

June 23, 2020

The Honorable Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th Street SW
7th Floor
Washington, D.C., 20219

Re: Federal Home Loan Savings Bank Request for Input

Director Calabria,

United Wholesale Mortgage (“UWM”) is pleased to submit this letter in response to the Federal Housing Finance Agency’s (“FHFA’s”) request for input on Federal Home Loan Savings Bank (“FHLB”) membership. UWM commends the FHFA’s willingness to consider potential future changes to FHLB membership that would extend the benefits of FHLB to additional industry stakeholders.

Founded in 1986, Pontiac, Michigan – based UWM is a fifty-state, privately owned, residential mortgage lender. We focus exclusively on the wholesale origination channel (independent mortgage brokers, community banks, credit unions, and non-delegated correspondents). Loans originated by mortgage brokers, banks, etc. are underwritten and funded by UWM. As one of the largest seller-servicers approved by Fannie Mae and Freddie Mac, UWM’s hallmark is the quality of its loans. As a result, UWM maintains a strong financial position, a healthy balance sheet, and a history of profitability.

UWM is the largest wholesale originator for the sixth consecutive year, ranks as a top-two overall originator of residential mortgages, and is the nation’s number one purchase lender. In 2019, UWM originated \$107 billion in residential mortgages. UWM does no sub-prime or non-QM business.

As one of the nation’s largest seller-servicers approved by Fannie Mae and Freddie Mac, while also maintaining a robust Ginnie Mae portfolio, UWM believes that it would be beneficial to the mortgage finance industry, and ultimately to American home owners and the United States economy, to have the FHLB extend membership to systematically significant non-depository

lenders like UWM for a multitude of reasons.

Non-bank lenders have become the prevailing liquidity providers in the residential mortgage market, as banks have stepped back and many of the larger banking institutions participate in the residential mortgage industry only through secondary marketing transactions, rather than interfacing directly with consumers. The absence of FHLB membership for such institutions has thus left a void and risk in the marketplace should the liquidity and balance sheet needs of non-bank lenders freeze or become prohibitively more expensive. Access to the FHLB for non-depository lenders would, essentially, protect against this significant component of the residential mortgage market from seizing in times of crisis or other volatility and is completely consistent with the mission of the FHLB: to provide reliable liquidity in support of housing finance and community investment.

As the FHFA considers ways to continue to support the FHLB's mission of providing to its members financial products and services that assist the financing of housing and community lending, we offer the following measures that are designed to both satisfy the mission of the FHLB, while protecting against risks to the FHLB system:

- First, the FHFA should require a high bar commitment to the asset class. The FHLB Act's membership provisions reinforce the connection between eligibility for membership and the FHLBs' housing finance and community development mission to require all eligible applicants to satisfy the "makes long-term home mortgage loans" requirement. Today, the admission standard is 10% for banks and traditional insurance companies. For potential new admissions for non-depository lenders, the FHFA should consider a significant increase in that percentage. We recommend 80% of a non-bank's assets be invested in residential mortgage related assets in a manner generally consistent with mortgage REIT rules regarding asset and income tests defined in the 40 Act¹ and the Code².
- Second, we think parent company guarantees of any member will be an important safeguard for the process. Today, parent company guarantees are governed in contractual relationships in certain FHLBs. Standardizing the backbone of these agreements would go far to add certainty for the new members, and security for the FHLB System. Embedded within this requirement is a natural transparency of financial position.

¹ 15 U.S.C. §§ 80a-1-80a-64

² 12 C.F.R. 1263.1

- Third, these parent company guarantees would be enhanced by parallel regulations that mirror both warehouse bank oversight and GSE counterparty risk standards for minimum capital in the Seller-Servicer guidelines.

UWM's responses below recognize the changing landscape of the residential mortgage industry and provide the framework for the responsible inclusion of non-bank lenders like UWM in the membership of FHLB. We are thankful for the opportunity to respond to the FHFA. UWM looks forward to continuing to work with the FHFA as this discussion continues.

