. She had some comments about legal structure.

Dinah Knight:

Thank you, Kevin. Before we move forward with the remainder of the agenda, I have a few important housekeeping remarks. During today's session, FHFA will not discuss the status or timing of any potential rulemaking. If FHFA does decide to engage in rulemaking on any matters discussed at this meeting, the rulemaking document would establish the public comment process, and you would need to submit your comments, if any, in the course of the submission instructions in that document.

FHFA may summarize the feedback gathered at today's meeting in a future rulemaking document, if we determine that a summary would be useful to explain the basis of a rulemaking.

Also, please keep in mind that nothing said in this meeting should be construed as binding on or final decision by the agencies or their staff.

Finally, we are recording this session, we will also prepare a transcript of the meeting including your names and organizations that you represent. We'll post the recording on the screen, the transcript on FHFA's website and YouTube channel along with any materials that our presenters use today. Thank you for your attention.

Kevin Silva:

Thank you, Dinah. Just a couple of other housekeeping items before we turn over to the speakers and start our listening session. Each speaker today will have eight minutes to speak. You have the ability to mute and unmute yourself. We ask that when you're not speaking, please mute and turn your video off.

I will give kind of a friendly reminder at about the seven-minute mark, as you approach that eight-minute point end of your speaking engagement. If you go over time, I will unfortunately have to interrupt you. I hope to not have do that. But I do want to be mindful of other people's time.

So, and with that, I would like to turn it over to our first speaker Chuck Cross. I appreciate you joining us from the Conference of State Bank Supervisors. Chuck.

Chuck Cross:

Thank you, Kevin. And thank you Acting Director Thompson and President McCargo. My name is Chuck Cross, and I am the Senior Vice President for Non-Bank Supervision at the Conference of State Bank Supervisors, or CSBS. CSBS is the regulatory association of state bank and non-bank regulators. We appreciate this opportunity to provide CSBS's perspective on proposed changes to FHFA and Ginnie requirements.

State regulators are charged with protecting consumers and ensuring the safety and soundness of the financial institutions they supervise, including residential mortgage lenders and servicers. Their proximity to financial institutions and the communities they serve gives them a unique understanding of mortgage market participants beyond what federal agencies observe at the national level.

Through a ground force of licensing professionals, examiners, investigators and enforcement attorneys, the state system provides the only direct prudential regulatory presence for the industry. In addition to their supervisory responsibilities, state regulators are committed to fostering economic development opportunities within their states, both for consumers and the industry.

State regulators believe that a viable and thriving mortgage market is an integral part of a healthy local economy. State regulators share a broad supervisory landscape with FHFA, Ginnie Mae and CFPB as well as HUD, FHA, VA, Fannie Mae, and Freddie Mac.

We understand that this multitude of agencies responsible for program and regulatory controls creates burden and complexity for an industry striving to serve a large economic market. Mindful of this, CSBS and state regulators continually seek solutions focused on improved consumer protections, while reducing regulatory burden.

In July of 2021, CSBS released the state regulatory prudential standards for non-bank mortgage servicers. These standards covered financial condition and corporate governance requirements for all but the smallest of servicers. In developing the standards, we

worked closely with industry to craft a set of requirements that would foster uniformity and improved supervision while mitigating additional regulatory burden.

The financial condition component of the standards was intentionally aligned with the FHFA seller servicer requirements to the greatest extent practicable. That alignment exists for current and future requirements established by FHFA. States are currently adopting these standards and in the coming months and years will be the primary examining authority for the state standards and, by default the FHFA financial requirements.

While the state system chose not to provide formal comments to either the FHFA or Ginnie proposals, which is not uncommon between state and federal agencies, CSBS supports enhancements to supervision and found no grounds to object to either set of standards.

CSBS observes the phenomenal growth in the volume of non-bank mortgage servicing over the last decade and appreciates the need and objectives of the FHFA and Ginnie proposals to elevate capital, liquidity and corporate oversight requirements.

And specific to liquidity, CSBS was challenged in finding a different path for the FHFA liquidity add on, sometimes referred to as a pro cyclical add on. We believe that the solution provided by FHFA and this proposal is a reasonable and pragmatic approach to assuring that non-banks retain sufficient liquidity at times when that liquidity may be needed the most.

The experience of state regulators is that certain non-banks may operate with insufficient capital and liquidity buffers. And therefore, CSBS strongly supports enhancements to these crucial components of financial condition.

Likewise, Ginnie Mae's focus on improving corporate oversight responsibilities is shared by CSBS. Prudent oversight of institutions and trusted to manage consumer and investor monies, as well as the important accounting and documentation responsibilities incumbent on servicers is vital to a healthy mortgage market.

I thank you for the opportunity to lend a supporting voice to these supervisory improvements. And we look forward to working with FHFA and Ginnie Mae to strengthen the coordination between state regulators and your agencies as we continue our shared oversight responsibilities. Thank you.

Kevin Silva:

Thank you very much, Chuck, appreciate that. Helen McMillan from Experian is not able to join us today, I apologize. So, I am going to turn it over to Bob Broeksmit from the Mortgage Bankers Association.

Bob Broeksmit:

Good afternoon. I'm Bob Broeksmit, President and CEO of the Mortgage Bankers Association. Thank you to FHFA, Acting Director Thompson and Ginnie Mae President, McCargo, as well as the staffs of FHA and Ginnie Mae, for holding this listening session.

As you know, MBA is the national association representing the real estate finance industry with over 2,200 member companies that include lenders, servicers, investors, insurers, and service providers, among others. As FHFA, the GSEs and Ginnie Mae, along with state regulators, have reassessed financial eligibility requirements for mortgage servicers in recent years, MBA consistently has supported a robust framework that ensures servicers can meet their obligations during periods of stress.

When evaluating proposals such as those put forth by FHFA and Ginnie Mae, MBA focuses on four key principles. One, capital liquidity and net worth requirements should be calibrated such that they ensure strong financial capacity among servicers without unduly restricting access to credit for consumers.

