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September 8, 2014

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

RE: Request for Input on the Guarantee Fees that Fannie Mae and Freddie Mac Charge Lenders

Dear Sir or Madam:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the Federal Housing Finance Agency's (FHFA) Request for Input on the guarantee fees (g-fees) that Fannie Mae and Freddie Mac charge lenders. Fannie Mae and Freddie Mac charge g-fees to cover the costs associated with providing a credit guarantee on their loans. This fee ensures that even if a borrower fails to pay, investors in mortgage-backed securities will still receive timely payment of principal and interest. The specific proposal that FHFA requests input on is to increase the base g-fee for all mortgages by 10 basis points, update the up-front g-fee grid, and eliminate the up-front 25 basis point adverse market fee.

First and foremost, NAFCU appreciates Director Mel Watt's decision to suspend the implementation of g-fees changes announced by the FHFA in December 2013 pending further review. Any change to the g-fees Fannie Mae and Freddie Mac charge may have potentially devastating impacts on an already very fragile and uncertain housing market. A continued dialogue with the industry is vital to ensure that an increase in g-fees does not cause a reduction in available credit for consumers.

The primary goal of the FHFA in setting g-fees should be to ensure that Fannie Mae and Freddie Mac remain sustainable, while not raising fees to a level that would significantly drive up the cost of borrowing and reduce lending. In line with that goal, NAFCU appreciates Director Watt's statement that the FHFA's strategic goals no longer involve specific steps to contract the Enterprises' market presence, as it could have a negative effect on liquidity. Secondary mortgage market access is vital for our nation's credit unions. Fannie Mae and Freddie Mac enable credit unions to obtain the necessary liquidity to create new mortgages for credit unions' member-owners by utilizing the secondary market. The availability of these stable and reliable sources of funding has facilitated credit unions' ability to offer new mortgage loans and related credit to their members, many of whom have been denied access to homeownership by other lenders. Thus Fannie Mae and Freddie Mac serve as valuable partners in credit unions' efforts to meet their members' needs, particularly with regard to mortgage loans. This continues to be true in the current economic environment.

Raising g-fees would result in a negative impact on the housing market. The cost of borrowing will greatly increase and lending will inevitably slow down. Rather than increasing g-fees, NAFCU believes reducing g-fees or keeping them at their current level is necessary to the continued recovery and stabilization of the housing market. In NAFCU's August 2014 *Economic and CU Monitor* survey, 81% of NAFCU members polled indicated that the current level of g-fees should remain. Further, loan originations would inevitably decrease if the Enterprises continued to raise g-fees because the rising cost of mortgage lending would either need to be absorbed by the lender or passed on to the borrower, in the form of risk based fees or higher interest rates.

While NAFCU recognizes that the housing market is recovering, it is important that the FHFA consider that there are many indicators showing a slowdown in the recovery. For example, housing starts declined 9.3% in June and new home sales fell 4.9% through the first six months of the year. The Mortgage Bankers Association estimates that purchase loans will decline 10.6% in 2014 versus in 2013. Finally, the median price for new homes is 17.6% higher than two years ago and existing home prices are 22% higher than two years ago. Many potential buyers, especially young households, are being priced out of the market. Imposing additional costs to borrowing, especially on those borrowers who are creditworthy and finally ready to enter or re-enter the housing market, is both unfair to the borrowers and damaging to the housing market as a whole.

Additionally, the multitude of CFPB mortgage regulations that became effective this past January have already have made lenders uneasy about extending credit. Many lenders, including a large number of NAFCU member credit unions, do not plan to extend mortgages that do not meet the definition of "qualified mortgage." Thus, it is critical that the FHFA now, more than ever, take all steps necessary to preserve the current availability of credit in the mortgage market and not take initiatives that may decrease borrowing.

Further, an increase in fees may result in credit unions redirecting their loans to the Federal Housing Administration (FHA). This would be an unacceptable result of the Enterprises charging higher g-fees because FHA has already increased its costs of lending to borrowers and thus this is not a lower priced alternative in lieu of the Enterprises. The same negative effects on the housing market would result.

In addition to the necessity to either keep g-fees at their current level or decrease them further, Fannie Mae and Freddie Mac should be subject to the same risk-based pricing scheme to allow greater flexibility in placing a loan. However, NAFCU recommends that these fee structures be simplified. Currently, there are six tables of fees and each, with the exception of the Adverse

Market Delivery Charge, contains a complicated fee array. At a minimum, the Adverse Market Delivery Charge should be eliminated and the remainder of the tables should be simplified.

As the FHFA considers setting g-fees, NAFCU further asks that the agency re-evaluate Fannie Mae and Freddie Mac's loan eligibility guidelines. Currently, both Fannie Mae's *Single Family Selling Guide* and Freddie Mac's *Single-Family Seller/Services Guide* require that originators underwrite single-family mortgage loans using FICO score models in order for the loans to be eligible for purchase by the Entities. NAFCU and our members believe this approach is unnecessarily restrictive, and we urge the agency to expand the loan eligibility guidelines to provide greater flexibility.

Credit unions, like many financial institutions, sometimes use other consumer credit scoring models that utilize updated analytic methodologies to provide more accurate predictions of credit risk. Because of Fannie Mae and Freddie Mac's current loan eligibility guidelines, however, credit unions are prevented from using these models for underwriting mortgage loans that will be sold to either Entity. NAFCU believes it is inappropriate to limit purchase eligibility to those loans that are underwritten using the FICO model. NAFCU and our members urge the FHFA to amend Fannie Mae and Freddie Mac's loan eligibility guidelines so as to provide greater flexibility and allow credit unions to utilize consumer credit scoring models other than FICO. This increased flexibility would not only ensure that loans are underwritten using the most updated and accurate credit scoring models, but it would also expand access to the credit and mortgage markets for those consumers who are unable to be scored by the FICO model.

In conclusion, NAFCU recommends that the FHFA, at the very least, withhold any g-fee increases until stable agency- and non-agency secondary markets have been established. In the meantime, the FHFA should not take any actions that would create unnecessary obstacles to the recovery of the housing market.

NAFCU appreciates the opportunity to provide our comments. Should you have any questions or concerns, please feel free to contact me at ameyster@nafcu.org or (703) 842-2272.

Sincerely,

Angela Meyster
Regulatory Affairs Counsel