Should you have any further questions, please contact Lee Jelenic at 248-833-4455 or at ljelenic@uwm.com.

Sincerely,



Lee Jelenic
EVP, Chief Innovation Officer
UWM

UWM's Response to RFI Question 1(b)(ii): How, specifically, would membership of such institutions further the housing finance and community development mission of the FHLBs?

Founded in 1986, Pontiac, Michigan – based United Wholesale Mortgage (“UWM”) is a fifty-state, privately owned, residential mortgage lender. We focus exclusively on the wholesale origination channel (independent mortgage brokers, community banks, credit unions, and non-delegated correspondents). Loans originated by mortgage brokers, banks, etc. are underwritten and funded by UWM. As one of the largest seller-servicers approved by Fannie Mae and Freddie Mac, UWM’s hallmark is the quality of its loans. As a result, UWM maintains a strong financial position, a healthy balance sheet, and a history of profitability.

UWM is the largest wholesale originator for the sixth consecutive year, ranks as a top-two overall originator of residential mortgages, and is the nation’s number one purchase lender. In 2019, UWM originated \$107 billion in residential mortgages. UWM does no sub-prime or non-QM business.

By allowing non-bank mortgage lenders membership, the FHLB would further its stated mission of providing reliable liquidity in support of housing finance and community development by increasing low-cost advance activity to support a deeper, and more liquid market for mortgage finance.

With new access to increased, low-cost liquidity, non-bank lenders like UWM can further lower the costs of credit to consumers, in accordance with the FHLB’s mission to foster liquid, efficient, competitive, and resilient national housing finance markets.

From a public policy standpoint, we believe now is the time for the FHFA to review eligibility for FHLB membership. Post-2008 crisis, the landscape of the residential mortgage market has shifted significantly in recent years to include non-bank lenders, like ourselves. Non-bank lenders have become the dominant liquidity providers in the residential mortgage market, as banks have stepped back. Hence, any program from FHLB must address the liquidity and balance sheet needs of this important segment of the mortgage market.

By excluding non-bank lenders, the membership of the FHLB is not a proper representation of the mortgage market. Without the representation of this significant provider of mortgage credit, the System is vulnerable to challenges that it is selectively choosing winners and losers in the market and failing to uphold its mission of improving market liquidity. Given the footprint of non-bank lenders, membership in the FHLB will have the dual effect of lowering

YOUUNITED



the cost of capital that will ultimately be passed on to the consumer, and reducing overall systemic risk to the FHLB System market by further diversifying its member institutions.

UWM's Response to RFI Question 2(b): Would there be benefits to establishing financial condition review requirements that are substantially similar for all applicants, regardless of whether they are organized as an insured depository institution, insurance company or CDFI? What would such requirements comprise, and would such changes entail risks to the FHLB System's safety and soundness and the FHLBs' ability to provide liquidity to members through the cycle?

Founded in 1986, Pontiac, Michigan – based United Wholesale Mortgage (“UWM”) is a fifty-state, privately owned, residential mortgage lender. We focus exclusively on the wholesale origination channel (independent mortgage brokers, community banks, credit unions, and non-delegated correspondents). Loans originated by mortgage brokers, banks, etc. are underwritten and funded by UWM. As one of the largest seller-servicers approved by Fannie Mae and Freddie Mac, UWM’s hallmark is the quality of its loans. As a result, UWM maintains a strong financial position, a healthy balance sheet, and a history of profitability.

UWM is the largest wholesale originator for the sixth consecutive year, ranks as a top-two overall originator of residential mortgages, and is the nation’s number one purchase lender. In 2019, UWM originated \$107 billion in residential mortgages. UWM does no sub-prime or non-QM business.

UWM recommends a financial condition review that is broadly applicable to all mortgage market participants in other government related channels. For example, the minimum financial eligibility requirements for Fannie Mae and Freddie Mac Seller/Servicers or similar counterparty standards for Ginnie Mae Issuers.