Two, these requirements should provide incentives for servicers to institute strong risk management practices. Three, these requirements should be aligned between the GSEs, Ginnie Mae and state regulators to the greatest extent possible. Four, the transition to any new requirements should include a lengthy implementation period.

I'll spend a few moments elaborating on each of these principles. As a threshold matter for financial eligibility

requirements to achieve their goals, they must balance resiliency among servicers with sustainable access to credit for consumers. Finding the correct balance, of course, is easier said than done.

The current FHFA proposal, for example, increases base liquidity requirements, adds a liquidity surcharge for institutions that hedge their loan pipelines with TBA securities, and for larger servicers includes a liquidity buffer. FHFA provides its rationale for each of these components but does not address their cumulative impact.

Under this proposal, many servicers would have minimum liquidity requirements that are two to five times higher than those in place today. While we understand the desire for higher minimum liquidity requirements, an increase of this magnitude would be excessive. In our written comments, we provide several options to recalibrate these requirements in a targeted manner.

The incentive structure embedded in any framework put in place by FHFA or Ginnie Mae is just as important as its calibration. A proper framework should be structured to provide incentives for robust risk management.

To that end, we are pleased that FHFA is proposing to eliminate the procyclical non-performing loan surcharge, and to recognize the differing liquidity risks associated with actual remittances and scheduled remittances.

We believe there are further opportunities for both FHFA and Ginnie Mae to improve incentives for strong risk management as well. FHFA 's proposal includes a surcharge associated with an institution's use of TBA securities to hedge its loan origination pipeline.

While we understand FHFA's desire to ensure the industry is equipped to address margin calls on these hedged positions, we are concerned that this provision will discourage servicers from hedging their origination pipelines, which would increase rather than decrease exposure to risk.

We believe FHFA should not implement this component of its framework and should undertake additional analysis

to determine its likely impact and identify alternative options to address margin calls.

Another important point on the incentive structure of both proposals is the problematic decision to eliminate any recognition of the available portion of committed lines of credit. These committed lines, backed by servicing advances or in some cases, MSR, are durable in ways that uncommitted lines are not.

They can be withdrawn only in response to one or more specific covenant violations or pre-specified triggers. And they proved stable even during the onset of the pandemic. Their removal from the calculation of liquid assets diminishes incentives for servicers to engage in more robust risk management practices.

Servicers must pay an additional cost to obtain committed lines of credit rather than uncommitted lines of credit. If these committed lines of credit provide no benefit in terms of compliance with the minimum liquidity requirements, many institutions may decide that the additional payment is not warranted. This will result in greater use of uncommitted lines of credit, which are more likely to be withdrawn in periods of market stress.

With respect to Ginnie Mae, its 2021 proposal included a risk-based capital ratio requirement that featured highly punitive treatment of MSR. This treatment does not accurately reflect the economic and financial risks associated with MSR. And we fear that if implemented as proposed, it would severely constrict demand for and liquidity of MSR.

This would make the servicing of government backed loans less attractive, which could lead to consolidation in the industry or a reduced willingness of institutions to take on new servicing, both of which would weaken the resiliency of the sector.

Our third principle focuses on alignment of financial eligibility requirements across the GSEs, Ginnie Mae and state regulators. The case for aligned requirements is strong. Many institutions covered by these proposals are GSE seller servicers and Ginnie Mae issuers, and most are regulated at the state level.

The most stringent among these requirements at any given time, therefore, will become the binding constraint. The other requirements are not binding and do little to further safety and soundness, but they have the potential to increase compliance costs steeply.

Perhaps most importantly, there is no compelling reason for misaligned requirements when FHFA, Ginnie Mae and state regulators share a common desire to promote stable operations and financial resiliency.

The best way to achieve this outcome is through a common framework for financial eligibility. We're encouraged that CSBS already has finalized a framework that incorporates by reference, the FHFA and Ginnie Mae requirements. And we also are encouraged by the collaboration between FHFA and Ginnie Mae made evident by this joint listening session.

As for the appropriate implementation period, our view is that 18 months is a reasonable target. Anything shorter than this is likely to impose challenges regardless of how many services already meet the heightened requirements. For servicers that do not meet the new requirements they of course need time to build up their capital, liquidity or net worth. For servicers that already meet the new requirements, many still will need to adjust their capital, liquidity, or net worth to achieve the cushion above the minimum they seek to maintain as a matter of prudent risk management. In both cases FHFA and Ginnie Mae should ensure sufficient time for servicers to take these steps in an orderly manner.

Before concluding I would be remiss if I did not mention a few other areas in which FHFA and Ginnie Mae could take steps to enhance resiliency among servicers.

Kevin Silva:

One-minute heads up.

Bob Broeksmit:

Thank you. For FHFA this includes responsible expansion of Federal Home Loan Bank membership or access to FHFA advances. For Ginnie Mae, this includes promoting enhanced access to third party financing of MSR's, diversification of MSR ownership, the ability to split pools, consistent availability of emergency liquidity

and exploration of ways to limit the duration of advancing burdens.

MBA has focused significant attention on this issue because the stakes are high. A framework that is not calibrated and structured appropriately could distort the market, increase risk, create an unlevel playing field among institutions of different types or sizes, alter secondary market executions, and most importantly, raise the cost of credit for consumers. A properly calibrated and structured framework, on the other hand, would promote safety and soundness while also fostering a deep liquid market for servicing assets and keeping costs manageable for consumers.

Thank you again for the opportunity to share our views today. We've had a great partnership with FHFA and Ginnie Mae on this issue, as well as with the CSBS. And we look forward to continuing that partnership in the weeks and months ahead.

Kevin Silva:

Thank you for your remarks, Bob. I'd like to now turn it over to Ed Demarco for the Housing Policy Council.

Ed DeMarco:

Thank you, Kevin. Thank you for this opportunity. I'd like to begin by recognizing that FHFA is holding this session jointly with Ginnie Mae. I am pleased and grateful that both Acting Director Thompson and Ginnie Mae President McCargo are participating.

