WELLS FARGO

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January 21, 2020

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
400 7th Street SW, 8th Floor
Washington, DC 20219

RE: Enterprise UMBS Pooling Practices Request for Input

Dear Director Calabria:

Wells Fargo & Company, together with its affiliates and subsidiaries (collectively, "Wells Fargo"), appreciates the opportunity to respond to the Federal Housing Finance Agency's (FHFA) request for input regarding changes to Fannie Mae's and Freddie Mac's (the Enterprises') Uniform Mortgage-Backed Securities (UMBS) pooling practices. Wells Fargo is a diversified, community-based financial services company with $1.93 trillion in assets providing banking, investment, and commercial and consumer lending services. Wells Fargo has a multi-faceted role in the mortgage market: we are a direct lender through our retail loan origination channel, we purchase whole loans in the secondary market through our correspondent channel, we invest in agency Mortgage-Backed Securities (MBS) and whole loans on our balance sheet, service mortgage loans we own and service for others, and we are an issuer of Fannie Mae, Freddie Mac, Ginnie Mae and private label securities, as well as a trustee and master servicer.

Wells Fargo's vision is to help our customers succeed financially. We commend the FHFA for the smooth transition to the UMBS and for working with all market participants to provide adequate time to transition to the new security. We also commend FHFA for monitoring the performance of the UMBS, focusing on the recent pricing challenges in the market, and for the increased attention to high prepayment speeds, which undermine investor confidence in the UMBS market and increase the cost of a mortgage for homebuyers. Wells Fargo agrees that a review of the Enterprises' practices that affect UMBS fungibility and pricing is a valuable exercise and encourages greater alignment and transparency regarding the Enterprises' practices.

Summary

As the UMBS Pooling Practices RFI states, the Enterprises currently facilitate three types of pools (single-lender, multi-lender, and specified) to satisfy investor demand and, in turn, help lower consumer mortgage rates. Single-lender and specified pools are foundational elements of the current MBS framework. These pooling options allow investors to allocate capital according to their respective risk-return profiles. Multiple pooling options translate into a competitive mortgage market for a diverse set of geographies and communities, and improve affordability.

Limiting the delivery options available to originators will reduce liquidity in the market, make mortgages more expensive, and further entrench the federal government in the housing finance system. Consolidating the MBS market through the use of homogenous pooling requirements would set up the government to pick winners and losers in the housing market rather than allowing the market to match originators and investors based on product quality, innovation, and risk tolerance. The current MBS market thrives because of this variation in delivery options.

The Ginnie Mae market provides an example of the ways a homogenous, government-controlled market operates. The Ginnie Mae model has focused on multi-lender pools, and notwithstanding its explicit government guarantee, suffers from weaker investor participation and liquidity due to lack of prepayment predictability. The Ginnie Mae II program utilizes a similar structure to the one proposed by FHFA in the RFI, but the trading market is shallow compared to the conventional market and provides no opportunity for nuances in investor demand. Despite employing large multi-lender pools, Ginnie Mae securities recently experienced loan churning challenges that impacted pricing.

As several trade associations have detailed, consolidating loan delivery into large multi-lender pools would restrict options for originators and investors, weakening liquidity in the MBS market and resulting in higher prices for borrowers. Wells Fargo respectfully agrees with those letters and suggests FHFA take a more surgical approach to addressing concerns about prepayment speeds in certain securities. Fast prepayment speeds require monitoring, however, with additional enforcement of standards by the Enterprises and disclosures to investors, the market will price those loans accordingly or force them into single-lender pools.

Wells Fargo's Suggestions

Wells Fargo shares FHFA's concerns regarding the recent increase in prepayment speeds for certain UMBS pools. We support the comments submitted by our trade associations and join them to request FHFA take a different approach than the proposed requirement for large multi-lender pools. FHFA and the Enterprises have several levers at their disposal to identify and address the different causes of fast prepayment speeds ranging from churning to lenders employing technology improvements to provide value to a borrower. In addition to the comments provided by our trade associations, Wells Fargo offers the following suggestions to address concerns regarding prepayment speeds.

Encourage Supers

The Enterprises should eliminate charges for creating single class resecuritizations of UMBS that pay on the 55-day schedule, also known as Supers.[1] In expanding opportunities for Supers, the Enterprises could both increase pool sizes and smooth prepayment speed volatility and pricing by expanding the spectrum of loans to include a broader range of weighted average loan age.

Improve Disclosure Datasets

The Enterprises should work to disclose information that helps investors understand and predict the nature of prepayments in UMBS. As an example, the recent decision to include loans in Enterprise appraisal waiver programs, such as the Property Inspection Waiver (PIW), improves transparency to

[1] http://www.freddiemac.com/mbs/products/supers.html

underlying loan characteristics and allows investors to draw their own conclusions about speeds in the underlying securities. The disclosure will permit lenders and investors to identify and police servicers with the potential abnormal prepayment speeds and allow FHFA greater insight into possible abuses.

Enforcement Against Churning

The Enterprises should use their enforcement powers and pooling standards to manage lenders with fast prepayment speeds thereby minimizing volatility in the TBA market, cash window execution, and other UMBS pools.

Conclusion

We thank FHFA for pursuing a thoughtful and thorough process to develop UMBS for the Enterprises and the housing finance market. In working to perfect UMBS prepayment speeds, we recommend FHFA follow a similar process and continue conversations with lenders and investors to improve prepayment speeds and pooling enforcement. Wells Fargo would welcome the opportunity to engage with FHFA to address prepayment speed volatility while maintaining the broad, liquid market for MBS that provides affordable long-term mortgages for borrowers.

Sincerely,

Michael DeVito
Executive Vice President
Head of Home Lending