INDEPENDENT COMMUNITY
BANKERS of AMERICA®

November 14, 2018

Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20219

Re: Uniform Mortgage-Backed Security; RIN-2590-AA94

Dear Director Watt:

The Independent Community Bankers of America (ICBA)[1] welcomes the opportunity to provide comments regarding the Federal Housing Finance Agency's (FHFA) proposed rule to improve the liquidity of Fannie Mae and Freddie Mac (the Enterprises, GSEs) To-Be-Announced (TBA) eligible mortgage-backed securities (MBS). We recognize that it will be crucial to align investor cash flows on current TBA-eligible GSE MBS and eventually the new Uniform Mortgage-Backed Security (UMBS), which both GSEs will issue, once it is implemented in 2019. However, we continue to have serious concerns about the feasibility of this alignment and the market-wide effects of using the UMBS more generally.

In 2013, as directed by FHFA, Fannie Mae and Freddie Mac initiated a joint project to develop a common securitization platform (CSP) that would integrate the various securitization infrastructure systems that existed separately within each Enterprise. To improve liquidity in the MBS market and to address the trading and pricing disparity between the Fannie Mae and Freddie Mac MBS, FHFA's 2014 Strategic Plan Scorecard proposed that the Enterprises develop a single, common Enterprise MBS as part of the broader CSP build and Enterprise reform, in effect making Fannie Mae and Freddie Mac securities fungible for TBA trades. FHFA and the Enterprises collected stakeholder feedback through an RFI in 2014-2015 and created a Single Security/CSP Industry Advisory Group, to help develop and implement the new UMBS. Early in this process FHFA determined that it must address concerns of cashflow alignment and

[1] *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.*

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prepayment speeds for the UMBS to receive TBA good delivery status which is key to sustaining liquidity in the secondary market. In December 2017, the Securities Industry and Financial Markets Association (SIFMA) recommended that FHFA implement a regulation on how general alignment affecting prepayment speeds will be enforced, including thresholds for regulatory action.

FHFA's proposed rule goes to great lengths to justify the need for this policy through the extensive commentary in the preamble. It becomes very clear that maintaining this alignment between two separate private companies will be an ongoing challenge that will require extensive resources from both the Enterprises and FHFA. The implications of this challenge call into question whether the creation of the UMBS will justify the substantial cost and market disruption to create and launch it. Indeed, market conditions will change, even if both Enterprises strive to maintain the alignment. It is inevitable that there will be times when it is not possible to do so. We are, therefore, concerned about the consequences of any deviation from alignment and whether SIFMA would decide to withdraw its "TBA good delivery" seal of approval, scaring off investors and causing a disruption in the market. Additionally, we are concerned that the only way to appease the investor community is to have FHFA or the Enterprises make changes that nullify any benefits to mortgage customers or lenders. By focusing on alignment, the UMBS takes away a level of flexibility that each Enterprise traditionally had to experiment or make changes that benefited itself and/or its customers. In other words, the confines of UMBS TBA trading seemingly constrains further innovation by the GSEs.

One of the goals of the proposed rule and the UMBS is to streamline and standardize Fannie Mae and Freddie Mac cashflow policies, theoretically benefiting market participants and homeowners much in the same way they benefit from TBA eligibility standards. In general, home buyers and homeowners get benefits from standardization of underwriting practices, servicing practices, and loan products that result in greater liquidity and reduced costs. However, it is questionable whether standardizing the remittance cash flows would result in any benefit to homeowners. This benefit will apply mainly to servicers, especially the largest ones through increased float on GSE remittances. MBS investors will see negligible benefits, and any such benefit would be reflected in the price of the securities.

FHFA and others have speculated that the standardization driven by the UMBS will increase competition between the Enterprises. In fact, it is likely to undermine competition between the Enterprises because TBA eligibility is contingent on alignment in prepayment rates. Competition in the mortgage market centers on price and/or credit, and both levers are seriously constrained under the UMBS. If an Enterprise develops, enhances, or reprices a new product, the resulting loans could likely change prepayment behavior, thereby forcing the FHFA to act to fix the problem as described in the proposed rule. In a sense, this could even apply to process improvements one Enterprise makes that could cause a change in prepayment behavior. The UMBS will reduce competition between the Enterprises and provide a competitive edge to the larger private market participants who can issue private-label MBS.

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The UMBS has also been seen as a path to encourage reforms that would include the chartering of additional guarantors, similar to the Enterprises, that would utilize the UMBS structure similar to the manner in which FHA/VA and Rural Housing loans are co-mingled in Ginnie Mae MBS. As we have said above, the UMBS forces a standardization on any entity that puts loans into it. Maintaining this contrived alignment between the Enterprises will be resource-intensive and administratively burdensome for FHFA. Adding additional guarantors into the mix will only exacerbate this situation. This begs the question about how these entities could possibly compete if they are forced to maintain alignment with other guarantors that use the UMBS.

ICBA appreciates the opportunity to provide comments to FHFA on this proposed rule. However, as discussed above, ICBA believes that the UMBS will drive higher costs for both FHFA and the GSEs, and will result in less competition between the GSEs which will impact lenders such as community banks that depend on the GSEs for competitive access to the secondary market. It is questionable whether the anticipated increased liquidity of the UMBS will be worth the lack of flexibility, higher costs, and the potential for market disruption. ICBA hopes that as investor acceptance and confidence develops over time, some of these constraints will be reduced.

If you have any questions regarding this comment letter, please contact the undersigned at ron.haynie@icba.org.

Sincerely,

/s/

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