Quicken Loans®

January 21, 2020

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

Re. Request for Input on Fannie Mae and Freddie Mac UMBS

Dear Director Calabria,

Quicken Loans Inc. ("Quicken Loans") appreciates the opportunity to respond to the Federal Housing Finance Agency (FHFA) Request for Input (RFI) on proposed changes to the pooling practices of Fannie Mae and Freddie Mac ("the Enterprises"). We share FHFA's interest in evaluating the present and potential future performance of agency securities. We do not share the proposed view that creating restrictions on specified pools to direct the "vast majority of production" to large multi-lender pools is the appropriate mechanism to address the goals of overall market stability, efficiency, or performance. Instead, we believe constraining the use of specified pools is likely to disrupt both originators and consumers.

The final price to the consumer depends on market-based decisions resulting in better execution of cash flows across the system. Limiting optionality removes significant benefits of this best execution exercise. Lenders pool loans with certain features or characteristics in response to market conditions, including investor demands, benefiting the final price to the client and the system overall.

This letter identifies the primary areas of the industry impacted by the proposal and raises comments and concerns for further consideration.

<u>About Quicken Loans</u>

Detroit-based Quicken Loans is the nation's largest home mortgage lender. The company closed $145 billion of mortgage volume across all 50 states in 2019. In late 2015, Quicken Loans introduced RocketMortgage, the first fully digital mortgage experience. Today, 98% of all home loans originated by Quicken Loans utilize Rocket Mortgage Technology.

Quicken Loans moved its headquarters to downtown Detroit in 2010. Today, Quicken Loans and its affiliated companies employ more than 18,000 full-time team members in Detroit's urban core, and are deeply invested in improving the well-being of the City and its residents. The company originates high-quality mortgage loans from web centers located in Detroit, Cleveland, and Phoenix. Quicken Loans also operates a centralized loan processing facility in Detroit. Quicken Loans ranked highest in the country for customer satisfaction for primary mortgage origination by

J.D. Power for the past ten years, 2010 – 2019, and also ranked highest in the country for customer satisfaction among all mortgage servicers the past six consecutive years, 2014 – 2019.

General Comments

1.Artificial restriction of investor demand may also limit innovation.

Limiting the amount and type of specified pools eligible for sale in an effort to force loans into large multi-lender pools will further restrict the ability to pursue additional liquidity or gains, stagnating the efficiency of the To-Be-Announced (“TBA”) market. For example, investors cannot “request” a future security composed of assets with specific features or characteristics. If a new type of specified pool or new opportunity presented in the market, lenders would have to delay or even disregard the opportunity. The Enterprises’ approval or other administrative delays further erode market-based decisions.

2.Difficulty forecasting pool optimization poses operational and financial challenges.

Preset limitations on specified pools in a given month, for instance, would require a forecast of future volume in order to determine the likely issuance to back into the potential volume eligible for specified pools. Specified pool trading at the beginning of the month is based on volume still unknown for later in the month. The risk of overestimating would likely cause underestimating, and lenders would not maximize the ~20-30% specified pool volume allowed under the proposal. Any miscalculations would result in inefficiency and missed opportunity, restricting the opportunity to pass better pricing onto clients.

3.Disruption of the market-based approach could increase costs overall.

Limiting access to better execution opportunities or creating inefficiency will result in weaker secondary gains. One likely outcome of weaker execution may be to increase upfront cost to clients.

4.Unknown impact on prepayment speeds.

The proposal will have the effect of blending large multi-lender pools with different types and amounts of loans. New combinations of the production volume from large Sellers does not address the originators that produce mortgages with higher prepay speeds. In fact, the proposal will have an unknown impact on overall speeds of the large multi-lender pools. This is a significant disruption and change to best execution models for a proposal that may or may not decrease prepay speeds because of higher concentration of certain Sellers.

Other Considerations

1.Success metrics.

Given the goals of the proposal, the implication is that TBA prices should improve. If TBA prices remain flat, the proposal would not have improved the TBA offering but would have reduced originator revenue, likely driving upfront borrowing costs higher. There are other mechanisms and factors to impact TBA pricing. If FHFA intends to take additional steps toward making the proposals in the RFI final, more details including the way the program will be evaluated could be helpful in achieving outcomes in a more direct or efficient way.

2.Approval for Non-TBA eligible pools.

One risk inherent in the proposal is the desire or ability for certain Sellers, such as Sellers with historically slower prepayment speeds, to create non-TBA eligible pools. Given the purpose of the proposal is to deliver 70-80% eligible production into large multi-lender pools, the Enterprises may be forced to decide between permitting a Non-TBA eligible pool or refusing to guarantee a pool depending on the guidance within the final proposal.

3.Impact on single pool execution.

Under the proposed structure, if a Seller were able to obtain better execution as a single issuer pool, would the "incentives" referenced in the RFI include the Enterprises offsetting the loss with a payment to the Seller to send volume to the larger multi-lender pools? Restricting specified pooling also reduces the ability of important market participants, such as Real Estate Investment Trusts (REITs), from participating in and supporting pricing in the mortgage market.

4.Performance metrics in large multi-lender pools.

FHFA should consider the measurement and communication of the Sellers' status as a participant in the multi-lender pools. The rules for participation and "punishment" for violating the measurements should be clear and the SAME for everyone. Additional information is needed for commenters to submit responses on the way Sellers will be identified and monitored. For example, would certain CPR levels be the method of monitoring? Would that level be determined to be a percentage within a cohort, or some other absolute level? How would that level be set and adjusted? Would the measures include a subjective component? Note that Ginnie Mae has also punished originators by restricting their ability to deliver into their multi-lender pools, but the rationale for that decision was not clear and was not public. This lack of clarity increases risk for originators, and increased risk generally drives conservative practices such as increasing borrowing costs to clients.

5.Large pools allow fast Seller/Servicers to hide.

The overall cost to the market built into the increase in large multi-lender pools is the slower prepaying Sellers would be subsidizing the cost of the fast pre-paying Sellers.

6.Other alternatives to address the goal of the proposal.

FHFA should consider other methods to address the issue of Sellers with prepayment speeds outside the normal range for the market and peers. It is not necessary to restrict specified pools as proposed in the RFI before attempting other ways to address the difference in prepayment speeds between the Enterprises.

7.Conflict of interest.

The Enterprises compete for volume and are incentivized to increase eligible volume over the other. If FHFA contemplates making the Enterprises responsible for policing their own pools, the Enterprises will be forced to make judgment calls between maintaining or growing volume and forcing the bad actors out of the major pools.

8.Allow markets to determine a more efficient approach.

a. *Markets are more efficient at determining pool size.* One strength of the market today that creates liquidity and opportunity is pool size and price. Investors that desire larger pools incentivize the creation of those pools. Broker-dealers recognize the demand and buy small(er) pools to create larger pools to meet the demand. Investors that desire smaller pools or pools with certain, “favorite” characteristics pay to incentivize the creation of those pools. This proposal would limit much of the ability for this to occur.

b. *Markets are more efficient at selecting specified stories.* Investors and originators are very efficient at identifying new prepayment themes and getting rewarded for that work. In the process, they expose the latest prepayment themes. This proposal would limit the ability to create new pools with better prepayment characteristics.

Thank you for the opportunity to submit our response on this critical topic. We look forward to continuing to work with FHFA to identify the exact problem being addressed and offer the ideal solution for all parties involved. Please reach out to Chrissi Johnson, Vice President of Federal Policy and External Affairs, at ChrissiJohnson@QuickenLoans.com or 313-373-0036 with any questions, concerns or request for more information.

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