Eric L. Chatman
President | Executive Director

September 5, 2014

Federal Housing Finance Agency
Office of Policy and Research
400 7th Street SW, 9th Floor
Washington, D.C. 20024

Re: Request for Input on Proposed Increases to Guarantee Fees

Thank you for the opportunity to comment on FHFA's proposed increases to guarantee fees charged to lenders by Government Sponsored Enterprises (the "Enterprises"), Fannie Mae and Freddie Mac. As a state housing finance agency, Connecticut Housing Finance Authority (CHFA) has a successful track record in offering affordable mortgage financing to low and moderate income residents of our state. CHFA is financially strong, maintaining an AAA rating with Standard & Poor's and an Aaa rating with Moody's Investor Services. Since 1969, we have issued over 130,000 mortgage loans to first time homebuyers. With this experience, we offer the following general comments as well as specific responses to the twelve questions posed in your published Request for Input (see attached).

First and foremost, we recognize the important role guarantee fees play in covering costs associated with the Enterprises' programs, however, we question the need to increase guarantee fees as the housing market and economy continue to improve. With the recovery of the housing market, a drop in foreclosure rates and increased profits of the Enterprises, it would be reasonable to expect that guarantee fees would level off or decrease, rather than increase. It is important to recognize that guarantee fees represent a material cost of financing to the borrower, and increases will harm the recovery of the housing market and the ability of low and moderate income borrowers to gain access to affordable mortgage financing.

Second, we strongly disagree with the retention of the Adverse Market Delivery Charge (AMDC) for four states, including Connecticut. This charge effectively penalizes current borrowers for past mistakes. Furthermore, given that foreclosures rates are dropping in Connecticut as well as other states, we question the need to continue to apply this charge. As with any guarantee fee increase, it represents an additional cost to Connecticut residents and dampens the recovery of the housing market and our regional economy.

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We also believe an increase in guarantee fees may impact FHFA's ability to reach its affordable housing goals, making it more difficult for FHFA to reach out to worthy, underserved borrowers in an environment of increasing financing costs and strict credit eligibility standards. Instead of increasing fees, we would encourage FHFA to consider measures to reduce the Enterprises' overall credit risk.

As we reference in the attached set of responses, one approach to reducing credit risk is to partner with HFAs that have the capacity and willingness to share the credit risk of mortgage loans. This type of risk-sharing partnership between FHA and HFAs has been successful in the multifamily arena, and we encourage FHFA to consider how such partnerships might reduce costs and the need for increased guarantee fees in the area of single family homeownership programs.

CHFA stands ready to offer assistance and partnership to FHFA and the Enterprises in your quest to ensure a liquid housing market and affordable access to home financing. I appreciate the opportunity to share our perspective and look forward to working with you in the future on our common goal of making homeownership a reality for all eligible citizens.

Kind regards,

Eric Chatman

Attachments

<u>Connecticut Housing Finance Authority</u>
Response to FHFA Questions regarding Proposed Guarantee Fees
September 5, 2014

1. Are there factors other than those described in section III – expected losses, unexpected losses, and general and administrative expenses that FHFA and the Enterprises should consider in setting g-fees? What goals should FHFA further in setting g-fees?

With respect to other factors, the profitability and capital strength of the Enterprises should be factors when setting guarantee fees. When Fannie Mae and Freddie Mac are making significant profits, those profits should be reflected in the establishment of guarantee fees.

Additionally, FHFA should take into account the track record of its lending partners when deciding on guarantee fee increases. HFAs, with their strong loan performance record, should be recognized and rewarded with lesser guarantee fees.

With respect to goals, the establishment of guarantee fees needs to strike a careful balance between the financial strength and stability of the Enterprises and access to the housing market for all eligible borrowers. In light of FHFA's recently proposed increases to its affordable housing goals, it is important that we cultivate a healthy climate for borrowing. A reduction in guarantee fees would be one measure to improve that climate.

2. Risk to the Enterprises increases if the proportion of higher-risk loans increases relative to the proportion of lower-risk loans. This change in mix can occur if lower-risk loans are retained on bank balance sheets instead of being sold to the Enterprises, if more higher-risk loans are sold to the Enterprises, or if the overall mix of originated loans changes. What alternatives, other than risk-based pricing, should be considered? What are the pros and cons of each alternative?

Risk based pricing is an effective way to evaluate risk, however, any risk assessment should factor in the performance of proven, first-time homebuyer programs. Since HFAs have an average of over 40 years of experience of providing affordable housing, utilizing its single family performance and historical track record is a better indicator to measure actual risk.

In addition, diversification of risk should be considered when evaluating risk. Given the national nature of the Enterprises' business, would taking into account the benefits of diversification help in lowering the overall pricing over time?

3. Currently, target return on capital and the amount of capital largely determine required g-fees. What factors should FHFA and the Enterprises consider in setting target return on capital and amount of capital required? How should the Enterprises allocate capital across risk buckets?