I also would like to recognize that the first speaker this afternoon was Chuck Cross from the Conference of State Bank Supervisors. State Supervisors also have a critical role with respect to today's topic.

You all are sending a welcome signal through your collective participation. The Housing Policy Council supports rigorous and effective capital and liquidity standards for Enterprise seller servicers.

Having such standards contributes directly to the resilience and stability of our housing finance system. But it's critically important that there be consistent, aligned standards across the counterparties including Fannie Mae, Freddie Mac and Ginnie Mae, and the regulators,

that is the state supervisors with direct responsibility for setting and enforcing such standards.

We take it then as a good sign that all those with a role in defining capital and liquidity standards are present and participating in this discussion. And HPC hopes that this signal means that in the coming weeks and months FHFA, Ginnie Mae and CSBS will continue down a path of communication and coordination that produces reasonable and consistent guidelines.

Turning to the FHFA re-proposal, HPC appreciates that FHFA has already listened and responded to industry concerns on its earlier withdrawn proposal. We support the minimum net worth and liquidity requirements in the re-proposal and believe that the framework offered is sensible.

In the comment letter HPC is submitting today, we recommend that the standards be fine-tuned to encourage the use of existing liquidity risk management practices. Our proposed refinements do not focus on the percentage requirements for capital and liquidity, but on how those requirements are satisfied.

Most importantly, HPC advocates that available capacity under committed lines of credit should receive consideration as a source of liquidity. We also identify several places where we would appreciate greater clarification from FHFA as it proceeds to finalize the framework.

In the next few minutes, I'll provide a brief overview of several of these comments. The first and primary issue I would like to raise is one that I expect you will hear from other speakers today. And indeed, you heard it just moments ago from Bob Broeksmit, and you'll hear about it in comment letters.

Specifically, we believe there was a good case to be made for including a portion of the available capacity under permitted lines of credit to meet the liquidity requirements. HPC's comment letter goes into detail on why we believe committed lines warrant this consideration.

While we make some suggestions as to how this could be done, we recognize there are many ways to accomplish this objective. My larger point for this session is to note that the HPC comment letter highlights the benefits associated with including committed lines to meet some portion of the proposed liquidity requirements.

In doing so, we acknowledge that cash and cash equivalents should be the primary component in meeting liquidity standards. Yet committed lines can and should be part of meeting that requirement as well.

Fannie Mae, Freddie Mac and Ginnie Mae already collect data quarterly on non-bank seller servicers lines of credit via the mortgage bankers financial reporting forum.

Adjustments to the current reporting could provide a more complete picture of the available capacity under committed lines and the Enterprises could modify the reporting to align with whatever portion of committed credit lines FHFA decides to count as liquidity.

In its re-proposal FHFA introduced a new concept to the liquidity framework, an incremental liquidity requirement for non-bank mortgage originators, to use the TBA market to hedge interest rate risk.

FHFA indicates that it calibrated this requirement to its observations of margin calls related to hedging in the TBA market during March and April 2020. However, it's unclear if this requirement is to be applied to the gross or net position of a given institution.

In our comment letter, we explained that one of the responses to the market volatility in 2020 was the expansion of netting agreements between warehouse lenders and seller servicers. Thus, it is possible that warehouse lenders that also serve as dealers on TBA have entered contracts with non-bank seller servicers that permit the positions to be netted against each other daily by the warehouse lender.

Such netting results mitigate the non-banks margin call exposure to the TBA position. Therefore, HPC recommends that the origination liquidity requirement be modified to recognize the offsetting effects of these

netted positions when the contracts provide for such netting.

Our last recommendation is that the definition of net worth used by FHFA, Ginnie Mae and state regulators conform to the standing practice at the GSEs and Ginnie Mae, which makes certain adjustments to GAAP definitions.

There are sound business reasons for these adjustments, and they have been part of business practice for some time now. Therefore, we recommend that the written guidance align with today's standing practices, our letter provides greater detail.

Finally, there are several areas of the re-proposal that would benefit from additional clarification by FHFA as it finalizes the standards, these are all described in our letter.

So, let me close with three points. Coordination and alignment across FHFA and the GSEs, Ginnie Mae and CSBS would enhance predictability, consistency and stability in how non-bank seller servicers manage their capital and liquidity.

Second, committed lines of credit are an important element of a prudent liquidity risk management framework, and thus deserve some consideration in how they can help meet the overall liquidity requirements imposed.

And lastly, implementing a new set of capital and liquidity requirements is no small matter. So, we urge that appropriate time be granted so that affected firms can take the steps needed to comply with the new standards. Thanks so much for having this listening session and for allowing me the opportunity to speak.

Kevin Silva:

Thank you very much for that, Ed. I'll now turn it over to Aminah Moore from the National Association of Federally Insured Credit Unions.

Aminah Moore:

Thank you. Today I will be providing remarks on behalf of the National Association of Federally Insured Credit Unions. We first want to thank the FHFA and Ginnie Mae for giving us the opportunity to provide comments and

regarding both of these proposals. I'm going to address both separately. We have submitted comment letters to build proposals and I'll just summarize our comments.

First, in regard to the FHFA's re-proposal, NAFICU supports increased capital and liquidity requirements for non-depository seller servicers because it is important to the safety and soundness of the housing finance system as a whole.

However, NAFICU recommends that the FHFA increase the capital ratio requirement for non-depository seller servicers to 10% in order to be consistent with Ginnie Mae's proposal. Ginnie Mae has rationalized a 10% capital ratio for non-depository financial institutions because the risk characteristics such as the increased size of the guaranteed portfolios, the changing profile of the issuer base and a greater systemic vulnerability to economic stress and liquidity shocks have changed.

These changes require more rigorous set of financial requirements. The FHFA should similarly recognize that these non-depository seller servicers that now play an even larger role in the housing system should be subject to stronger capital standards by increasing capital ratio to 10%.

Non-depository seller services and community banks and credit unions are not created equal. The primary distinction between community banks and credit unions versus non-depository institutions is federal insurance and federal safety and soundness supervision and examinations.

