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Federal Housing Finance Agency
Office of Financial Analysis and Modeling
400 7th Street, S.W., 9th Floor
Washington, D.C. 20219

Re: Single-Family Credit Risk Transfer Request for Input

Dear Sir/Madam:

On behalf of America's credit unions, I am writing regarding the Federal Housing Finance Agency's (FHFA) Single-Family Credit Risk Transfer Request for Input. The Credit Union National Association represents America's credit unions and their more than 100 million members.

We greatly appreciate the FHFA requesting input from stakeholders on the proposals to adopt additional front-end credit risk transfer structures and on other credit risk transfer policy issues. In particular, we appreciate the FHFA's focus on assessing proposals to develop a deeper mortgage insurance structure. Our comments to the RFI's questions are as follows:

I. Front-End Credit Risk Transfer Proposals:

Question A2: How would proposed front-end credit risk transfer structures meet and balance the principles outlined in Section II and address the risks outlined in Section III?

While the FHFA argues that the "scale of the Enterprises' mortgage securitization business requires that credit risk transfer transactions be of substantial size," this principle appears to be in direct conflict with that of maintaining a level playing field for lenders of all sizes, which is important for the health of the credit union system and its ability to serve members' need for mortgage credit.

Absent additional clarity as to the ability of smaller credit unions to securitize in bulk and effectively pool the risk associated with proposed forms of collateralized recourse agreements, an increase in the use of these arrangements would in all likelihood result in less participation by small lenders, thereby failing to meet the principle of maintaining a level playing field for all lenders.

II. Equal Playing Field for All Lenders:

With respect to the Equal Playing Field for All Lenders, we strongly support the statement that the FHFA should work to ensure the Enterprises' activities, including credit risk transfers, do not give a competitive advantage to particular lenders based on the volume of business transacted with the Enterprises. Our comments to the FHFA's questions are as follows:

Question B1: What credit risk transfer strategies work best for small lenders? Why?

Credit risk transfer strategies that work best for small lenders have two primary features: 1) they are "volume-blind," in that they do not require a particular number of originations in order to make economic sense for a given lender; and 2) they do not require significant risk-retention for smaller lenders who are generally less-equipped and do not have the capacity or flexibility on their balance sheet to manage that risk effectively.

Smaller credit unions may not have the expertise or scale to manage off-balance sheet assets. The scale also presents an issue for a lender as they need to be able to spread the costs of a risk retention over a pool of loans. The smaller the pool, the more costs are allocated to the pool placing smaller institutions at a significant competitive disadvantage to larger lenders if additional risk retention were required in order to participate in the securitization process. Finally, private mortgage insurance needs to be maintained as an option as it can be utilized as an effective risk transfer strategy.

With regard specifically to Collateralized Recourse Transactions, there is some question as to the feasibility of the use of special purpose vehicles or other mechanisms by credit unions to manage risk effectively across many small entities. Of particular concern is National Credit Union Administration's (NCUA) pending rule on Asset Securitization (RIN 3133–AE29), which would only allow a credit union to securitize loans it has originated. While this rule has not been finalized, we have urged NCUA to make changes that would allow multiple credit unions to utilize a vehicle where loans from multiple credit unions could be securitized, which could be an effective way to serve members in a cost efficient manner. However, until we understand the NCUA's ultimate approach, small credit unions could effectively be at a competitive disadvantage to other financial institutions due to their inability to generate sufficient volume to participate in a securitization process. We urge the FHFA to consider this situation in developing their proposal further.

III. Guarantee Fee Impacts and Tradeoffs:

Finally, with respect to the Guarantee Fee and its Impacts and Tradeoffs, we offer the following comments:

Question C1: How should FHFA and the Enterprises incorporate information learned through the pricing of credit risk transfer transactions into the practice of setting both the level of and frequency of changes in the Enterprises' guarantee fees?

We recognize the need for guarantee fees to reflect as accurately as possible the aggregate risk to which the Enterprises are exposed. This need must be balanced, however, with the role the

Enterprises play in ensuring the availability of adequate capital in a highly diverse mortgage market. In particular, we encourage the FHFA to refrain from increasing guarantee fees arbitrarily without regard to the risk profile of the loans guaranteed by the Enterprises, and to continue to take a strong stand against Congressional proposals to raise the guarantee fees in order to offset unrelated spending elsewhere in the federal budget. We do believe FNMA and Freddie will have readily available data to analyze the performance of loans. The agencies should utilize this data to establish pricing based on historical performance of the lender. This will incentivize and reward those lenders who deliver higher quality (i.e. lower default) loans to the Government-Sponsored Enterprises (GSEs). The fee should not be based on loan volume alone and should instead focus on quality.

We greatly appreciate the FHFA's attention to these matters. If you have further questions or would like to discuss this letter in more detail, please feel free to contact me at 202-508-3630.

Sincerely,

Andrew T. Price
Sr. Director of Advocacy & Counsel