January 21, 2020

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, NW
Washington, DC 20410

Re. Enterprise UMBS Pooling Practices Request for Input

Dear Director Calabria,

The National Council of State Housing Agencies (NCSHA), which represents the nation's state housing finance agencies (HFAs)[1], appreciates the opportunity to comment on the FHFA's Request for Input (RFI) on potential changes in Fannie Mae's and Freddie Mac's ("the GSEs") uniform mortgage-backed securities (UMBS) pooling practices.

We strongly recommend that FHFA rescind the RFI, reject the proposals contained within it, and refrain from promulgating any regulations apportioning how issuers must pool their GSE-backed loans or restricting the use of specified pools.

We are very concerned that the changes proposed in the RFI would have significant adverse impacts on housing affordability in general and the ability of state HFAs to meet their statutory missions under their states' laws and through federal policies expressly created by Congress to support affordable housing financing in particular.

NCSHA has joined organizations representing loan originators, investors, market-makers, and other businesses that rely on continued robust liquidity in the To-Be-Announced (TBA) market and the markets for specified pools and collateralized mortgage obligations on a letter to FHFA addressing broad-based, industry-wide concerns regarding the RFI. This letter focuses on the specific adverse impacts the proposed changes would have on state HFAs and affordable mortgage financing.

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[1]NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

State HFAs are authorized under state law to serve the low- and moderate-income households in their states. As FHFA is well aware, many such households, especially those of color and those seeking to become homeowners for the first time, have been historically and remain today disadvantaged in the conventional housing system.

The states created HFAs with the express purpose and statutory mandate to alleviate this disadvantage. The network of state HFAs is the primary system for delivering affordable home mortgage credit to lower-income, first-time households on a nationwide basis.

In 2018, state HFAs provided more than $27 billion in financing for more than 150,000 affordable home mortgage loans. State HFA financing overall served borrowers with an average income of $60,000 purchasing homes with an average cost of $229,000. Of the borrowers state HFAs served, the vast majority were first-time homebuyers, 30 percent were households of color, and more than 75 percent received HFA-funded down payment assistance.

Data from Moody's, Fannie Mae, and NCSHA suggest that home mortgage loans financed by state HFAs in recent years have performed as well or better, in terms of delinquencies and foreclosures, than loans from other sources to similar borrowers. This is the case even though state HFAs in general serve even lower-income households purchasing more modestly priced homes than the Federal Housing Administration (FHA).

State HFAs generate financing for homeownership programs through two primary means—both of which would be damaged by any limitation of their ability to utilize specified GSE loan pools.

One way HFAs finance affordable home mortgage loans is through the issuance of tax-exempt mortgage revenue bonds (MRBs). The MRB program is an instrument of municipal finance created by Congress with the express purpose of empowering the states and localities to enable lower-income, first-time homebuyers to purchase modestly priced homes. State HFAs are the largest issuers of MRBs, using them to finance $65.2 billion to fund more than 400,000 loans over the past decade (2009–2018).

State HFAs often securitize their MRB loans through the purchase of GSE mortgage-backed securities (MBS). This execution enhances capital markets' interest in HFA financing, resulting in lower mortgage rates to HFA borrowers and more efficient and mission-serving uses of HFA capital. Federal tax law effectively requires such an execution through a specified GSE pool. By law, all loans funded through an MRB must be from the same jurisdiction and meet all the MRB program's borrower income limits, home purchase price limits, first-time homebuyer requirements, and other statutory requirements.

Limiting the state HFAs' ability to use specified GSE pools would diminish the states' ability to meet Congress' intent in authorizing the issuance of MRBs and the HFAs' ability to achieve their statutory missions in their states. It would increase borrowing costs for state HFAs, add unnecessary inefficiency in their capital allocation, and result in higher mortgages rates for lower-income borrowers.

The second primary way state HFAs finance home mortgage loans is through the sale of GSE MBS in the TBA market. This execution has been invaluable for many HFAs since the Great Recession as it offers additional flexibility to serve a wider range of borrowers in a low-rate environment.

State HFAs have provided $29.5 billion in financing through GSE MBS and similar executions to fund more than 175,000 loans between 2012 and 2017.

Investors are generally willing to pay higher prices for securities backed by HFA loans because they prepay more slowly. HFAs pass along this benefit to borrowers in lower interest rates and/or down payment assistance. Specified pools account for 30 percent or more of recent GSE securitizations for almost half of the state HFAs.

If FHFA were to limit the HFAs' ability to securitize GSE mortgages through specified pools, HFA direct seller/servicers would have to securitize the majority of their production through large, multi-lender pools. For those HFAs that contract with seller/servicers, those partners would have to pool a majority of their HFA production in multi-lender pools. Depending on the securitization needs of their other clients, master servicers may be unable to accommodate HFA requests for their loans to be placed into specified pools.

Another significant impact of the pooling proposal could be limits on the types of mortgage products lenders offer. Many lenders use today's pooling options to take advantage of favorable pricing on loans with particular characteristics, many of which are designed to increase underserved borrowers' access to credit. Without these pooling options—particularly specified pools—these lenders would not have the same incentives to offer certain products, thereby limiting consumer choice and benefits.

Ultimately, restricting the state HFAs' ability to use specified pools in their MBS-funded programs would lead to increased interest rates and less access to down payment assistance for underserved borrowers.

We understand that FHFA wants to avoid and reduce the divergence in the performance of the GSEs' securities, which continues despite the development and use of the UMBS. This divergence, however, has already decreased as a result of the UMBS, and the remaining divergence is likely due to a variety of factors, including different corporate policies, sellers, and the characteristics of the mortgages those sellers deliver to each GSE.

The FHFA's proposed system is also unlikely to achieve FHFA's stated goal of increasing liquidity in the UMBS market. Some evidence suggests that Ginnie Mae's multi-issuer pools creating larger MBS actually served to detract from investor interest, decreasing liquidity. Ultimately, issuers and investors are more efficient at determining the proper size and characteristics of loan pools than arbitrary rules and limits.

The RFI's proposed changes would needlessly interfere in the MBS market and prevent issuers and investors from working out the deals that best work for them. The limits, incentives, or requirements

necessary to implement the FHFA's proposal would drive more mortgages into multi-lender pools and make using specified pools significantly more difficult and costly.

We believe that maintaining the current system is more likely to sustain and advance the FHFA's goal of a more efficient, resilient, and liquid secondary mortgage market.

Sincerely,

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives