

June 23, 2020

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

Re: Federal Home Loan Bank Membership Request for Input

Dear Director Calabria:

Quicken Loans LLC. (“Quicken Loans”) appreciates the opportunity to respond to the Federal Housing Finance Agency’s (“FHFA”) Request for Input on Federal Home Loan Bank (“FHLBank”) Membership issued in February 2020. We applaud FHFA’s commitment to pursuing policies that enable the FHLBank System to provide liquidity to support housing finance and further affordable housing and community development in an equitable way.

Given the systemic changes to the nation’s housing finance markets since FHFA last conducted a comprehensive review of FHLBank membership regulation in 2010, we believe FHFA should pursue regulatory changes and work with Congress to allow high-quality Independent Mortgage Banks (IMBs) like Quicken Loans to become directly eligible for FHLBank membership.

About Quicken Loans

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 Rocket Mortgage, the first fully digital mortgage experience. Today, 98% of all home loans originated by Quicken Loans use 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 consecutive years, 2010 – 2019, and also ranked highest in the country for customer satisfaction among all mortgage servicers the past six consecutive years, 2014 – 2019.

High-Quality IMBs Are Best Positioned to Directly Support the FHLBank System Mission

Quicken Loans’ business model is built to sustainably and responsibly promote access to homeownership for millions of families. As the nation’s largest home mortgage lender, our mission to provide clear, transparent access to home loan financing to *all* eligible borrowers directly compliments the FHLBank System’s mission to keep the housing finance market liquid and promote affordable housing and community development across the United States. This alignment has been strengthening since the 2008 financial crisis.

According to *Home Mortgage Disclosure Act* (HMDA) data, from 2008 to 2017 IMB market share of single-family origination increased from 25 percent to 54 percent.¹ The Urban Institute reports that as of March 2020, that share was 70 percent.² In 2018, more than 64 percent of minority homebuyers got their mortgage financing from IMBs and IMBs originated more than 60 percent of all home purchase loans for low-and moderate-income borrowers.³

As depository institutions continue to pull back from mortgage lending in communities across the country, innovative and technology-driven IMBs like Quicken Loans are growing their market share in a safe, sound, and sustainable way. This success story is well represented by the fact that the pre-COVID mortgage delinquency rate was at its lowest since the Mortgage Bankers Association's National Delinquency Survey began in 1979.⁴

The very entities that are, and for the foreseeable future, will be driving the housing finance market by originating and servicing the highest quality residential mortgage loans are being excluded from accessing the FHLBank System and advancing its critical national mission. In the months and years ahead, a highly liquid housing finance system and a level playing field will be critical for high-quality IMBs to continue their important role serving a diverse range of borrowers in the housing finance ecosystem. With the appropriate regulatory and legislative reforms, the FHLBank System can make that happen.

FHLBank System Access Can Help Level the Playing Field

The FHLBank System continues to do an excellent job in executing its mission during COVID-19 by providing its membership with critical liquidity at a time of elevated unemployment applications and mortgage forbearance demand. The FHLBanks have proven that during times of stability and crisis, they remain durable, flexible and scalable. Expanding membership to include strong credit quality IMBs would extend these systemic benefits and level the field to help responsibly strengthen market liquidity, increase the availability of credit for residential mortgage lending, and further the FHLBank System's affordable housing and community development missions in each of its 11 regions.

The authority which Congress bestowed on FHLBanks to provide reliable low-cost funds to its members creates direct and indirect advantages. Members are perceived to be better at managing operational risks and obtaining additional sources of liquidity. The funding provided to members expands the available liquidity with which to further the mission of providing affordable financing to homeowners and in times of economic stress, members can rely on the FHLBanks.

