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UNITED WHOLESALE MORTGAGE

January 21, 2020

Re: Enterprise Pooling Practices Request for Input

United Wholesale Mortgage ('UWM') welcomes the opportunity to respond to the Federal Housing Finance Agency's Request for Information regarding Enterprise UMBS Pooling Practices. As a national non-bank lender licensed in all fifty states and the District of Columbia, UWM focuses exclusively on the wholesale origination channel (mortgage brokers, banks, credit unions and non-delegated correspondents). UWM is the number one wholesale originator in the United States for the fifth consecutive year, and ranks as a top-two overall originator of residential mortgages, and the nation's number one purchase lender. UWM is also one of the largest seller-servicers approved by Fannie Mae and Freddie Mac, as well as one of the nation's largest originators of FHA and VA loans.

The Federal National Mortgage Association (Fannie Mae) and The Federal Home Loan Mortgage Corporation's (Freddie Mac) primary goals are to provide liquidity, stability, and affordability to the US Housing Market. This is something they have achieved with great success in their long history. Their key constituents include homeowners, lenders, and investors. Their collective recent transition to Uniform Mortgage Backed Securities (UMBS) represents another successful step in maintaining the strong US housing and mortgage markets.

Any potential changes enacted by the FHFA, and adopted by the agencies, should continue to drive liquidity, stability, and affordability to the housing and UMBS market.

UWM has four areas of concern regarding changes to agency pooling practices:

1) The standards, objectivity, and transparency around the data and reporting used to evaluate pre-payment speeds and police lenders; **<u>the market is in desperate need of transparent measurement and clear reporting standards</u>**
2) The methods in which any new pre-payment speed regulations will be enforced
3) Ensuring that innovation, which ultimately drives a healthier mortgage market for borrowers, investors, and lenders, is not inadvertently stifled
4) The risk of unintended consequences and market uncertainty due to forced unnatural Multi-Lender pools

Data Standardization, Transparency, and Integrity

Regardless of any regulatory changes that may impart new policies for market participants, there is a great need to adopt clear industrywide standards for pre-pay performance measurement. The UMBS market is complex, and CPR subjectivity due to lack of consistent methodology and data standardization, is an issue today. While private investors and professional researchers should remain free to utilize various methods to analyze Conditional Prepayment Rates (CPR), the FHFA and Agencies should establish one single standard to evaluate UMBS CPRs.

It is less important whether a Weighted Average Loan Age (WALA), Chronological CPRs, Aging Curve, or an alternative method is used, and more important that all players understand the ultimate CPR measurement standards. This will also provide much needed transparency to private investors even as they run their own CPR and cash flow models. Furthermore, any systematic exclusions from the CPR standard calculations should be made clear (i.e. geographical, loan size, rate incentive, etc.).

Finally, lenders should be held accountable for the loans they originate. Using this criterion will level the playing field for originators, regardless of whether they engage in selling Mortgage Servicing Rights (MSR's) or they generally retain servicing. If a Lender that routinely sells large blocks of MSR's is evaluated only on the portfolio that they are currently servicing, their CPRs will skew both significantly better and significantly worse than the true and accurate 'seller' CPR, depending on when the most recent MSR sale occurred relative to when the CPR analysis is calculated.

Fairly Enforcing Regulations

Fannie Mae and Freddie Mac are uniquely positioned as a conduit between borrowers, lenders, and investors, and as such, should continue to be empowered to act on behalf of all stakeholders in the market. UWM prefers free market forces, with the guidance of Fannie Mae and Freddie Mac as the key drivers of pooling and pricing.

However, if the FHFA were to enact new disciplinary measures, such as pooling penalties for the fastest sub-set of lender CPRs over a given time period, the penalties must be clear and enforced in a way that gives lenders time to proactively slow speeds over a specified period. This will provide industry participants time to adjust to a new market environment without the threat of unintended consequences.

Distinguishing Innovation from Bad Acting

Lenders sit between the two key stakeholders in the mortgage market: Consumers and Investors. It is the Lenders responsibility to ensure, with the help of the CFPB and state regulators, that consumers are always cared for, and protected from, any financial harm or fraud in the mortgage process.

Lender innovation (process automation, property inspection waivers, etc.) can make the mortgage process easier, faster, and more affordable. While ease and affordability, driven by innovation, can sometimes result in increased refinances (in a rate rally environment), we are more concerned with lenders that originate at artificially inflated rates, in order to drive further business in the form of refinances.

We understand that Investors choose to invest in Agency MBS due to their relative certainty of cash flows, and upticks in refinances can disrupt this. In addition, it is imperative that Fannie Mae and Freddie Mac work together to distinguish between those lenders that are increasing pay-offs because of unethical lending practices and those lenders that are working to make mortgages easier, faster, and more affordable for borrowers via adoption of new technology and processes. All market participants eventually benefit from innovation.

Multi-Lender Pools

Borrowers, Investors, and Lenders have all benefited in the past decade from the consistent forces that have governed the market. Today, the housing market is a bright spot in a strong economy.

Regulation that affects how the Agencies can pool UMBS may result in higher mortgage costs to borrowers. Forced participation in large multi-lender pools or rules that unfairly disadvantage specific lending channels (like broker originated) or specific cohorts of lenders (i.e. smaller regional lenders) could lead to unfavorable execution burdens for these issuers.

Moreover, history has demonstrated that changes of this manner often result in unintended consequences because of the uncertainty that accompanies any forced transition. There has been a recent and natural migration into larger, multi-lender pools happening organically without a forced transition. During this time, Fannie and Freddie major- and multi- securities have returned consistent cash flows, while providing the diversity and stability desirable to MBS investors. Instead of forcibly directing lenders into even larger multi-lender pools, we believe natural market forces should continue to be the dominant factor in pricing and pooling.

Conclusion: Free Market Forces

Predictability of loan payoffs (or pre-pays) lies at the center of this discussion. Pooling is a critical factor in this conversation because the Agency pooling practices can affect the distribution of pre-payments within a given security, which can affect UMBS investor returns, which can in-turn result in higher costs for the mortgage borrower. The market is already trending toward larger multi-lender pools. Rather than risk a shock to the MBS market with unknown consequences, we prefer to allow this trend to occur with the market's natural guidance. The MBS market has operated as a free and efficient market for all participants for many years. This self-governing, open market has performed well and should to continue to drive market dynamics.

UWM is thankful for the opportunity to respond to the FHFA. We will continue to collaborate with the FHFA, the various agencies and other regulatory bodies, investors, brokers, and borrowers to ensure that our market continues to be fair, efficient, and a positive force in the US economy.

Sincerely,

United Wholesale Mortgage