Non-depository financial institution should have higher capital requirements than community banks that are insured by the FDIC and credit unions that are insured through the National Credit Union Share Insurance Fund.

Non-depository uninsured financial institutions pose higher risks to the financial system warranting higher capital requirements to protect the financial system and American taxpayers.

Additionally, NAFICU supports the FHFA's discretionary authority to designate a non-depository as a large seller

servicer based on the circumstances and supports the additional standards for large non-depository seller services, because the annual capital and liquidity plan requirements will provide a more complete picture of the internal oversight and governance of these non-depository institutions, and better allow the FHFA and the GSEs to manage the risks associated with these institutions.

NAFICU recommends that the FHFA clarify in the definition when the final rule is issued, who constitutes a qualified independent third party that shall provide to the GSEs an annual assessment of the seller servicers performance and credit worthiness. Currently, the re-proposal does not define this term in the description of the requirement, nor in the Frequently Asked Questions portion.

Now moving on to Ginnie Mae's proposal. NAFICU gives overall support for the Ginnie Mae proposed requirements as they apply to non-depository mortgage companies that are Ginnie issuers. Non-depository mortgage companies pose systemic risk to the housing market because they're not regulated by specific federal agency.

Although they are subject to state supervisory authorities, and if large enough the CFPB, they do not have a specific federal regulator and are not subject to safety soundness examinations. As previously mentioned, when speaking about the FHFA's proposal, non big mortgage servicers play an important part in the housing finance system, especially in helping low- and moderate-income individuals obtain mortgage credit, and it is important they have sufficient capital and can withstand liquidity shortages.

However, the proposed revisions do not represent reasonable and appropriate controls on counterparty risks within the Ginnie Mae program as they relate to credit unions. Credit unions' net worth and capital are already regulated by the NCUA. Therefore, Ginnie Mae should allow the NCUA to be the sole regulator of credit unions. Ginnie Mae should grant credit unions parity with banks

and exclude credit unions from the additional capital requirements imposed on non-depository institutions.

Credit unions are already subject to the NCUA's risk-based capital rule which is comparable to the risk-based capital regulation that is applicable to banks. The risk-based capital rule requires complex credit unions, which are those with \$500 million or more in total assets, to have a risk-based capital ratio of 10% to be regarded as well capitalized for risk-based capital purposes.

The risk weighting used to determine the risk-based capital ratio follows a framework that is similar to that adopted by other federal banking regulators.

The NCUA has also provided credit unions with an alternative mechanism for demonstrating risk-based capital adequacy, which consists of a simplified net worth calculation. This approach is called the complex credit union leverage ratio or the COOULR. And it is similar to the Community Bank Leverage Ratio that is applicable to banks.

Complex credit unions that meet certain qualifying criteria including a net worth ratio of at least 9% are regarded as well capitalized under the COOULR framework and avoid the administrative burden of calculated and risk-based capital ratio as described in the 2015 risk-based capital rule.

Credit unions that choose to calculate a risk-based capital ratio, or are required to calculate a risk-based capital ratio because they are ineligible to use the COOULR, must maintain a 10% risk-based capital ratio to be regarded as adequately capitalized. Complex credit unions are currently subject to the NCUA's risk-based capital rule.

Therefore, NAFICU urges Ginnie Mae to grant credit unions parity with banks and exclude them from Ginnie Mae's risk-based capital requirements. Thank you for the opportunity to provide remarks.

Kevin Silva:

Thank you very much, Aminah. Appreciate it. We'll now turn to Tanya Rakpraja from Annaly Capital Management.

Tanya Rakpraja:

Thank you, Kevin. First, Annaly Capital Management thanks the Federal Housing Finance Agency and Ginnie

Mae for coordinating this listening session. Similar to others, Annaly appreciates and welcomes the coordination across agencies that have oversight over mortgage servicing.

Annaly is a publicly traded diversified capital manager with total assets of \$89 billion, including unencumbered assets of \$9.3 billion and permanent capital of \$13 billion at the end of our most recent fiscal year. Annaly has elected to be taxed as a REIT and is the nation's largest mortgage REIT.

Annaly is comprised of three investment groups. The agency group, the residential credit group, and the middle market lending group, Annaly's agency group is the largest of these three, with assets of over \$80 billion and invests in mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac and through a wholly owned subsidiary Onslow Bay. And also invests in complementary assets within this market, including MSRs.

Onslow Bay has been approved by the Enterprises as a servicer and is subject to Enterprise requirements related to capital and liquidity and requirements designed to ensure appropriate selection in oversight of sub servicers. Onslow Bay is distinct from many other Enterprise MSR owners. None of Annaly, Onslow Bay or any of their subsidiaries or affiliates, originate mortgages or directly service mortgages has any consumer facing personnel.

Minimum capital and liquidity requirements for seller services, like those set forth in the re-proposal, are an important means for ensuring the financial stability of the Enterprises counterparties in the mortgage market generally, especially in an economically stressed environment. And they are important to ensure that borrowers will receive prompt and appropriate levels of support at every point in the economic cycle.

As an investor in the nation's housing finance market, Annaly strongly supports these objectives. In this regard, the higher tangible net worth capital and liquidity requirements are a step in the right direction. As well, the re-proposal's effort to tailor the eligibility requirements to

account for different types of risks, and to ensure that the eligibility requirements do not unnecessarily discourage investments from financially capable counterparties.

As FHFA has stated, the overall goal of seller servicer eligibility requirements should be to strike the right balance between managing counterparty risks and encouraging investments in the servicing business.

Indeed, ensuring that well capitalized institutions are willing to invest in the Enterprise MSR is critical to FHFA's broader role in managing Enterprise risk and maintaining market stability, as it is critical to ensuring that smooth transfers of MSRs can be accomplished even in adverse market conditions.

Robust demand for Enterprise and MSRs will also help regulate the price the Enterprises must pay to carry out this important function, which ultimately impacts the cost of mortgage financing for the nation's consumers.

In an environment of both rising rates and rising home prices, FHFA should be careful to avoid the imposition of unnecessary requirements that could lead to higher residential home financing costs and negatively impact access to affordable housing finance for those who need it the most.