¹ Mortgage Bankers Association, "The Rising Role of the Independent Mortgage Bank – Benefits and Policy Implications," *MBA*, February 2019, <http://mba-pa.informz.net/mba-pa/data/images/IMB22219.pdf>

² Urban Institute, "Housing Finance Glance: A Monthly Chartbook," *Urban*, May 2020, https://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-may-2020/view/full_report

³ Mortgage Bankers Association, "The Rising Role of the Independent Mortgage Bank – Benefits and Policy Implications," *MBA*, February 2019, <http://mba-pa.informz.net/mba-pa/data/images/IMB22219.pdf>

⁴ <https://www.mba.org/2020-press-releases/may/mortgage-delinquencies-rise-in-first-quarter-of-2020>

While only Congress can amend Section 4(a) of the FHLBank Act to include IMBs, it is important to note that Quicken Loans already meets the underlying statutory requirements for FHLBank membership pursuant to Section 4(a)(1) and 4(a)(2) of the FHLBank Act.⁵ The company is organized under U.S. law and subject to inspection and regulation under U.S. and state laws, operates in the single-family residential mortgage market, has financial conditions that would allow a FHLB to extend advances safely, and the character of its management and home-financing policies are consistent with sound and economic home financing. Additionally, Quicken Loans can demonstrate compliance with the six parallel regulatory membership eligibility requirements prescribed by FHFA in 12 CFR part 1263 that all current FHLB members must meet, whether they are thrift institutions, commercial banks, credit unions, insurance companies, or non-depository Community Development Financial Institutions (CDFI).⁶

High-quality IMBs like Quicken Loans can expand the System's already dynamic capital base and if given the opportunity to access stable, low-cost FHLBank advances, could diversify their liquidity sources backed by high-quality collateral that Fannie Mae, Freddie Mac, and Ginnie Mae loans provide. These are the same Qualified Mortgage loans that current FHLBank System members pledge as collateral and would not introduce incremental risk to the FHLBank System.

High Quality Collateral Supports FHLBank System Credit Risk Management

According to Urban Institute as of May 2020, 66 percent Fannie Mae loans and 62 percent of Freddie Mac loans are serviced by nondepository lenders.⁷ The reach of IMBs across a diverse range of credit-worthy borrowers in each of the FHLBank System's regions is undeniable. If given access to the FHLBank System, Quicken Loans would pledge the same trusted, low-risk collateral like government-backed Qualified Mortgage loans that the System currently lends against.

Quicken Loans has industry leading credit quality across its portfolio as demonstrated by our two-year FHA compare ratio with an average of 50 as of January 2020. The quality of the manufacturing process today depends increasingly on technology and scalability especially considering the consistency of the Agency collateral being originated. According to the Urban Institute's Monthly Chartbook for May 2020, 97 percent of the mortgage origination market is Agency conforming home loans. Greater than 90 percent of originations are fixed rate loans and overall, the origination credit quality has continued to improve. The median FICO score is 740, the median DTI is 39, and the average LTV across the entire industry is 88. Since FHFA and Congress last evaluated FHLBank membership, origination quality in the market has risen and serious delinquencies have declined. Fannie Mae and Freddie Mac loans more than 90 days past due or in foreclosure are 0.66 percent and .60 percent of the overall population of single-family loans, respectively. FHA loans in the same category are 3.29 percent of the overall population.⁸ Quicken Loans uses best-in-class underwriting practices and quickly sells its loans into a deeply liquid secondary market. As such, Quicken Loans would most likely use FHLBank advances in a similar manner to a warehouse line. This practice comes with limited credit risk. Not only are the underlying

⁵ See 12 U.S.C. § 1424.

⁶ See 12 CFR 1263.6(a).

⁷ Urban Institute, "Housing Finance Glance: A Monthly Chartbook," *Urban*, May 2020, https://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-may-2020/view/full_report

⁸ Urban Institute, "Housing Finance Glance: A Monthly Chartbook," *Urban*, May 2020, https://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-may-2020/view/full_report

loans backed by the implicit guarantee of the United States federal government, but the high-quality collateral we would pledge would only be advanced on for short period of roughly two to four weeks.

The FHLBs should also consider the merits of allowing MSRs as eligible collateral to the FHLB window in a revolving funding capacity. Splitting off the servicing advance receivables component of MSRs into a separate asset that could be pledged as FHLB collateral would mirror existing financing arrangements in the private market. Any delinquent principal and insurance payments or taxes and insurance that servicers advance to MBS investors are totally reimbursed by the GSEs and present virtually no credit risk.