Prudential supervision by banking and state insurance regulators has been the historical substitute for the FHLB’s own review of the safety and soundness of any particular institution. Relying on a separate statutorily constituted body to maintain the FHLBs’ mission has been a controversial method of protection of the System and will likely be exacerbated as the interests of a diversified banking portfolio’s risks or that of an insurance companies’ capital standards diverge from public policy goals for affordable mortgage credit.

The divergence of interests between regulators and the System is but one of the many reasons why parent company guarantees have become a regularized practice. UWM believes that continued use of the practice, with formal adoption and standardization through regulation or guidance, would be a key enhancement to the stability of the System.

Today, parent company guarantees are governed in contractual relationships in certain FHLBs. Standardizing the backbone of these agreements would go far to add certainty for the new members, and security for the Banks, as joint and several liable entities. Embedded

within this requirement is an opening of books and records of the parent company.

Moreover, FHLB liquidity and leverage ratios are similar to those of the FHFA standards. As such, we believe FHLB should define its eligibility standards in a similar fashion to seller servicer requirements.

UWM’s Response to RFI Question 3(c): Should FHFA amend its regulations to impose conditions on membership approvals pertaining to those entities that are susceptible to being used as conduits that do not apply to other types of members?

Founded in 1986, Pontiac, Michigan – based United Wholesale Mortgage (“UWM”) is a fifty-state, privately owned, residential mortgage lender. We focus exclusively on the wholesale origination channel (independent mortgage brokers, community banks, credit unions, and non-delegated correspondents). Loans originated by mortgage brokers, banks, etc. are underwritten and funded by UWM. As one of the largest seller-servicers approved by Fannie Mae and Freddie Mac, UWM’s hallmark is the quality of its loans. As a result, UWM maintains a strong financial position, a healthy balance sheet, and a history of profitability.

UWM is the largest wholesale originator for the sixth consecutive year, ranks as a top-two overall originator of residential mortgages, and is the nation’s number one purchase lender. In 2019, UWM originated \$107 billion in residential mortgages. UWM does no sub-prime or non-QM business.

Conduit entities should be afforded FHLB membership subject to satisfying certain conditions to ensure the safety and soundness of the underlying entity. As asserted in the response to Question 2(b), UWM trusts that a non-bank entity that meets the minimum financial eligibility requirements for Fannie Mae and Freddie Mac Seller/Servicers, the Ginnie Mae Issuers requirements and provides parent company guarantees safeguards the System.

Today, parent company guarantees are governed in contractual relationships in certain FHLBs. Standardizing the backbone of these agreements would go far to add certainty for the new members, and security for the Banks, as joint and several liable entities. Embedded within this requirement is a natural transparency of financial position.

Moreover, as a means of ensuring a parent company’s safety and soundness, we believe FHLB should adopt parallel regulations that mirror warehouse bank oversight and GSE counterparty risk standards for minimum capital in the Seller-Servicer guidelines. Therefore, practically speaking, if a company is approved by a GSE and/or warehouse bank counterparty, they would be deemed safe and sound in the eyes of the FHFA for one purpose (Enterprise eligibility as a Seller/Servicer) and should be sufficient for a separate purpose for the FHFA, which is System membership, thereby eliminating the risk of inconsistent application of, or ambiguity interpreting, this standard.

UWM’s Response to RFI Question 3(d): Irrespective of membership requirements, should FHFA limit conduit activity by FHLB members through other means, such as by restricting the amount of advances a FHLB may have outstanding to a single member (for example, to a percentage of the member’s total assets) or limiting the extent to which affiliates may pledge collateral to secure a member’s advances? If so, what should those limits be? Should FHFA impose any such limitations on all FHLB members as a prudential measure, irrespective of any concerns about conduit activity?

Founded in 1986, Pontiac, Michigan – based United Wholesale Mortgage (“UWM”) is a fifty-state, privately owned, residential mortgage lender. We focus exclusively on the wholesale origination channel (independent mortgage brokers, community banks, credit unions, and non-delegated correspondents). Loans originated by mortgage brokers, banks, etc. are underwritten and funded by UWM. As one of the largest seller-servicers approved by Fannie Mae and Freddie Mac, UWM’s hallmark is the quality of its loans. As a result, UWM maintains a strong financial position, a healthy balance sheet, and a history of profitability.