With the crucial role of MSR liquidity in mind, FHFA should be targeted in its requirements, taking into account the diversity of business models among the counterparties involved, as a requirement that makes sense for one type of investor may not make sense with respect to another.

Consistent with this, the re-proposal already distinguishes between depository and non-depository seller servicers, between small and large non-depository seller servicers and between investments and Enterprise MSRs in investments in Ginnie Mae MSRs.

Annaly respectfully recommends further tailoring the proposed minimum eligibility requirements to not require large non-depository MSR owners to obtain a primary servicer rating if they retain licensed sub-servicers to

perform servicing the loans who have themselves obtained a primary servicer rating.

There is little benefit to seeking such a rating and the rating agencies currently do not have standards for providing a rating under such circumstances. Indeed, in its issuer eligibility requirements Ginnie Mae allows for an exemption from the primary servicer rating requirement if the issuer has delegated servicing responsibilities to another Ginnie Mae issuer that has already obtained and submitted a primary servicer rating.

FHFA's adoption of a similar exemption would align its eligibility requirements with those of Ginnie Mae. The requirement of a primary servicer rating in these circumstances is particularly unnecessary given the requirements that the Enterprises impose upon master servicers for overseeing sub-servicers, and that Enterprises oversee to ensure compliance with these requirements.

Experienced and knowledgeable staff of the Enterprises regularly assess master servicers compliance with these requirements and take appropriate action in the event of non-compliance. In short, the Enterprises themselves are well positioned and well qualified to assess the master servicers' ability to ensure that Enterprise loans are appropriately serviced. A primary servicer rating would provide little additional benefit. Thank you for the opportunity to comment on the seller servicer re-proposal.

Kevin Silva:

Thank you for your comments, Tanya. We're going to now turn to Elizabeth Sullivan from Credit Union National Association.

Elizabeth Sullivan

Thank you. And it appears I can't turn on my own video, but if somebody else would like to, that'd be great. My name is Elizabeth Sullivan. I am Senior Director of Regulatory Advocacy and Counsel at the Credit Union National Association, or CUNA.

CUNA represent America's credit unions and the more than 130 million members. And on behalf of those credit unions and their members, I would like to thank the FHFA and Ginnie Mae for holding this listening session.

We are especially heartened to see these agencies working together and identifying opportunities to ensure federal requirements are in alignment where that's appropriate. Consistency and harmonization across agencies and programs reduce the operational burden for participation in federal housing related programs for smaller and community-based institutions like credit unions. So, thank you for prioritizing that concern as you consider these eligibility requirements.

Credit unions are unique. As financial cooperative, not for profits, credit unions have a statutory mission to promote thrift and provide access to credit for their members. Because of this structural difference, the relationship between credit unions and their members is fundamentally stronger than the relationship of other financial services companies with their customers.

Credit unions are fulfilling their mission to meet the needs of those in their communities. More than 50% of credit unions focus on serving low-income individuals, 70% of credit union branches are in middle, moderate-, and low-income communities, and 35% of credit unions are in CDFI investment areas.

Credit unions not for profit, cooperative structure ensures a credit union earnings benefit members financial well-being. In 2021, credit unions returned more than \$13 billion in financial benefits back to their members in the form of lower and fewer fees and lower interest rates.

Credit unions originated more than two million mortgages last year and more than half of those originated loans go to borrowers earning middle income or less. The average size of a credit union first mortgage in 2021 was \$180,534, significantly smaller than the national average mortgage of \$453,000.

The average rate of a credit union mortgage in 2021 was 3.34%. Significant savings over the national average rate of 4.05. And finally, the delinquency rate of credit union first mortgages in 2021 was 0.39%, significantly lower than the average delinquency rate of 3.38%.

Credit unions make loans at all sizes, at better rates with fewer delinquencies because of this unique structure and

mission. So, credit unions' mission mandate, their unique structure and the legal and regulatory limitations placed on them are also unique among supervised and insured financial depository institutions.

Our ask is that the regulators understand credit unions as not for profit financial cooperatives and the unique supervisory and regulatory environment which they operate. Requirements affecting credit unions, particularly around capital, should always be informed by the requirements of the National Credit Union Administration or the NCUA. Just as a much more complete understanding of credit unions unique needs and abilities.

CUNA supports the establishment of capital requirements that appropriately reflect the risks associated with the activities of the mortgage originators that are working in partnership with both the GSEs and Ginnie Mae.

And in particular non-depository mortgage lenders present significantly different risks to Fannie Mae, Freddie Mac and Ginnie Mae. And this is true with regard to the comparative quality of mortgages, the seller securitized, the comparative safety and soundness of these uninsured non-depository organizations, the comparative access to sources of liquidity, the differences in concentration risks posed by monoline lenders, among others.

American taxpayers and the housing finance system as a whole should be appropriately shielded from the risk inherent in these organizations. Similarly, it's not appropriate for community financial institutions like credit unions to pay more, reserve more or just have to work harder to meet requirements than is appropriate for the degree of risk that credit unions pose to the systems in which they operate.

With regard to the FHFA's repropoed eligibility requirements for sellers and servicers, our research indicates the requirements as proposed should have no effect on credit unions' ability to serve as seller servicers for Fannie Mae or Freddie Mac. With regard to Ginnie Mae's proposed eligibility requirements for single family MBS issuers, as you know the proposal groups credit

unions in with non-depository financial institutions and credit unions. Thank you and I look forward to clarification on Ginnie Mae's approach to credit unions with that in mind.

As currently formulated our analysis indicates that an estimated 24% of mortgage issuing credit unions would not be eligible to issue for Ginnie Mae under the risk-based capital ratio described in the request for input. Again, if it's finalized as written Ginnie Mae's capital ratio eligibility requirement would absolutely result in reduction in the number of credit unions that could issue for Ginnie Mae and would make many credit unions ineligible to become issuers in the future.

