American Bankers Association
Building Success. Together.

Robert R. Davis
Executive Vice President
and Senior Advisor
(202) 663-5588
RDavis@aba.com

September 9, 2019

Federal Housing Finance Agency
400 Seventh Street, SW
Eighth Floor
Washington, DC 20219

ATTENTION: Proposed Collection; Comment Request: "Designation of Replacement for Federal Housing Finance Agency's ARM Index (No. 2019-N-5)"

To Whom It May Concern:

The American Bankers Association (ABA)[1] appreciates this opportunity to provide comments on the notice designating replacement for the Federal Housing Finance Agency's ARM Index. The ARM Index based on the Monthly Interest Rate Survey (MIRS) was discontinued on May 29, 2019 due to dwindling participation by mortgage originators supplying MIRS data, but was replaced with an equivalent index on July 1, 2019.

Through the May 29 release, the ARM Index has been made available by FHFA or its predecessors on a monthly basis for about 45 years, making it one of the oldest existing mortgage rate data series. Although this index has been in less ubiquitous use than was once the case, it is still an important index for a number of community banks. Continuation of the data series serves an essential purpose and fills a consumer need.

FHFA has exercised its authority under section 402(e)(4) of FIRREA that permits FHFA to substitute a similar index if it can no longer make the ARM Index available. Ordinarily, such a substitution would be made following a proposal with notice for comment. FHFA determined that the precipitous termination of MIRS, which was caused when certain large lenders declined further participation in the survey, required faster replacement of the ARM Index to avoid commercial and consumer interruption or harm. Therefore, FHFA is seeking comment on its July 1, 2019 action. ABA agrees with FHFA's decision to expedite analysis and replacement of the index, followed by public comment on those actions.

ABA finds FHFA's analysis and recommendations to be well-founded, workable, and a relief to affected lending institutions and their customers.

- Mortgage interest rates are indexed in one of two ways, either to cost of funds proxies with spread adjustments, or by reference to closed or offered mortgage rates. ABA agrees with FHFA's determination that the replacement index should replicate closed mortgage rates for purchase money mortgages, which reflect the nature of MIRS data.

---

[1] The American Bankers Association is the voice of the nation's $18 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard nearly $14 trillion in deposits, and extend more than $10 trillion in loans. Learn more at www.aba.com.

- ABA agrees with FHFA that Freddie Mac Primary Mortgage Market Survey (PMMS) data demonstrates strong correlation historically with MIRS data, and with adjustment is the most suitable source for a replacement index.

- ABA further agrees with FHFA's proposed adjustments to PMMS data to create a new index, PMMS+, which best aligns with the old Arm Index. The PMMS+ algorithm lags PMMS data to make the PMMS offer rates replicate the closed loan data criteria in the MIRS-based ARM Index. In addition, PMMS+ is adjusted temporarily by a declining level adjustment factor to remove a "cliff" effect that would otherwise exist at the point of splicing the two data series. The declining level adjustment feature over a 6 month period is justified by the equivalence of the two series on a historical basis.

ABA commends FHFA for its rapid and enlightened approach to interpreting and carrying out its duties under FIERRA. Your assertive actions have limited commercial economic risks and the possibility of disruptive litigation, and have well-served the interests both of consumers and the lenders who supply their credit needs.

Best regards,

Robert R. Davis

Robert R. Davis