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National Association of Federally-Insured Credit Unions

August 14, 2023

Federal Housing Finance Agency
Office of Capital Policy,
400 7th Street SW, 9th Floor
Washington, DC 20219

RE: Single Family Mortgage Pricing Framework RFI

Dear Sir or Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the Federal Housing Finance Agency's (FHFA) request for input (RFI) regarding the government-sponsored enterprises (GSEs) Enterprise Regulatory Capital Framework (ERCF) and single family pricing framework and the goals and policy priorities that FHFA, as conservator and regulator of the GSEs, should pursue in its oversight of the pricing framework. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 137 million consumers with personal and small business financial services products. NAFCU appreciates the opportunity to provide information regarding our members' experience with the ERCF.

In the current economic environment with price inflation and increasing interest rates, the possibility of affording the purchase of a single-family home seems like a mathematical impossibility to many. Our members serve low- and middle-income communities and government employees and military members and recognize the benefits of home ownership for these communities. Our members strive to offer affordable, low-risk loans with affordable monthly payments. Marginal price reductions, such as lower guarantee fees and the ability to recapitalize through the sale of seasoned loans could make a difference to an otherwise qualified borrower.

Base Risk Weight Adjustment for Credit Union Mortgages

NAFCU has continuously advocated for increased transparency regarding the use of the ECRF in setting guarantee fees. NAFCU supports lower guarantee fees for credit unions selling loans to the GSEs and supported the FHFA's elimination of fees for certain borrowers including:

- first-time homebuyers at or below 100 percent of the area median income in most of the country, and below 120 percent of area median income in high-cost areas;
- borrowers of the HomeReady and Home Possible programs, Fannie Mae and Freddie Mac's flagship affordable mortgage programs;
- HFA Advantage and HFA Preferred loans; and
- single-family loans supporting the Duty to Serve program.

NAFCU urges the FHFA to implement a discount to the base risk weight for low-risk, high-quality mortgages that credit unions originate. Credit unions exist to provide financial services to their shareholders, meaning each mortgage loan is granted to an owner of the institution. Alternatively, this could be implemented as a pricing-specific adjustment for all lower-risk organizations. This ensures the cost of credit remains low, allowing credit unions to continue to serve low-income, moderate-income, and underserved borrowers.

Upfront Guarantee Fees

NAFCU opposes continuing to tie the GSEs' upfront guarantee fees to the ERCF. The capital requirements under the ERCF have increased by approximately 70 percent in recent years[1] and a proportionate increase in guarantee fees would make the GSEs a less competitive option compared to private mortgage financing options. While guarantee fees have stayed relatively flat, this has resulted in below-market returns for GSE-held mortgages and raised concerns about the likelihood of rising rates.[2] Until the FHFA can articulate its expectations for returns while supporting high capitalization and low rates, the FHFA should not control guarantee fees for the GSEs. NAFCU supports allowing the GSEs to ultimately be removed from their conservatorships and recognizes that goal would be delayed by substandard returns.

Reinstatement of Seasoned Transactions

In April 2020, the GSEs suspended seasoned transactions as a result of several factors stemming from the beginning of the COVID-19 pandemic. These factors included an unusually high volume of new mortgage originations starting in March 2020; the size of the seasoned market in relation to new flow originations; the uncertainty that forbearances would have on the housing market; and capital market participants trying to find a loophole to avoid the private securitization market.[3] Although these conditions receded within months of the suspension of seasoned bulk transactions, the suspension is still in place.[4]

Fannie Mae issued a Lender Letter earlier this year that stated, "we are requiring that loans sold on a flow basis be no more than six months old to be eligible for sale to us."[5] The ability to conduct sales of seasoned mortgages was a key tool that assisted credit unions in addressing liquidity and interest rate risk management. Seasoned mortgages were intended to be held to term and have a positive payment history unavailable in loans under sixty days.[6] The current environment of rising interest rates can potentially leave credit unions at a liquidity disadvantage compared to banks with access to a larger variety of liquidity sources. The funds from a seasoned transaction enable lenders to reinvest in new mortgage loans to their communities, including affordable housing loans and loans intended to serve underserved communities.

[1] Layton, Donald H. NYU Furman Center Blog The Stoop "Current GSE Guarantee Fees Are Too Low to Be Consistent with Regulatory Capital: Does This Mean a Large Increase Is Coming?" (March 13, 2023) available at https://furmancenter.org/thestoop/entry/current-gse-guarantee-fees-are-too-low-to-be-consistent-with-regulatory-capital-does-this-mean-a-large-increase-is-coming
[2] Id
[3] NAFCU, "Letter to FHFA re: Seasoned Bulk Transactions" (March 23, 2023) *available at* https://www.nafcu.org/system/files/files/3.23.2023%20Letter%20to%20FHFA%20re%20Seasoned%20Bulk%20Transactions.pdf
[4] Id.
[5] Lender Letter (LL-2021-03). Fannie Mae. February 15, 2023. https://singlefamily.fanniemae.com/media/24811/display
[6] NAFCU, *supra*

The FHFA's mission is to ensure that the GSEs serve as a reliable source of liquidity and funding for housing finance and community investment. The reinstatement of seasoned transactions will further the FHFA's mission as those transactions have been a balance sheet management tool for credit unions for at least the past four decades. The reinstatement of the seasoned transactions option is critical to ensuring credit unions and other community- based lenders have strong, varied liquidity management tools in their toolkit.

Conclusion

NAFCU appreciates the FHFA's attention to the market and issues important to credit unions and their members. If you have any questions or concerns, please do not hesitate to contact me at asmith@nafcu.org or (703) 842-2803.

Sincerely,

Amanda Smith

Amanda Smith
Senior Regulatory Affairs Counsel