Neither capital requirements established for banks nor for non-bank mortgage lenders are appropriate for credit unions. For the credit unions have expressed a fear that a Ginnie Mae specific capital framework that requires capital beyond NCUA's requirements could create internal competition for capital that might result in the selling of loan servicing rights. Credit union members really appreciate that credit unions retain mortgage servicing rights. And credit unions find that servicing retention as a primary mechanism for maintaining that strong relationship with members and ensuring their financial health and well-being.

So, credit unions are extremely reticent to have that threatened in any way by the significant weights placed on those activities under the framework. So, we're hopeful the next iteration of issuer requirements from Ginnie Mae might have a freestanding requirement for credit unions. We would urge Ginnie Mae to simply defer to NCUA's capital requirements by requiring that credit union issuers for Ginnie Mae must be adequately capitalized as defined by NCUA regulations.

Capital requirements set by NCUA are structured in a manner that's largely parallel to that of FDIC insured banks, while there are some differences in various respects. And just this year, as previously mentioned, capital requirements for complex credit unions shifted to a risk-based capital framework and NCUA's reportedly finely tuned that for many years to make sure it didn't

overburden smaller credit unions for which that type of framework is clearly inappropriate.

So, aligning capital requirements with NCUA would minimize unnecessary burden on credit unions, while also ensuring the credit union issuers for Ginnie Mae are sufficiently well capitalized to protect Ginnie Mae and American taxpayers from loss.

Further, it would align Ginnie Mae's capital requirements with those of Fannie Mae which requires a depository institution seller servicers have to meet minimum capital requirements of their primary regulator in order to maintain eligibility.

Again, we thank you for holding this listening session today. And NUCA stands ready to provide any further information that might assist FHFA or Ginnie Mae as they consider these important issues.

Kevin Silva:

Thank you, Elizabeth. appreciate your feedback. I will now turn it over to Ted Tozer, from the Urban Institute.

Ted Tozer:

Thank you for this opportunity to speak today. And what I'm going to try to do instead of talking about specifics in our comments, is to talk more about the challenges that FHFA and Ginnie Mae have on trying to coordinate their guidelines because the roles that IMBs play in the Ginnie Mae space, and in particular stakes are very different. And I thought I'd kind of really kind of walk you through the various structures. I'm sure you guys are aware of it, but I thought I'd sit through to try to explain where the IMBs risk is affecting FHFA's world, and where it affects the Ginnie Mae world.

In the FHFA world, we all know that there are two issuers of government guaranteed MBSs that FHFA administers, you know, Fannie Mae and Freddie Mac. The majority of their credit risk is transferred to private sector organizations through either borrower paid EMI for decades, or some of the more sophisticated CRT transactions that have been developed in the last 10 years.

So really, the major risk in this situation is, is the counterparty risk that Fannie and Freddie are trying to

manage with these private sector counterparties and CRT transactions. Fannie and Freddie, though, have a key issue in the fact that they can issue government guaranteed debt for the financier from their funding, which gives them a really unique situation compared to IMBs.

So basically, FHFA has talked about capital and liquidity rules for the GSEs to try to minimize the risk, which makes sense. Because of the charter limitations, Fannie and Freddie Mac can't deal with a primary market, which means they have to contract with entities to do the customer contact part of their servicing operation, basically hire sub-servicers.

And basically, the majority of those today is being done by MBS. So MBSs basically perform the customer contact servicing obligation. That's the reason why Fannie and Freddie has such an extensive servicing guide, because they're ultimately responsible for the servicing that's done. And they basically have these contractors. And FHFA now is designing these liquidity and capital rules to make sure that these servers are actually sub-services, are able to meet their contractual obligations to the Fannie Mae and Freddie Mac.

When you step onto the Ginnie Mae world, it changes dramatically in the fact that Ginnie Mae has hundreds and hundreds of MBS issuers for the government guarantees those MBS and again Ginnie Mae administers that guarantee.

The majority of these issuers credit risk is being transferred to third parties for CRT transactions. And those CRT transactions are done with FHA, VA, rural housing. So, the counterparty risk is very, very small, but there is still tail risk. Because of the fact that VA and rural housing excess losses are worn by the Ginnie Mae issuers. So, they have tail risk.

FHFA since the housing crisis has shifted some of their risk to the issuers through planned curtailments and through other issues around false claims, actions and so forth. So, there is credit risk issues that Ginnie Mae needs to take into consideration.

The big issue that's changed over the last 10 years is, is the issue of guaranteed government debt issuance for funding. Ten years ago, [inaudible] percent of Ginnie Mae issuers were able to issue government guaranteed debt to fund themselves, called deposits, they were depositories through FDIC or their different depository guarantors.

Today, its flipped, [inaudible] percent of the issuers do not have the ability to issue government guaranteed debt, which means that in the world of Fannie and Freddie Mac, they have a very stable, abundant cash flow, relatively low cost. Where you come to the Ginnie Mae world, the funding tends to be more expensive, less stable, and also less abundant.

So, the liquidity issues that Ginnie Mae issuers are substantially greater. And then with Ginnie Mae, since you're in a situation where they are a private sector company, they can deal with private sector organizations or borrowers. And with that they are able to either service themselves or hire sub-servicers in that world.

And basically, what Ginnie Mae has done is they got a rule out now, that is basically the issuer capital liquidity rules, very comparable to what the FHFA are doing with the GSEs. Taking on credit tail risks, talking on the issue of liquidity, talking about everything that they need to do to make sure that that issuer actually is able to comply with the guarantees of making sure that their bondholders are paid every month.

Ginnie Mae has chosen not to step down to actually put requirements on the issuers to as far as the concept of dealing with their sub-servicers the way we're talking about now with these rules from FHFA when it comes to their business.

So, the reason why I wanted to bring this up is that really when you look at Ginnie Mae, the Ginnie Mae issuers risk profile is substantially greater than what it is for the FHFA world. Because the FHFA world simply looking at the fact can they comply with the contractual obligations of their servicing agreement, where Ginnie Mae is actually saying, these people have issued bonds. And they're

required to make monthly payments to bondholders. And Ginnie Mae is backed. So that's the reason why Ginnie Mae has no servicing guides because they're simply there to make sure that those bonds are paid timely.

