NIFA™
NEBRASKA INVESTMENT FINANCE AUTHORITY®

January 21, 2020

Electronic Submission
FHFA.gov

Federal Housing Finance Agency
Division of Conservatorship
400 7th Street SW, 8th floor
Washington, D.C. 20219

Re: FHFA Enterprise UMBS Pooling Practices-Request for Input (November 2019)

Ladies and Gentlemen:

The Federal Housing Finance Agency (FHFA) has asked interested parties to provide input on potential changes to Fannie Mae and Freddie Mac Uniform Mortgage-Backed Security (MBS) pooling practices. This letter is intended to provide comments and to call your attention to the impact the proposed changes would have on the state housing finance agencies (HFAs) which carry out programs to assist low and moderate income persons, particularly first-time home buyers, who seek to purchase a home.

The Nebraska Investment Finance Authority (NIFA) is one of those HFAs which, since 1980, has provided financing to assist low and moderate income persons and families with the purchase of their first homes. NIFA is an instrumentality of the state of Nebraska, created for various purposes, including providing financing for decent, safe and affordable housing for low and moderate income persons and families in our state.

We appreciate the opportunity to respond to the Request for Input issued by the FHFA. We understand, as outlined in the Request for Input, the goals and objectives of the FHFA to consider providing for pooling practices that could further enhance MBS fungibility. However, as further described below, the inability to continue to provide for pooling of state-specific, single lender pool production will be detrimental to the mission of the nation's HFAs and their ability to assist in the financing of decent, safe and affordable housing.

MBSs are used by NIFA (as well as by many HFAs) as a way to effectively guaranty our mortgages when accessing the capital (bond) markets to fund our single family loan program. The incorporation of MBSs into the bond issuance structure (as opposed to simply securing the bonds with a pledge of whole mortgage loans) has significant rating agency and marketing advantages. Providing for a pledge of the Fannie Mae/Freddie Mac/Ginnie Mae MBSs to the bonds issued by NIFA results in a AA+ bond rating of the NIFA bonds by Standard & Poor's Rating Services. Those investors purchasing HFA single family bonds appreciate the structure and highly value the

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monthly individual MBS pool payment disclosures publicly available for such MBSs. (No such information is readily available with respect to those HFA bond issues for which whole loans are the security for the payment thereof.) This type of bond structure correlates to lower bond rates as well as the broadest universe of possible purchasers, with the ultimate beneficiaries being the low and moderate income persons and families seeking to purchase their first homes.

Key to the issuance of bonds by NIFA which are secured by MBSs is the ability to issue bonds, the interest on which is tax-exempt for federal income tax purposes. Borrowing at below-market interest rates (due to the tax exemption) allows HFAs, such as NIFA, to provide below-market interest rates to low and moderate income persons purchasing a home. To issue tax-exempt mortgage revenue bonds, NIFA and the other HFAs must comply with all of the provisions of Section 143 (Section 143) of the Internal Revenue Code of 1986 (Code). This effectively means that <u>all loans</u> in a pool securitized by Freddie Mac, Fannie Mae or Ginnie Mae must meet the requirements of Section 143 of the Code. This includes limits on the purchase price of the homes financed, limits on the household income of the borrowers, a "first-time homebuyer" requirement and a requirement that the mortgage loans be "new" mortgage loans (and not a refinancing of a borrower's existing mortgage loan). Additionally, the home to be financed must be located in the specific jurisdiction of the HFA. In NIFA's case, this means that loans included in MBSs purchased with proceeds of the NIFA mortgage revenue bonds must finance <u>only</u> homes located in Nebraska. Finally, Section 143 of the Code requires that any repayments and prepayments of principal on the underlying loans in the MBS received after ten years must be used to redeem the specific mortgage revenue bonds issued by NIFA to originally finance the loan

Accordingly, the ability of NIFA and the other HFAs to access the capital markets through a bond structure secured by MBSs would be thwarted by the proposal of the FHFB to alter the pooling practices of Freddie Mac and Fannie Mae to require their pool production into larger, multi-lender pools. As noted in the "Introduction" to the *Request for Input*, the "[p]ooling policies are important because they may affect the distribution of prepayments…, which, in turn, may affect the value of mortgage-backed securities … to investors and, therefore, mortgage interest rates to consumers." This is key in the case of the issuance of mortgage revenue bonds by NIFA and the other HFAs. The market for these types of housing bonds has become very sophisticated with investors closely monitoring the performance and characteristics of the specific MBSs included in HFA bond issues. And, at the end of the day, this ability to access information on the MBS pools included in bond issues has impacted the pricing of the bonds in a favorable manner, allowing the HFAs to pass along the "savings" to program borrowers purchasing their first homes.

Again, the proposal outlined by the FHFA to channel the pool production into larger, multi-lender pools would effectively curtail the ability of any HFA, such as NIFA, to use Fannie Mae/Freddie Mac MBSs in its Congressionally authorized bond program unless an exception for pools created for mortgage loans originated in connection with HFA housing programs (for both bonds and TBA programs) is provided. (We note the FHFA proposal currently contains no such exceptions.) The possible effect of the policy proposed by the FHFA in the Request for Input would be devasting to the single family affordable housing programs carried out by HFAs, whether the HFA uses the TBA execution or issues mortgage revenue bonds secured by mortgage-backed securities of Fannie Mae, Freddie Mac or GNMA.

Over the years, Freddie Mac and Fannie Mae have assured the HFAs that they are dedicated to supporting our efforts to achieve our affordable housing missions and value the close and collaborative working relationships with the HFAs across the country. Freddie Mac and Fannie Mae have indicated on numerous occasions that they understand and appreciate the complexities faced by HFAs as we strive to address the affordable housing needs in our markets. We hope you will consider this as you move forward with any changes in your pooling policies.

We appreciate the opportunity to provide input. Should you have any questions regarding the following, please do not hesitate to contact me at (402) 434-3900.

Sincerely,

Christie Weston

Christie Weston
Deputy Director