FHFA and the Enterprises should analyze the current portfolio of loans and use a projection of potential losses and variability of cash flows to inform the setting of target return and required capital. FHFA and the Enterprises should ensure that the target return

on capital is not so high as to materially increase the cost of borrowing and the ability of millions of worthy borrowers to access affordable mortgage financing. Required capital should rely upon a realistic projection of loss probability based on historical experience. It should be set to limit the likelihood that the Enterprises would need future government support.

As far as allocating capital, consideration should be given to the Enterprises' program goals, such as the creation of affordable housing opportunities. The Enterprises should deploy capital in a way that attracts participation in those mission-oriented programs.

4. At what g-fee level would private-label securities (PLS) investors find it profitable to enter the market or would depository institutions be willing to use their own balance sheets to hold loans? Are these levels the same? Is it desirable to set g-fees at PLS or depository price levels to shrink the Enterprises' footprints, even if this causes g-fees to be set higher than required to compensate taxpayers for bearing mortgage credit risk and results in higher costs to borrowers?

While we cannot answer for private label securities investment, we can, as a housing finance agency, answer regarding our capacity and willingness to put loans on our balance sheet. For example, if CHFA is willing to put the loans on its own balance sheet, effectively sharing the burden of the credit risk, then the overall costs of the Enterprise's credit guarantee should be sharply reduced, resulting in a reduction of guarantee fees for those risk sharing loans.

5. If the Enterprises continue to raise g-fees, will overall loan originations decrease? That is, will Enterprise loans decline without a commensurate increase in private capital?

Yes, an increase in guarantee fees will harm the overall housing market by increasing costs, deterring consumers' ability and willingness to enter the housing market. In addition, it should be noted that even with a decline in Enterprise loans, there is no guarantee that private capital will fill the void. Furthermore, to the extent that there is a transition to a private market, there may be an increase in the cost of capital and financing for borrowers.

6. Is it desirable for the Enterprises to charge higher g-fees on low credit score/high LTV loans if it causes these loans to be insured/securitized through FHA/Ginnie Mae rather than through the Enterprises?

No, the amount of the guarantee fee should commensurate to the risk the Enterprise is undertaking. HFA loans may carry lower credit scores and higher loan to value ratios than conventional loans, yet our track record shows these loans to be less risky. Furthermore, these loans are often used by worthy, underserved borrowers that FHFA seeks to reach in its affordable housing goals.

7. Is it desirable for the Enterprises to (a) charge higher g-fees on high credit score/low LTV loans if it causes these loans to be insured/securitized through PLS or (b) held on depository balance sheets, rather than guaranteed by the Enterprises?

No, while we recognize the potential benefit to taxpayers of reducing the Enterprises' role and increasing the role of the private capital in housing finance, the Enterprises should take great care to ensure that they do not remove themselves precipitously from the housing market without ensuring that 1). private market will fill the void left by the Enterprises with rate and cost levels consistent with the levels that would be present if the Enterprises remained in the market, and 2). low and moderate income buyers continue to have access to affordable mortgage financing.

8. What approaches or alternatives should FHFA consider in balancing increased use of risk-based pricing with the HERA mission requirements of (1) liquid national housing markets and (2) acceptability of lower returns on loans made for low- and moderate-income housing?

In apply a risk based pricing approach, FHFA should consider the past performance and business models of the entities with which they work. For example, FHFA should recognize that HFAs did not contribute to the housing crisis, and that HFA loans, using strict underwriting standards, have a strong record of performance. We would ask FHFA to consider how partnerships between FHFA and successful HFAs to share risk would reduce FHFA's overall costs and need for increased guarantee fees while meeting FHFA's affordable housing goals in the future. We believe these partnerships in risk-sharing fully support the mission requirements of HERA.

9. Are the ranges of credit score and LTV cells in the proposed credit score/LTV grids used to set upfront delivery-fees and loan level pricing adjustments appropriate? Should any of the ranges be broader or narrower and, if so, why?

As a general comment, we would hope to see a decrease in these fees as the housing market continues to improve.

10. Should risk-based pricing be uniform across the Enterprises or should each Enterprise manage its own pricing?

Each Enterprise should manage its own pricing to meeting its goals and the needs of consumers and a healthy housing market. By allowing this flexibility, the Enterprises may be better able to set pricing according to the actual risk of the loan.

11. Taking into consideration that FHFA has previously received input on state-level pricing adjustments, do the g-fee changes proposed in December 2013 have any additional implications that should be considered in deciding whether to price for the length of state foreclosure timelines, unable to market periods or eviction timelines? Are there interactions with other pricing components under consideration that FHFA should consider in making decisions on the state-level adjustments?

We strongly disagree with the application of the Adverse Market Delivery Charge (AMDC) on states with more lengthy foreclosure processes, including Connecticut. Utilizing the AMDC for loans today and in the future is penalizing prospective homebuyers with an additional fee for past mistakes. Furthermore, just as foreclosure rates in Connecticut and other states are dropping, the assessment of guarantee fees and other charges should drop as well.

12. Are there interactions with the Consumer Financial Protection Bureau's Qualified Mortgage definition that FHFA should consider in determining g-fee changes?

