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September 8, 2014

Mr. Joseph Pendergast
Manager of Policy Research
Federal Housing Finance Agency
Office of Policy Analysis and Research
400 7th St. SW, 9th Floor
Washington, DC 20024

Re: Comments on Request for Information on Guarantee Fees

Dear Mr. Pendergast:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments to the Federal Housing Finance Agency's (FHFA) request for information on guarantee fees (g-fees). By way of background, CUNA is the country's largest credit union advocacy organization, representing our nation's state and federal credit unions, which serve over 100 million members.

CUNA supported the decision of Director Watt to suspend the increases in g-fees FHFA proposed in 2013, and looks forward to continuing to work with the Agency to find the optimal level to protect taxpayers from the risk of default. As CUNA has stated in previous communications to FHFA, whether the issue is g- fees or any other issue related to the GSEs that may have a direct or indirect impact on credit unions, it is essential that the federal government's regulation of the secondary market ensure lenders of all types and sizes, including credit unions, have access to a secondary market that is equitable. This means that terms, rates, or conditions for selling loans in the secondary market must be affordable and fair to all lenders, regardless of their size or charter type. In particular, guarantee fees or other fees/premiums should never have a relationship to lender volume. CUNA believes the FHFA should continue to work with lenders of all types and sizes, including credit unions, to improve the secondary market and to promote the housing market recovery.

G-Fees Should Not Be Increased, Particularly to Achieve Policy Objectives

FHFA has asked if it is desirable to impose higher g-fees 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.

Our response is a resounding “no.” G-fees are a critical risk management tool used by Fannie Mae and Freddie Mac to protect against losses from faulty loans, and should be used only to manage the companies’ credit risk in order to sustain the operations of the Enterprises until Congress properly address housing finance reform.

Increasing g-fees for other purposes, such as to reduce the Enterprises footprint before comprehensive housing finance reform can be passed, effectively taxes potential homebuyers and consumers wishing to refinance their mortgages. G-fee increases unrelated to housing could also act to hinder the necessary reforms required of the housing finance system by changing the political calculus for policymakers. Given the many billions of dollars g-fees are generating for the U.S. Treasury while the Enterprises are in conservatorship, raising g-fees may make it harder, not easier, for Congress to enact reform.

As FHFA studies g-fees, the only question the agency should be asking is what is the optimum level that accurately prices risk for the Enterprises, protects taxpayers from downside risk, and does not unnecessarily overcharge borrowers. We believe the current level of g-fees meets these criteria. In any event, we do not agree that FHFA should use g-fees to accomplish policy objectives, including attempting to use g-fees to incentivize private-label securities investors to enter the market or depository institutions to hold loans in portfolio.

Holding vs. Selling Loans

FHFA has asked at what g-fee level depository institutions would be willing to use their own balance sheets to hold loans. From the perspective of credit unions, g-fees have a limited impact on the decision to hold the loan or sell it into the secondary market. All things being equal, as not-for-profit financial cooperatives focused on providing excellent member service, most credit unions would generally prefer to hold their loans. Most credit unions employ rigorous underwriting and credit union mortgages perform extraordinarily well. In addition, credit unions value the intangible relationship benefits that come from being able to tell their members that loans will remain in-house. On the other hand, credit unions recognize a need – and their regulators require them to – manage interest rate risk. This need is a more direct influence than g-fees on the decision to sell mortgages into the secondary market. To the extent that an increase in g-fees would disincentivize credit unions from using sales into the secondary market as a means of managing interest rate risk, an increase in g-fees would work at odds with the policies being promoted by financial institutions’ safety and soudness regulators and would be contrary to the public interest.

QM

FHFA has asked whether there are interactions with the Consumer Financial Protection Bureau's Qualified Mortgage definition that FHFA should consider in determining g-fee changes. There are. Very simply, we believe that QM will become the underwriting standard over time. The risk posed to the taxpayer from QM loans should be lower as the market adjusts. FHFA should adjust guarantee fees accordingly. That said, credit unions may also choose to continue making at least some non-QM loans in order to meet the needs of borrowers who can repay the loan but, for example, have a debt-to-income ratio higher than 43%.

QM will become the standard for mortgage underwriting in the United States for a variety of reasons. CUNA already understands from our members than many are reluctant to write non-QM loans for fear prudential regulators will criticize the loans during the examination process. Moreover, due to the safe harbor provided by the QM rule, many lenders will decide to write QM loans even if they ultimately are held in portfolio; examiners may also encourage that result.

The QM rule is a game changer when it comes to loan origination and underwriting, and it is new. Time will show whether there is a direct correlation between the higher underwriting standards imposed by QM and overall default risks for the Enterprises. FHFA should give enough time for sufficient data to study the interaction between QM loans and default rates before any further increases to g-fees are considered.

Whether QM or non-QM, based on credit unions' record, their mortgage loans will have very low delinquency and default rates, and g-fees for both types of loans should reflect that when mortgage lending programs are well managed.

Interaction Between G-Fees and Loan Originations

FHFA has asked whether, if the Enterprises continue to raise g-fees, overall loan originations will decrease. Though we are seeing signs of improvement in housing, we must avoid taking any steps that could keep consumers on the sidelines and hinder that recovery, while possibly delaying implementation of the necessary reforms required of the GSEs. There are signs that higher costs combined with a nascent rise in mortgage rates will stymie a more robust housing recovery. Even with rates remaining near historic lows, data during 2014 has shown that recent housing market gains may be short-lived. Just last week, Fannie Mae Chief Economist Doug Duncan lowered his single-family housing start forecast for 2015 by 14.2 percent – from 913,000 to 783,000. He also lowered his new-home sales forecast by 13.7 percent from 606,000 to

523,000, and his existing homes sales and mortgage originations forecasts by around 2 percent and 4 percent, respectively.

Raising g-fees, and therefore mortgage rates, could well cause a contraction in overall lending and since we don't know for certain that it won't, why take the chance? A higher fee structure imposes new costs on homebuyers and refinancing homeowners, who desire fair and affordable mortgage loans. The net effect is reduced access to housing to an ever-increasing number of potential borrowers. The Enterprises must continue to play a vital role in the success of our nation's housing market by serving as a reliable source of liquidity for housing finance. Raising g-fees due to policy goals, not based on hard data about the real risks involved to the taxpayer, will cause home-buying taxpayers to be charged excessive fees in the name of policy goals that may be debated.

Conclusion

Raising g-fees in the name of policy will force the member-owners of credit unions to pay higher rates for their mortgages than the actual risk that they pose. The result will be a policy that intentionally overcharges borrowers, which makes little sense at a time when the housing recovery is still in a nascent stage. CUNA continues to support a reduction in the government footprint of the mortgage market and a return of more private capital to fund mortgage lending. However, we urge the implementation of other tools to promote this goal. FHFA should make changes in g-fees based on quantifiable data demonstrating that existing fees are insufficient to protect taxpayers from the risk they are taking through the Enterprises. Otherwise, g-fees should be left alone.

Thank you for the opportunity to express our views on FHFA's guarantee fee information request. If you have any questions about our comments, please do not hesitate to contact me at (202) 508-6736.

Sincerely,

Mary Mitchell Dunn
Deputy General Counsel