COMMUNITY
Home Lenders Association, Inc.

2101 Wilson Boulevard, Suite 601
Arlington, Virginia 22201

January 10, 2020

Federal Housing Finance Agency
Division of Conservatorship
400 7th Street, S.W., 8th Floor
Washington, DC 20219

**Re: UMBS Pooling Practices**

Dear FHFA:

The Community Home Lenders Association (CHLA) is pleased to have the opportunity to submit comments on the Federal Housing Finance Agency's proposal to encourage greater use of multi-lender pools in the creation of Uniform Mortgage-Backed Securities (UMBS).

CHLA is writing as the only national association that exclusively represents independent mortgage bankers (IMBs). CHLA members are community-based small- and mid-sized mortgage lenders that both sell loans to Fannie Mae and Freddie Mac through their cash window and securitize loans guaranteed by these two GSEs.

We share FHFA's goal that the new UMBS market should "lead to a more efficient, resilient and liquid secondary mortgage market," which is in the best interests of lenders, investors and borrowers.

**Multi-Lender Pools Can Masquerade Bad Lender Behavior**

However, CHLA is concerned that one key proposal recommended by FHFA – encouraging more multi-lender pools to reduce the impact of prepayment performance of loans from a single lender – will simply masquerade bad behavior by lenders with excessive prepayment speeds. Our comments are specific to this proposal.

Investors deserve transparency. However, by increasing the share and size of multi-lender pools, lenders with fast prepayment speeds can hide behind the bulk of loans paying off at more typical speeds, enjoying higher prices for securities than they rightly deserve. In effect, lenders with appropriate prepayment speeds are cross-subsidizing lenders whose loans prepay at a more rapid pace. Ironically, FHFA is discouraging cross subsidization of loans on the origination side while at the same time encouraging it on the security side.

**Additional Analysis Needed Before Greater Use of Multi-Lender Pools**

Even before the creation of UMBS, we've seen a significant increase in the use of multi-lender pools by Fannie Mae and Freddie Mac. According to the financial advisory firm Refinitiv, the percentage of originated loans placed into multi-lender pools increased from 60% in 2015 to 75% in 2019. CHLA urges caution and additional analysis before an even larger share of loans purchased by the GSEs are packaged into multi-lender UMBS. Moreover, the GSEs should make public the prepayment speeds of their lender customers so that investors can better assess whether certain high-churn lenders are harming the performance of mortgage-backed securities while reaping the benefits of being pooled with slower paying loans.

**Lenders with Excessive Prepay Speeds Should Have Loans Pooled Separately**

Lenders whose prepay speeds consistently outpace their competitors due to refinancing their own portfolio of loans should lose the right to have their loans combined in large, multi-lender pools until the problem is rectified. These lenders might be required to create single-lender, non-TBA eligible pools in the interim. FHFA could also direct the GSEs to create multi-lender pools of loans from lenders with consistently fast prepayment speeds so that security prices more accurately represent the risks to investors.

Thank you for consideration of these comments.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION