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National Association of Federally-Insured Credit Unions

October 27, 2017

Federal Housing Finance Agency
Office of Budget and Financial Management
400 7th St., SW
Washington, D.C. 20219

RE: Strategic Plan for Fiscal Years 2018-2022

Dear Sir or Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, I am writing to you in regard to the Federal Housing Finance Agency's (FHFA) Strategic Plan for fiscal years 2018 through 2022. NAFCU appreciates the FHFA's dedication to maintaining and improving the safety and soundness of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, as well as the Federal Home Loan Bank (FHLB) System. NAFCU generally supports the FHFA's draft Strategic Plan and encourages the FHFA to take all appropriate measures to (1) properly manage risk at the GSEs while not stifling innovation and opportunities that have the potential to advance the housing finance system; (2) further expand access to housing finance for credit unions of all sizes, especially for those offering loans outside of the standard 30-year fixed rate mortgage; and (3) continue to expand credit risk transfer transactions and fully implement the Common Securitization Platform (CSP) and Single Security.

General Comments

Since the GSEs were placed in conservatorship, the FHFA has worked to oversee the GSEs and the FHLBs and fulfill the duties outlined in the *Federal Housing Enterprises Financial Safety and Soundness Act*, as amended by the *Housing and Economic Recovery Act of 2008*. As part of this, the FHFA has set out certain goals in its strategic plan for the GSEs and FHLBs. The plan contains the following three broad goals and more specific performance goals under each: (1) ensure safe and sound regulated entities; (2) ensure liquidity, stability, and access in housing finance; and (3) manage the enterprises' ongoing conservatorships. NAFCU supports many of the performance goals outlined as part of these three broad goals and is optimistic that the FHFA can work to create a better housing finance market for credit unions and their members.

NAFCU also appreciates FHFA Director Melvin Watt's continued calls for Congress to take action on comprehensive housing finance reform. In NAFCU's most recent letter to Director Watt, dated October 19, 2017, NAFCU thanked the Director for his October 3, 2017 statement before the U.S. House of Representatives Committee on Financial Services in which he said it would be "irresponsible" for the GSEs to not be allowed to rebuild their capital buffers. NAFCU shares this view because modest capital buffers are essential to maintaining liquidity in the housing finance system, which ultimately allows credit unions to make more loans to their members. NAFCU also encourages Director Watt and the FHFA to continue to urge Congress to begin working to pass legislation on housing finance reform. Congressionally-mandated housing finance reform is the best way to ensure a healthy and sustainable housing finance system, which will mean a more safe and sound environment for credit unions.

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

Credit unions rely on access to the GSEs and the FHLBs (collectively, the Entities) for the liquidity they need to make more loans to their members. Additionally, credit unions hedge their interest rate risk by selling their loans to the GSEs. Home Mortgage Disclosure Act data indicates that in 2016, credit unions sold roughly 57 percent of their one-to-four family, owner-occupied, first lien mortgages to Fannie or Freddie. The data also shows that banks only sold a total of roughly 49 percent of their first mortgages to Fannie or Freddie. This demonstrates the importance of the GSEs to credit unions nationwide and that the GSEs are essential to credit unions' ability to make new loans and provide additional financial services to their members.

Furthermore, credit unions' membership at the FHLBs has been steadily increasing in the past decade. According to FHFA data, over the past 10 years, credit union membership at the FHLBs has increased by 53 percent (from 906 credit unions in 2007 to 1,388 credit unions in 2016). Credit unions now make up nearly a fifth of all FHLB members. The safety and soundness of both the GSEs and the FHLB System is, therefore, crucial to the continued safety and soundness of the credit union system. Together, the Entities are very valuable partners for credit unions and NAFCU strongly supports the FHFA's goal of maintaining stability in the FHLB System and the GSEs.

Nevertheless, in pursuit of this goal, NAFCU would like to caution the FHFA against creating excessively burdensome risk management requirements, which may impede innovation and advancement at the entities. Although NAFCU recognizes the importance of sound risk management practices, the FHFA's risk-based examination of the Entities policies, procedures, and practices should not be so burdensome to the Entities so as to discourage new and innovative ideas in housing finance that may enhance opportunities for credit unions to access the Entities.