UWM is the largest wholesale originator for the sixth consecutive year, ranks as a top-two overall originator of residential mortgages, and is the nation’s number one purchase lender. In 2019, UWM originated \$107 billion in residential mortgages. UWM does no sub-prime or non-QM business.

FHFA may look to ensure a commitment to the residential mortgage asset class. The FHLB Act’s membership provisions reinforce the connection between eligibility for membership and the FHLBs’ housing finance and community development mission to require all eligible applicants to satisfy the “makes long-term home mortgage loans” requirement.

Today, the FHLB defines membership as a 10% test relating to current activity for “residential mortgage loans” (12 CFR 1263.1), excluding assets that secure MBS. This definition excludes a significant portion of activity in real estate. In the preamble of prior rulemaking, this restrictive definition was considered and balanced against achievement of a relatively low threshold of activity at 10% for insured depositories. This concession is at once, too restrictive and not exclusive enough for expanded membership that is meant to support liquidity in the mortgage market. UWM recommends that any new class of FHLB membership that is based on affiliate or captive insurance membership where the parent company is a non-bank mortgage entity, require heightened devotion to the mortgage asset classes. To do this, the FHFA and the System may consider REIT rules.

REIT rules describe “real estate” and are looking to mortgage REIT rules as a reliable, well-understood, widely used, definition that exists in the market today. They offer a precedential value for a future FHLB rulemaking that seeks to define mortgage asset activity as a condition of future membership in the System. Specifically, the way mortgage REIT rules define assets and income across the two relevant bodies of law are available for adoption by reference. The first is the SEC rule exception for mortgage REITs under the Investment Company Act of 1940 requirements for investment companies.³ The second is the requirements under IRS Code that grant mortgage REITs pass-thru status.⁴ Importantly, UWM is not recommending that the entities for expanded membership in the FHLB System (“System”) actually satisfy the REIT tests or be a REIT in good standing as determined by the SEC or IRS. Rather, their rules can be instructive on the point of establishing a strong nexus to real estate that UWM recommends as a condition of non-bank or captive insurer membership in the System.

This increased devotion to the real estate asset class could be measured in accordance with REIT determinations adopted by the IRS or SEC, but wholly independent to the FHFA’s final approval. To UWM, an applicable percentage to prove devotion to the class is 80%. This concentration on real estate also solves the home financing requirement gap created by 12 CFR 1263.13, whereby *Community Reinvestment Act* (“CRA”) compliance is substituted for measurement of actual residential mortgage lending. Reliance on the CRA as indicative of devotion to residential mortgage lending is an increasingly diminishing prospect, particularly in light of the newly finalized rules published by the Office of the Comptroller of the Currency.

³ Section 3(c)(5)(C): For purposes of exemption from the 40 Act rules governing classification as an investment company, an investment fund must invest at least 80% of the fund in mortgages and liens on real estate or other interests in real estate. Section 3(c)(5)(C) exceptive authority is available to issuers if: at least 55% of its assets consist of “mortgages and other liens on and interests in real estate” (called “qualifying interests”) and the remaining 45% of its assets consist primarily of “real estate-type interests;” at least 80% of its total assets consist of qualifying interests and real estate-type interests; and no more than 20% of its total assets consist of assets that have no relationship to real estate (these factors together, the “Asset Composition Test”). “Qualifying interests” are actual interests in tangible real estate or loans/liens that are fully securitized by real estate.

⁴ To continue to keep “pass thru status” a REIT must satisfy income and asset tests. 95% of income is from real estate, as defined in 856(c)(2)(A-1) and 75% of income is derived from real estate as defined by 856(c)(3)(A-1). [IRS Code Section 856\(c\)\(2\)](#) and [Section IRS Code Section 856\(c\)\(3\)](#)