Safety, Soundness, and FHLBank Systemic Risk

It is important for FHFA to define what safety and soundness actually means and how such metrics are evaluated when regulations around membership criteria are crafted. Policies that minimize the risk of loss on advances for instance must be approached through a counterparty-specific lens based of an accurate analysis of true credit risk. This is especially true with respect to IMBs. No two IMBs are alike – each may leverage a variety of capital and liquidity channels and have different organizational/business continuity structures. Any regulatory changes governing FHLBank membership must also be cognizant of the significant changes to the regulatory and supervisory landscape IMBs like Quicken Loans are subject to today.

The FHLBank System already has members not subject to a single direct safety and soundness regulator. Instead, Quicken Loans is subject to indirect prudential regulation as well as a web of on-going supervision across federal, state and local jurisdictions. The company is also subject to the legal authority of the GSEs to assess operational and liquidity risks.

For instance, Quicken Loans is regulated in all 50 states, and by several federal entities including CFPB, FHA, VA, Ginnie Mae, Fannie, Freddie, FCC, FTC, USDA, and HUD. There are also several ongoing efforts at the federal level to better understand and possibly amend the IMB regulatory landscape in the near future. For example, the Financial Stability Oversight Council (FSOC) has created a Task Force on Nonbank Mortgage Liquidity. FHFA will be re-proposing changes to the minimum financial eligibility requirements around net worth and liquidity for nondepository Fannie Mae and Freddie Mac Seller/Servicers. Lastly, Ginnie Mae is developing a comprehensive stress testing framework and Issuer resolution policies focused exclusively on its nondepository issuer base. All of this is occurring without any concrete evidence suggesting that IMBs present a systemic risk to the housing finance ecosystem.

It is critical to note that Quicken Loans is one of the strongest GSE counterparties and Ginnie Mae Issuers in the market. Like other FHLBank System members, our loan origination is guided by the critical consumer protections and high-quality underwriting standards mandated by the Dodd Frank Act. The growth of the company over many years has positioned Quicken Loans to have greater assets than 95 percent of FDIC insured institutions.⁹ The company can access diverse liquidity sources including, but not limited to, early funding facilities, repurchase agreement facilities, mortgage servicing rights (MSR) financing, unsecured lines of credit, and strong access to the bond markets given our credit and brand profiles. Additionally, Quicken Loans has an overall rating of Ba1 rating with Moody's and a financial profile score of Baa2, which is well above Investment Grade. The

⁹ Quicken Loans analysis

certainty and stability of FHLBank advances would further strengthen the company's liquidity positioning while granting the FHLBank System more of the same kind of high-quality collateral it currently accepts from current members. This symbiotic relationship would help Quicken Loans further the FHLBank System's mission.

In order to fully consider the risk to the FHLB system, we must consider the hypothetical situation where a high-quality IMB would face bankruptcy. Given Quicken Loans' business model, collateral would only be pledged for two to four weeks, a highly unrealistic timeline for the company to go into bankruptcy. Nonetheless, it is important to note the high-quality collateral would remain in place and can be sold into a liquid market. Additionally, because of the System's fully collateralized lending model and the protection provided by the "Super Lien", the 1:1 relationship of the collateral to the FHLBanks' security interest in member assets guarantees priority status.¹⁰ With respect to IMBs that do not typically portfolio loans, this means FHLBank lien priority supersedes that of any other creditor and the pledged collateral could not be used for general creditors. Lastly, it is critical to note that there are already material haircuts on the FHLBank advances that are significantly higher than that of warehouse lines. According to the 2018 FHFA report on collateral pledged to the Federal Home Loan Banks, single-family traditional mortgages receive an average haircut of 19.5 percent across the System.¹¹

We are confident the aforementioned structure and policy considerations would continue to preserve the FHLBank System's outstanding record of never realizing credit losses on advances in the System's history.¹²

Conclusion

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 best policies around FHLBank membership to ensure the System is able to provide liquidity to support housing finance and further affordable housing and community development. 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.



Bill Emerson
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Quicken Loans LLC.

¹⁰ FHLB Office of Finance, "Investor Presentation," June 2020, http://www.fhlb-of.com/ofweb_userWeb/resources/fhlbankpresentation.pdf

¹¹ FHFA, "Report on Collateral Pledged to Federal Home Loan Banks," November 2018, https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Collateral-Pledged-Report_Nov2018.pdf

¹² FHLB Office of Finance, "Investor Presentation," June 2020, http://www.fhlb-of.com/ofweb_userWeb/resources/fhlbankpresentation.pdf