NAFCU requests that the FHFA provide regular updates to the public regarding its risk management plans and procedures.

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance

The primary housing finance concern for credit unions is maintaining unfettered, guaranteed access to the secondary market through fair pricing based on the quality and not quantity of their loans. Relatedly, NAFCU and its member credit unions strongly support an explicit government guarantee on the payment of principal and interest on mortgage-backed securities (MBS) to increase investor confidence and promote increased liquidity in the secondary market. Since the GSEs entered conservatorship, NAFCU has consistently expressed the importance of these principles and they are now even more significant as Congress begins to evaluate housing finance reform. NAFCU urges the FHFA to continue to closely monitor the GSEs' purchasing activities so that pricing models focus on quality instead of volume.

As part of the FHFA's statutory obligation to "foster liquid, efficient, competitive, and resilient national housing finance markets," NAFCU and its members urge the FHFA to consider allowing the GSEs to begin purchasing alternative mortgage loans, including single-family, high LTV, shorter term amortization mortgage loans. Such a move would reduce a barrier for some credit unions seeking to access the secondary market through the GSEs and allow them to provide more loans to their members, who often times represent the underserved portions of the market that the FHFA strives to reach through many of its initiatives. The Strategic Plan notes that the FHFA expects the GSEs to assess whether there are additional opportunities, including pilots and initiatives, to reach underserved borrowers. A pilot program for high-LTV, shorter term amortization mortgage loans is the perfect opportunity for the GSEs to reach a broader portion of underserved creditworthy borrowers. Freddie Mac's own data demonstrates that such loans are safer than the standard 30-year, fixed-rate loan. NAFCU's comment letter to the FHFA regarding its 2018-2020 Enterprise Housing Goals (RIN 2590-AA81), dated September 5, 2017, provides additional details on alternative mortgage loans.

Not only would such a pilot program assist the GSEs in achieving their performance goal to provide fair access to all financial institutions and qualified borrowers, but would also go a long way in achieving the performance goals of promoting actions by the GSEs to maintain liquidity in the single-family secondary market. If the FHFA decides to encourage the GSEs to begin pursuing this pilot program, NAFCU requests that the FHFA seek public input on the initiative and provide an opportunity for stakeholders to comment.

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

NAFCU is very supportive of the FHFA's commitment to (1) promoting credit risk transfer transactions; (2) supporting the development, implementation, and operation of the CSP; and (3) implementing the Single Security at both Fannie Mae and Freddie Mac. NAFCU's members are still concerned about credit unions' ability to participate in certain credit risk transfer transactions, such as front-end credit risk transfer, but do recognize the importance of attracting private capital to shift credit risk away from the GSEs as well as taxpayers. NAFCU urges the FHFA to evaluate potential options to allow credit unions to participate in various credit risk transfer transactions, such as aggregation through credit union service organizations or the FHLBs.

NAFCU also supports the FHFA's continued focus on developing and fully implementing the CSP, which could reduce the cost to credit unions of selling loans to the GSEs. This also has the potential to simplify the sale of loans to the GSEs and allow credit unions to have greater access to the secondary market. NAFCU supports the FHFA's requirement that the CSP be adaptable for use by additional, future market participants, so that when Congress takes up the issue of housing finance reform, the CSP is likely to be workable in a future housing finance system. In addition, NAFCU appreciates the work of the FHFA and the GSEs in developing and implementing the Single Security initiative and is encouraged by the potential for improved liquidity that it offers. NAFCU encourages the FHFA to stay focused on all three of these initiatives to optimize opportunities for greater liquidity and increased access to the secondary market for credit unions.

Conclusion

NAFCU appreciates the opportunity to provide its comments regarding the FHFA's draft Strategic Plan for fiscal years 2018 through 2022. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2212 or akossachev@nafcu.org.

Sincerely,

Ann C. Kossachev

Ann Kossachev
Regulatory Affairs Counsel