So again, again, with us the Urban Institute, again, we've gone through, we've written our comment letters more specifically. But I thought it would be really interesting to make sure that people realize that the idea that the role that IMBs play is different. And because of that the alignment becomes really a challenge because the fact that one is simply acting as a sub-servicer, and the other one is actually having the responsibility obligations, the MBS is actually being issued. So again, thank you for the for the time and appreciate this opportunity.

Kevin Silva:

Thank you, Ted, appreciate the comments. I'm now going to turn to Ron Haynie from the Independent Community Bankers of America.

Ron Haynie:

Thank you. Good afternoon. I'm Ron Haynie, Senior Vice President for Housing Finance Policy at the Independent Community Bankers of America. I'm also a 40 year plus veteran of the housing finance industry. And I've worked both in the primary and in the secondary markets. I appreciate the opportunity today to speak at today's listening session on the re-proposed minimum financial eligibility requirements for GSE seller servicers, and Ginnie Mae issuers.

Since most community banks are not Ginnie Mae issuers, so my comments will be focused primarily on the re-proposed eligibility requirements for GSE seller servicers. In general, ICBA supports FHFA's re-proposed eligibility requirements for GSE seller servicers.

The nature of the GSE business model, as you've probably already heard, relies on the performance of the counterparties they conduct business with. Whether they are a seller or a servicer. Robust capital and liquidity requirements are crucial to maintaining a safe and sound liquid secondary market and protect the taxpayers when an economic disruption occurs.

The recent COVID pandemic is a prime example of how quickly economic conditions can change. Counterparties

with strong capital liquidity levels, along with a well underwritten book of business are key to minimizing losses at the GSEs.

However, even though the conventional market did perform better than expected, there was serious concerns about the obligations of large non-bank servicers to Ginnie Mae bondholders, that could cause a liquidity problem which then could cause one or more of these large servicers to fail, resulting in disruption in the mortgage market.

Since these large servicers also service GSE loans, any failure caused by a servicer defaulting on a Ginnie Mae obligation could also cause them to default on their GSE obligations as well. Moreover, resolving one of these large non-bank servicers is a murky process at best.

However, you know how many entities are out there in the marketplace that can take on an additional half trillion dollars in servicing rights during times of economic stress? Not many.

Fortunately, mortgage rates did nosedive and created the largest refinance market ever seen, which also then created the liquidity that helped offset Ginnie Mae and GSE servicer pass through obligations. But without that refi boom, it would have been a very different situation.

ICBA strongly supports the enhanced capital liquidity requirements for systemically large, important non-bank mortgage servicers and encourages FHFA and Ginnie Mae to go further and develop resolution plans and processes to resolve a large non-bank servicer similar to those that prudential banking regulators have developed for a systemically important banks. With close to 70% of the mortgage servicing held by these entities, this is a risk that must be better managed.

That being said, ICBA also believes that similar to bank capital rules, capital liquidity rules need to be tailored for smaller institutions, including smaller non-bank seller servicers. Care must be taken not to create a situation that drives further consolidation in this business.

Unfortunately, the combination of mortgage lending rules from the CFPB and the growing requirements of the GSEs have greatly reduced community bank participation in the GSE markets. While community banks prefer to be direct seller servicers to the GSEs, compliance costs are making it difficult to justify.

I was recently told by a community bank mortgage lender that you need to service now about 30,000 loans to make it worthwhile to hold GSE servicing rights. Most community bank service less than 5000 loans.

And while these re-proposed eligibility requirements will not have a material impact on most community banks, the ever-increasing cost and complexity to be a direct GSE seller servicer does. If you do look at the non-bank sector, you'll find that many small non-bank mortgage lenders are primarily sellers only. GSE capital and liquidity requirements should reflect that these entities pose little risk to the system. And those requirements should account for the fact that the counterparties that they do business with, warehouse lenders, broker dealers also impose capital and liquidity requirements, which are adjusted as market conditions do dictate.

Imposing onerous liquidity buffers such as a TVA buffer will likely drive some of the smaller entities out of the business or back to the GSE cash windows, which may not be as competitive. Capital liquidity requirements for those smaller non-bank servicers should also be tailored to reflect the lower systemic impact of a failure of one of those entities. Unlike large servicers, you can move a smaller servicing portfolio relatively easy.

I want to thank FHFA and Ginnie Mae for holding this listening session. I appreciate the opportunity to present ICBA 's position on this critical matter. And we look forward to working with both agencies as this process moves forward. Thank you.

Kevin Silva:

Thank you for your comments, Ron. I'm going to now turn to Taylor Stork from Community Home Lenders Association.

Taylor Stork:

All right, thank you Acting Director Thompson and President McCargo for the opportunity to speak here

today. My name is Taylor Stork, and I'm actually with Developers Mortgage, which is an IMB, appearing here before you today on behalf of the Community Home Lenders Association, or the CHLA.

And it strikes me that I am actually the only IMB on this call today. I'm also an originator myself. And let me applaud -- let me start by applauding the many comments by Mr. Broeksmit and Mr. Tozer, with whom we share many points of agreement.

The CHLA is the only national association that exclusively represents independent mortgage banks or IMBs. CHLA only represents small to midsized IMBs. None of our members are mega lenders and certain mega servicers. Our executive director today, Scott Olson, asked me to make this presentation because we thought it was important for you not just to hear the perspectives of trade group representatives based in DC, but also to hear from a real live small lender addressing how Ginnie Mae and FHFA financial requirements affect smaller IMBs like the one that I work for.

I am the Chief Operating Officer of a small IMB. I am a personally licensed mortgage originator. I personally make these loans that we are discussing today to borrowers who are buying homes for their families. CHLA's comment letters on the FHFA seller servicer financial requirements, and the Ginnie Mae issuer financial requirements reflects months of input from CHLA members just like mine. And we believe they reflect the perspective of hundreds of other similarly situated smaller IMBs nationwide.

