CALIFORNIA ASSOCIATION OF REALTORS®

October 12, 2016

Federal Housing Finance Agency
Office of Financial Analysis, Modeling and Simulations
400 7th Street SW, 9th Floor
Washington, DC 20219

RE: Single-Family Credit Risk Transfer Request for Input

Dear Director Watt:

On behalf of the more than 180,000 members of the California Association of REALTORS® (C.A.R.) we submit the following comments on the Federal Housing Finance Agency's (FHFA) "Single-Family Credit Risk Transfer Request for Input" (RFI). Credit risk transfers (CRT) can play an important role in both minimizing the taxpayers' risk of loss and offering a new mechanism for private capital to participate in providing financing for the nation's housing market. The most important factor in evaluating the CRTs is whether they help Fannie Mae and Freddie Mac achieve their mission to promote access to the most affordable mortgage credit throughout the nation. It is with that goal that C.A.R. is commenting on Question A1 of the RFI.

COST TO HOMEBUYER

REDUCING the cost of a mortgage for homebuyers should be a principle of the Credit Risk Transfer. Disappointingly, the principles as laid out in the RFI appear to support **increasing** the cost of a mortgage to homebuyers. C.A.R. strongly opposes the "Economically Sensible" principle language that says:

- It is possible that some transactions could still be considered economically sensible if they cost slightly more than Enterprise self-insurance, and
- The Enterprises may also choose to execute credit risk transfer transactions at higher costs during periods of market turmoil to maintain program continuity.

This language in the Economically Sensible principle is unnecessary and runs counter to the role and mission of the Enterprises. The FHFA has already found the guarantee-fees of Enterprises to be adequate to cover expenses and risks, and even profits and return on profits if Fannie Mae and Freddie Mac were private entities. C.A.R. has previously commented that guarantee fees are too high because the profits go to the government's general fund and therefore are taxes and not fees. Any cost above this is an unjustified pickpocketing of homebuyers. Out sourcing credit risk at even higher costs to homebuyers cannot be rationalized with the Enterprises' core mission.

As this “principle” makes NO economic sense to homebuyers. C.A.R. recommends this language be replaced with:

- CRTs should cost no more than Enterprise self-insurance, and
- The Enterprises should reduce or suspend CRT transactions during periods of market turmoil to maintain the availability of affordable mortgage capital for homebuyers and to avoid imposing unnecessary costs.

KEEP IT SIMPLE – AND TRASPARENT

CRTs should be as simple as possible. The more complex and the more layers of a CRT transaction the more it will cost homebuyers. The average homebuyer mails their mortgage check in every month and they believe it pays the principal and interest to the lender. They don't realize the servicer takes a portion, the Enterprises take a portion, the parties involved in the MBS take a portion, all of which adds to the cost of the mortgage. By adding a CRT onto the mortgage, all the parties of the CRT will need to make money as well; this can only add to the unknown costs of a mortgage that homebuyers never see. While investors in CRTs may like, and profit from, more complex transactions, that is to their benefit and not the homebuyers'. The FHFA must keep these transactions simple so there are as few parties as possible skimming fees.

NO NEW TRANSACTION STRUCTURES

The FHFA should allow the Enterprises and market to more fully develop the current CRT structures and not force new ones. As stated in the RFI, the existing programs are "not yet fully mature" and it is unknown how they will perform in various market conditions. Ideally, as the Enterprises and market improve the existing CRT structures they will become more efficient and reduce their cost; or it may turn out they are too costly of a product and should be modified or eliminated. However, the FHFA and Enterprises cannot do this effectively if they are spread thin by trying to continually invent new CRT structures as the program is only a few years’ old.

Additionally, C.A.R. is concerned that CRTs could become an unintentional tool for predatory practices. It is highly probable some CRTs will be costlier than others. What is to stop a bank from using costlier CRTs in some neighborhoods but not in others? Or on certain mortgage products more commonly used in certain distinct communities or neighborhoods resulting in a disparate impact? Unlike mortgage insurance where MI is offered everywhere, lenders may be able to pick and choose when to use CRTs and which CRTs to use based on the characteristics of a community. As the RFI principles are currently written, a mortgage with a CRT will likely cost more than one without a CRT. Because the homebuyer is unaware of the CRT, they do not realize they are paying more for a mortgage. Homebuyers in communities which may be facing CRT on their mortgage products may be faced with higher mortgage costs without knowing why and the higher cost could impair their ability to afford a home.

HMDA was created in response to just these sorts of abuses, and there is a history of lenders pushing more profitable, and more expensive, loan products on less sophisticated or less empowered communities.

We respectfully oppose the use of Credit Risk Transfers by the Enterprises unless it is demonstrated in advance that their use will result in no increases to the cost to homebuyers and in furtherance of the Enterprises' mission.

The California Association of REALTORS® seeks to be a resource to the FHFA as it continues to develop the CRT program. If we can be of any assistance, please do not hesitate to contact Matt Roberts, C.A.R.'s Federal Government Affairs Manager at (213) 739-8284 or matthewr@car.org. Thank you for your consideration of our comments.

Sincerely,

Pat "Ziggy" Zicarelli
2016 President, California Association of REALTORS®

cc. National Association of REALTORS®