CUNA
Credit Union National Association

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Federal Housing Finance Agency
Office Strategic Initiatives
400 7th St. SW
Washington, DC 20024

Re: Comments on Proposed Single Security Structure

To Whom It May Concern:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments in response to the Federal Housing Finance Agency's (FHFA) request for input on the proposed single security structure. By way of background, CUNA is the country's largest credit union advocacy organization, representing our nation's state and federal credit unions, with over 100 million memberships from coast to coast.

As CUNA has stated in previous communications to FHFA, for any issue related to the GSEs that may affect credit unions, it is essential that the federal government's regulations ensure that lenders of all types and sizes, including credit unions, have access to liquidity on terms that are 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 not be tied to lender volume. CUNA believes FHFA should continue to work with lenders of all types and sizes, including credit unions, to improve and promote the housing market recovery.

In the absence of legislation providing for a broad reform of the secondary market, CUNA supports FHFA's development of tools that help protect the interests of the American taxpayer while laying the groundwork for the housing finance system of tomorrow. CUNA commends FHFA's recent efforts to support a reduction in the government footprint of the mortgage market and a return of more private capital to fund mortgage lending, such as through the introduction of the STACR security during 2013. We believe that the development of a common securitization platform is the next step to accomplish these goals.

FHFA's white paper on the single security structure and the general objective of a common, fungible GSE security in the single-family mortgage market are commendable. A common security formed the basis of the Johnson-Crapo bill that was approved by the Senate Banking Committee earlier this year, and FHFA's work may provide Congress with additional support for much-needed, broad reform. In the meantime, ending the trading differential between Fannie Mae and Freddie Mac securities will make our housing finance system more efficient and ultimately save money for taxpayers by eliminating the need for Market-Adjusted Pricing (MAP) payments. The system described in FHFA's white paper is especially helpful in that it takes advantage of existing market structures and disclosures for the new security, while allowing both companies to maintain and control their individual credit policies and the risk profile of the loans they securitize. This allows both companies to continue to compete on price and service, to the benefit of lenders and borrowers alike.

However, CUNA urges the agency to provide more insights into how a transition to the common security would be accomplished. Many credit unions hold agency mortgage- backed securities (MBS) in their portfolios, and CUNA is concerned about the potential impact of the common security on the value of those investments. According to the white paper, investors will have an option to exchange a legacy participation certificate for a comparable Single Security. Although the FHFA white paper suggests an exchange may only be necessary for existing holders of the $1.5 trillion in outstanding Freddie Mac securities, the creation of a new security creates the possibility of "orphans" being made of any securities that are not exchanged. We believe the possibility may exist for a "run on the bank" scenario, where any holders of Freddie securities who do not exchange their securities will immediately see the value of those securities drop due to liquidity in market conditions. Although some sort of exchange is an important element of any common security, we hope FHFA will test how it will work under all conditions in the marketplace.

We appreciate that FHFA has committed to soliciting ongoing input from housing finance industry participants during the multiyear process to design the security and CSP. This will help ensure that proposed developments will not have unintended consequences on the industry and MBS market. CUNA looks forward to continuing to work with FHFA on these issues. In the meantime, if you have any questions about our comments, please do not hesitate to contact me at (202) 508-6736.

Sincerely,

Mary Mitchell Dunn

Mary Mitchell Dunn
Deputy General Counsel