



WASHINGTON, D.C.  
99 M St. SE  
Suite 300  
Washington, D.C. 20003-3799  
Phone: 202-638-5777  
Fax: 202-638-7734

December 19, 2019

**ATTN: RFI Enterprise UMBS Pooling Practices**

Mr. Robert Fishman  
Deputy Director  
Division of Conservatorship  
Federal Housing Finance Agency (FHFA)  
400 7th Street SW, 8th floor  
Washington, D.C. 20219

**Re: Request for Input  
Enterprise UMBS Pooling Practices**

Dear Deputy Director Fishman:

As the largest credit union advocacy organization in this country, the Credit Union National Association's (CUNA) state and federal credit unions currently serve over 115 million members. CUNA's members have adopted a core set of Credit Union Principles for Housing Finance Reform.<sup>1</sup> Key among those principles is the need to ensure a reasonable and orderly transition to any new housing finance system. Accordingly, it is with this principle in mind that we respectfully offer the following commentary, on behalf of America's credit unions and their members, with respect to the FHFA's request for input on the pooling practices for the Enterprises' Uniform Mortgage-Backed Security (UMBS) and their impact on the housing finance market.

**Credit Unions Play a Vital Role in Both the Primary and Secondary Mortgage Markets**

As member-owned, not-for-profit financial cooperatives, credit unions have become an increasingly prominent provider of mortgage credit in the United States. In just two years, between 2015 and 2017, mortgage lending by credit unions grew from six percent to thirteen percent of the overall primary mortgage market.<sup>2</sup> Accordingly, a fast-rising number of this

<sup>1</sup> [https://www.cuna.org/uploadedFiles/Advocacy/Related\\_items/Credit-Union-Principles-for-Housing-Finance-Reform.pdf](https://www.cuna.org/uploadedFiles/Advocacy/Related_items/Credit-Union-Principles-for-Housing-Finance-Reform.pdf).

<sup>2</sup> Experian, *2017 State of Credit Unions Report*, available at <http://www.experian.com/assets/credit-unions/reports/cu-state-of-credit-report.pdf> (last accessed 11/09/18).

nation's millions of credit union members rely upon their credit union to help them purchase, renovate, or refinance their home. This strong growth in mortgage lending is not slowing down. In the first quarter of 2018 alone, credit unions extended more than \$10 billion to members in the form of fixed-rate, first mortgages.<sup>3</sup>

To meet this growing demand, credit unions must be able to efficiently and affordably access the secondary mortgage market. With significantly fewer tools than banks to mitigate interest-rate risk, access to the secondary mortgage market plays a critical role in credit unions' efforts to increase liquidity, while effectively managing their balance sheets. In fact, the Government Sponsored Enterprises' (GSE) securitization process is a key tool in many credit unions' tool boxes when looking to ensure their institution's safety and soundness. In just the first half of 2018, credit unions sold approximately one third of all their first-mortgage originations on the secondary mortgage market.<sup>4</sup> Most of those transactions likely made their way to the To-Be-Announced (TBA) market given the reality that 90 percent of all trading in Agency mortgage-backed securities occurs there.<sup>5</sup> Accordingly, any disruption in the TBA market would pose a threat to the ability of credit unions to effectively access the secondary market to increase liquidity and manage their bottom line.

### **The Viability of the TBA Market is Critical to Both Credit Unions and Their Members**

Preserving the strong liquidity offered by the TBA market is not only of critical importance to credit unions as lenders, but also their members who derive direct benefit from a robust secondary mortgage market. Specifically, the demand created by the TBA market has a direct impact on credit unions' ability to lower the interest rates charged to borrowers in the primary market and, as a result, increases the affordability of mortgage credit.<sup>6</sup> The TBA market also allows credit unions to offer members the additional benefit of being able to lock in interest rates a month or more before their loan is finalized.<sup>7</sup> Thus, the consistency provided by a stable, liquid TBA market encourages mortgage lending by credit unions and expands access to responsible mortgage credit for credit union members.

### **CUNA Supports FHFA's Proposal to Increase Large Multi-Lender Pools**

Given the importance of the TBA market to credit unions and their members, CUNA is pleased that the FHFA has proposed a requirement that the vast majority of TBA-eligible loans acquired in a specified, aligned timeframe should be aggregated and formed into large multi-lender pools.

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<sup>3</sup> <https://www.ncua.gov/analysis/Pages/call-report-data/reports/paca-facts/paca-facts-2018-Q1.pdf>.

<sup>4</sup> CUNA Mutual Group, Credit Union Trends Report (September 2018), available at [https://www.cunamutual.com/-/media/cunamutual/about-us/credit-union-trends/public/sept\\_2018\\_cu\\_trends\\_report.pdf](https://www.cunamutual.com/-/media/cunamutual/about-us/credit-union-trends/public/sept_2018_cu_trends_report.pdf).

<sup>5</sup> James Vickery and Joshua Wright, TBA Trading and Liquidity in the Agency MBS Market, Federal Reserve Bank of New York, at <http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.

<sup>6</sup> See James Vickery and Joshua Wright, TBA Trading and Liquidity in the Agency MBS Market, Federal Reserve Bank of New York, at <http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.<http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.<http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.<http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.

<sup>7</sup> Congressional Budget Office, Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market, at 38 (December 2010).

In addition to better managing prepayment risk, the multi-lender pooling requirement has the added benefit of encouraging the enterprises to continue actively doing business with credit unions and other smaller lenders through cash commitment windows in order to include those mortgages within the multi-lender pools. In contrast, credit unions and other smaller lenders are unlikely to benefit from single-lender pools due to the smaller volume of mortgages they provide.

In conclusion, CUNA recognizes and applauds FHFA's efforts to ensure the efficiency and effectiveness of the UMBS in order to facilitate the security's smooth transition into the TBA market. Because a key component of CUNA's Credit Union Principles for Housing Finance Reform is ensuring that the transition from the current system to any new housing finance system is reasonable and orderly, we encourage the Agency to continue its efforts to maximize the effectiveness of the UMBS, while promoting access for credit unions and other smaller lenders to the Enterprises' secondary market programs.

On behalf of America's credit unions and their more than 115 million members, thank you very much for your consideration of our views. We look forward to working with you to ensure that that the UMBS serves as a useful vehicle for smaller lenders to access the benefits of the secondary mortgage market.

Sincerely,

Mitria Wilson,  
Sr. Director of Advocacy & Counsel  
CUNA