HFA loans have been exempted from the requirements of the Ability-to Repay/ Qualified Mortgage rule in recognition of our strong lending and underwriting performance. We would ask FHFA to recognize our focus and our proven track record in the same way and exempt HFAs from high guarantee fees.

FEDERAL HOUSING FINANCE AGENCY
No. 2012-N-13

"State-Level Guarantee Fee Pricing"

Comments of:
Connecticut Housing Finance Authority
999 West Street
Rocky Hill, CT 06067

The Connecticut Housing Finance Authority (CHFA) is writing in response to the Federal Housing Finance Agency ('the Agency") Notice 2012-N-13 of September 25th seeking comment on a proposed "state-level" increase in guarantee fees assessed by the Federal National Mortgage Association ("FannieMae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Our understanding is that the basis of this proposal is to compensate FannieMae and FreddieMac for the presumed foreclosure costs associated with judicial foreclosure processes.

CHFA's view is that this imposition of state level guarantee fees is harmful and prejudicial to Connecticut and should not be implemented. Connecticut has, with good result, taken action to address home mortgage loan default and foreclosure. The Agency's effort to set state level guarantee fees is prejudicial to this sovereign state action undertaken to protect its citizens and communities from undue harm associated with the recent collapse of the nation's housing market. CHFA believes that it is bad public policy for the Federal government to single out and penalize states based on measures that these state have taken to protect their own citizens.

We urge the Agency to withdraw this Notice and not proceed with the imposition of state level guarantee fees.

Relevant Background and Experience of CHFA

CHFA was established by Connecticut Public Act No. 795 (the "Act") in 1969 as a public instrumentality and political subdivision of the State of Connecticut. The Act provided a broad range of powers and authority to finance affordable housing to alleviate the shortage of quality affordable housing in Connecticut.

Using these powers and authorities for over 40 years CHFA has issued over $14 billion in bonds to finance affordable homes and low-cost mortgages for low and moderate income first-time homebuyers. Through this financing CHFA funded home purchases for over 128,000 low and moderate income first time homebuyers and has provided financing to build or renovate over 39,000 affordable rental apartments. For much of its history, which has included the two significant recessions and the recent collapse in the housing and finance markets CHFA has continued to earn the highest ratings on its bonds.

CHFA has extensive experience lending to many of the types of low and moderate income homebuyers that suffered such high degrees of default and foreclosure during the sub-prime

crisis and subsequent housing market contraction. Based on this experience both the State and Federal governments have turned to CHFA to assist in efforts to avert mortgage default and foreclosure that often results in a family unnecessarily losing their home. These efforts also prevent financial institutions from booking unnecessary losses. These programs, the State of Connecticut's Emergency Mortgage Assistance Program and Federal Emergency Homeowners Loan Program, administered through CHFA, have allowed more than 1,500 CT homeowners to remain in their homes. CHFA has been active and directly involved in mortgage default and foreclosure mitigation and remediation efforts both as a provider of these mitigation programs and as a mortgage lender.

The Agency's Proposal to Establish State-level Guarantee Fees

Based on this experience CHFA views the Notice as based on a simplistic, single cause analysis that associates mortgage loss solely with the time taken in the foreclosure process. This does not reflect reality "on the ground" in Connecticut. As others have competently pointed out, for Connecticut, which employs a mediation approach required by law, this line of analysis does not account for the possibility that increased time actually results in fewer losses and better outcomes for both lenders, borrowers, and the enterprises.

A recent review of the mediation effort in our state indicates that 82 percent of cases result in favorable outcomes for both lenders and homeowners. Unfortunately, based on the reasoning of the Notice, the Agency's approach to setting the fee would be based solely on the 18% of the cases that did actually proceed to foreclosure with its associated higher level of financial loss, human suffering and very negative neighborhood impact. In addition, it has been our experience that there are other factors that contribute to delays in the foreclosure process, including negligence or unresponsiveness of mortgage servicers and their counsel. There is ample evidence of this with allegations of "robo signing" and other major problems that have characterized recent mortgage lending history across the nation. Unfortunately, the analysis that underlies the Agency's Notice does not account for the various valid reasons for the length or time and thus penalizes new borrowers for the prior performance of lenders, servicers and law firms.

CHFA Urges the Agency to Withdraw Its Notice and Not to Proceed with State-level Guarantee Fees

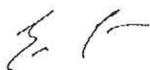
In light of these considerations, increasing the cost of mortgage financing for new borrowers in Connecticut based on such a simple analysis is inappropriate and unfair to new homebuyers. The housing market shows signs of improving and adding inappropriate additional costs to new market participants does not facilitate the long awaited recovery.

In addition, this action, in effect, penalizes future Connecticut homebuyers for actions that the State has taken to protect existing homeowners from undue loss and suffering in the default and foreclosure process. Connecticut's mediation process so carefully crafted by our state's elected officials is working and having a positive impact for both lenders, homeowners and presumably the enterprises. This effort should be respected and not penalized by ideas such as the guarantee fee increase proposed by the Agency.

Accordingly we urge the Agency to withdraw this rule and not proceed with establishing state level guarantee fees.

Thanks you for the opportunity to comment on this important proposed action by the Agency.

Kind regards,



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