October 12, 2016

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:

I am writing regarding the Federal Housing Finance Agency's (FHFA) Single-Family Credit Risk Transfer Request for Input. I am the Chief Lending Officer for Wright-Patt Credit Union, Inc. ("WPCU") a $3 billion state chartered cooperative in Dayton, Ohio. I also serve as the President of myCUmortgage, LLC ("myCU"), which is a wholly-owned subsidiary of WPCU.

WPCU helps about 2,500 members per year with home ownership in the Dayton, Cincinnati and Columbus markets. myCU provides mortgage lending services to approximately 200 small and mid-size credit unions including acting as an aggregator to the secondary market. myCU assists it client credit unions with approximately 6,000 loans per year across 40 states. The combined operations represent one of the larger mortgage lenders in the credit union system.

We are appreciative of the FHFA requesting input from stakeholders on the proposals to adopt additional front-end credit risk transfer structures as well as other credit risk transfer policy issues. The FHFA should be commended for carefully evaluating any changes to the level playing field currently provided by Fannie Mae and Freddie Mac. Conceptually, WPCU agrees that the sharing of credit risk between parties is a worthwhile endeavor and should be pursued. However, we believe that the proposed offerings will adversely impact small lenders like WPCU and its broad network of credit union lenders. While the Request for Input asked a variety of questions, our comments are intended to amplify the credit risk transfer strategies we believe will be most effective in fostering small lender participation in the marketplace.

Credit risk transfer strategies that work best for small lenders fall into the following categories:

The strategy should be available to all lenders, regardless of the amount or number of originations. Risk transfer strategies must not require significant economies of scale to participate in front-end risk sharing transactions. The FHFA suggests that collateral recourse agreements via special purpose vehicles are a viable alternative. However, these are complex transactions that would most likely not be available to smaller lenders because of the origination

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volume required to allocate operating expenses and risk. Credit unions and other community based lenders also lack the expertise necessary to adopt such strategies.

1) In addition to the complexity of the collateral recourse transactions, there is legitimate concern that credit unions and their subsidiaries may not be able to participate in these options due to regulatory restraints. The National Credit Union Administration has a pending rule on asset securitization that would only allow a credit union to securitize its own loans. Such a rule would place a small but growing segment of the mortgage lending industry at a competitive disadvantage. Even if the rule permits credit unions to aggregate loans from other credit unions and securitize them, the costs of these transactions will remain a significant barrier for all parties to the transaction.

2) The strategies should offer alternatives to risk retention for smaller lenders. myCU assists smaller credit unions in making home loans to their members. These credit unions originate first mortgages and myCU purchases them shortly after closing. We aggregate the volume and sell it to the GSEs. Many of these credit unions would not be able to engage in mortgage lending without some sort of aggregator. In addition, and more importantly, if they are forced to retain some of the risk on their balance sheet, they would quickly be forced to exit the mortgage market.

   For example, one myCU client is a $35 million asset credit in a rural Ohio town. Over the past 5 years, they've made $55 million in mortgage loans to their members. A risk retention rate of 4% would require them to retain over $2 million in risk on their small balance sheet. This would be difficult if not impossible for the credit union to achieve in a responsible manner.

   Another myCU client is a $30 million, Ohio-based credit union. Over the past three years, they have loaned the equivalent of their asset base. Once again, risk retention requirements would quickly put them out of the mortgage business as a risk retention program could allocate over one-third of their capital.

3) The strategies should allow for a trade-off between the risk retained or transferred (via private mortgage insurance) with the GSE's guarantee fee. If the GSEs transfer a portion of the credit risk, there should be a comparable reduction in the guarantee fees paid to the agencies. This is especially the case in regards to premium payments. If a borrower pays a higher premium to obtain broader mortgage insurance or a lender pays a premium to purchase mortgage insurance coverage, the parties should be rewarded by lower costs through a reduction in the guarantee fee – resulting in higher gains on sale for a lender or a lower interest rate or loan level pricing adjustments for borrower.

4) The strategies should be aligned with the regulations and requirements of key regulators, such as the National Credit Union Administration. We encourage FHFA to work with existing regulators to determine the impact of the front-end risk sharing strategies and ensure the FHFA is not working at cross purposes with other regulators.

Any front-end risk sharing solutions that violate these principles will create an uneven playing field for small lenders. We urge the FHFA to consider providing alternatives to lenders for front-

end risk sharing that have the same economic impact to the lender and the consumer, regardless of the option selected.

Credit unions are a growing segment of the mortgage market. Over the past few years, we have seen our market share grow from a mere 2% to nearly 10% of total originations. This is highly attributable to the cooperative structure and member-first focus of credit unions. Consumers often are better off by obtaining a mortgage from a locally owned and operated financial cooperative in which the borrower has an ownership stake.

I 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 937-912-7853 or tmislansky@wpcu.coop.

Sincerely,

Timothy J. Mislansky

Senior Vice President/Chief Lending Officer