Let me sum up CHLA's main points in our comment letters. First, let me tell you what is actually at stake here. Imposing unnecessary and stringent new standards on smaller GSE sellers and servicers will hurt access to mortgage credit and equitable housing for consumers, particularly for minorities and underserved borrowers.

Specifically, it will drive Fannie and Freddie loans away from community lenders like myself, and to other mega IMBs and large aggregators. The very players that impose credit overlays to focus on higher FICO

borrowers, the very players that abandoned the market in the spring of 2020 when the FHFA PSPA restrictions hit.

Because while it is tempting to significantly ratchet up net worth liquidity requirements, just to be on the safe side, I'm here to remind you that doing so is not without major adverse consequences. If proposals are not balanced, many firms like mine, solvent, vibrant firms that operate in the communities where we live and where we work, lending to those consumers, those firms may simply decide to cease being a Ginnie Mae issuer or cease being a Fannie or Freddie seller or servicer.

And instead take the option of simply selling to large aggregators. For consumers, particularly minority and the underserved borrowers, this translates into higher rates and higher costs and less personalized service.

Fewer participants also translate into more industry concentration. Both Ginnie and the FHFA have acknowledged that the great majority of financial risks from lenders and servicers and almost all of the servicing systemic risk lies with the very largest lender servicers. So, imposing unnecessary financial requirements on smaller IMBs could actually increase the risk to Ginnie Mae and to Fannie and Freddie and to the system as a whole.

Second, the details matter. CHLA is not opposed to reasonable financial requirements, we supported the 10-fold minimum net worth GSE requirement increased to 2.5 million a couple of years ago.

And while we don't think that the 6% and 9% capital increase is needed, we do not call for its rollback. However, in our FHFA comment letters CHLA zeroed in on the need to at least exempt smaller seller servicers from the 2% TVA liquidity requirements, the hedging liquidity requirements. Let me explain why.

My company is typical of hundreds of other Fannie Mae seller servicers that originate between \$20 million to \$50 million to \$200 million in loans per month. And we sell to Fannie or Freddie through the cash window. And this is where our firms often retain no servicing at all. Or we retain de minimis amounts of servicing.

A significant new liquidity requirement particularly like the 2% TVA hedging requirement makes absolutely no sense for firms like mine, or those that are like the one that I work for. The Enterprises have almost no counterparty risk to us as originators and IMBs that don't service Fannie or Freddie loans or have de minimis value, have no advanced responsibilities on those loans. So, liquidity requirements literally make no sense.

Developers mortgage has been an approved Fannie seller servicer since the '80s, we've got a very strong balance sheet. But if the 2% hedging requirements goes through, firms that are like ours will have to keep additional \$500,000 to \$2.5 million in cash on hand. For a firm that does \$60 or so million dollars a month, a two-month hedge pipeline means that the FHFA's \$2.5 million net worth requirements means that firm would meet that net worth and maintain its entirety as cash. It's completely unreasonable.

So, if FHFA finalizes the 2% hedging requirement, the math and the incentives will change for firms like mine and others that belong to the CHLA. Many smaller lenders will make the rational decision to give up selling loans to Fannie and Freddie. And instead, they'll go the aggregator route, and this will hurt consumers by reducing competition, increasing the financial and the systemic risk.

So, at an absolute minimum, CHLA believes that the FHFA should exempt all sellers and servicers that don't service GSE loans or service de minimis values from the 2% requirement.

Now, let me turn to our slightly larger CHLA members that do retain servicing. Here too we believe the 2% requirement is flawed and inappropriate. First, this would create a disincentive for hedging, thus discouraging a practice that actually reduces lender risk.

Second, even IMBs that retain servicing typically use the actual-actual servicing option which limits their advanced exposure. Third, per our presentation to FHFA staff, we believe the proposal is flawed since it is based on a classic market to market distortion. In a climate like the

spring of 2020 with falling interest rates, yes, the value of hedges can fall, but this is significantly offset by the increase in the value of the underlying asset, the loan, the rate lock.

If there is a liquidity problem it is only temporary, therefore, CHLA is advocating that the FHFA exempt smaller seller servicers from the 2% requirement. In our letter, we suggested that the \$50 billion overall servicing threshold FHFA has in their proposal for capital plan requirements, but it would also be reasonable to set a lower threshold based on the level of the seller servicers combined GSE loans being serviced.

In short, it should be proportional to the amount of servicing somebody actually holds, rather than just whether or not they hold servicing.

Finally, let me address Ginnie Mae's proposals from last year, which included a new plan to impose risk-based capital requirements. The same arguments apply. A risk-based capital standard may make sense for large issuers, the mega servicers that represent almost all the financial and systemic risks to Ginnie Mae. But it makes no sense for smaller services.

So CHLA is asking Ginnie Mae to withdraw this proposal, at the very least for smaller issuers. The overriding principle is simple. Failure to protect smaller issuers from unnecessary and excessive financial requirements simply cannibalizes the servicing business into a small number of mega servicers.

The better approach is to focus on developing ways to create more liquidity and confidence in smaller IMBs to address regulatory concerns that they meet their servicing advance responsibilities.

In last week's FHFA comment letter, CHLA did not advocate a PTAP program for the GSEs but suggested a similar idea. That the FHFA readapt the FHLB advanced programs for banks to also allow advances to banks as warehouse lenders to IMBs, to create more assurance that IMBs will meet their servicing obligations.

In closing, CHLA is very appreciative that both FHFA and Ginnie Mae have solicited feedback on these proposals. And this listening session is a great example. CHLA appreciates the opportunity to be the acknowledged spokesman for smaller IMBs, to explain how financial requirements reflects real world IMBs like mine, and like those that serve our consumers and our borrowers. Thank you.

Kevin Silva:

Thank you for your comments, Taylor. And I just wanted to thank everybody for the comments you've provided here and thank you for your submitted comments. We will be reviewing all the comments, we will give them serious consideration. And again, thank you all for joining us today. We greatly appreciate your participation and you listening. Have a wonderful day. Thank you.