August 31, 2020

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
400 Seventh Street, SW
Washington, D.C. 20219

RE: RIN 2590-AA95 – Enterprise Regulatory Capital Framework

Dear Director Calabria:

Quicken Loans, LLC ("Quicken Loans") appreciates the opportunity to submit its comments pursuant to the Federal Housing Finance Agency's ("Agency") Notice of Proposed Rulemaking ("NPRM") to establish a Regulatory Capital Framework for the government-sponsored enterprises ("GSE") possible exit from conservatorship. As proposed, this rule would push the GSEs to retain much more risk, increase the cost of a mortgage by roughly 15-35 basis points, and reduce GSE market share by 10-15%. Additionally, the proposed rule will impose a Basel-like framework upon the GSEs that will require them to hold much more capital than any data-driven approach would deem necessary. In the pages that follow we explain the reasons that the capital framework proposed may have unintended but broad and adverse consequences for the housing market and America's current and prospective homeowners, particularly in communities of color. We therefore encourage FHFA to work with Congress to ensure that proper policy reforms are put into place before any Enterprise Capital Framework is finalized.

Detroit-based Quicken Loans, the nation's largest home mortgage lender, enables the American Dream of homeownership and financial freedom through its obsession with an industry-leading, digital-driven client experience in closing mortgages across all 50 states. In late 2015, Quicken Loans introduced *Rocket Mortgage*, the first fully digital mortgage experience. Currently, 98% of all home loans originated by Quicken Loans utilize Rocket Mortgage Technology. Today, Quicken Loans and the Rock Family of Companies employs more than 19,000 full-time team members in Detroit's urban core. The company generates loan production from web centers located in Detroit, Cleveland and Phoenix and operates a centralized loan processing facility in Detroit. Quicken Loans has ranked in the top-30 of FORTUNE magazine's annual "100 Best Companies to Work For" 17 consecutive years. Quicken Loans is also ranked highest in the country for customer satisfaction for primary mortgage origination by J.D. Power for 10 consecutive years (2010-2019), and ranked highest in the country for customer satisfaction among all mortgage servicers for the past seven consecutive years (2014-2020). As a company that must assess risk and capital needs on a day-to-day basis, we are well positioned to provide thoughts on the issues raised by the proposed rule.

I. General Policy Considerations Regarding the Re-proposed Enterprise Capital Framework

While the GSEs simply cannot return to their modes and methods of operation prior to conservatorship, changes to the framework must be guided by a number of important policy considerations to ensure that the market remains strong and resilient.

The GSEs have maintained up to two-thirds of total single-family mortgage originations over the past two decades. However, the re-proposed capital rule framework will reduce the GSEs share of loan originations in a manner that would ripple across the market with increased costs and unintended consequences to borrowers, particularly those in underserved communities and communities of color.

The Agency's proposal seeks to have the GSEs operate under a Basel-like framework that, at a high level, will require the GSEs to hold much more capital than any data driven approach would deem necessary though they are not banks. The proposal will also substantially reduce the capital relief the GSEs receive for transferring credit risk to private investors through the credit risk transfer (CRT) market, which we believe would reduce the incentive for the GSEs to do CRT and lead them to hold more of the risk that they actually guarantee. Therefore, it is important for the Agency to readjust the quality and quantity of required capital of the GSEs, as well as provide clarity and transparency into the types of stress events that the GSEs can withstand in order to determine the appropriate levels of necessary capital.

The proposal also seeks to require the GSEs to mark to market their loan-to-value (MTMLTV) ratios to determine how much capital to hold under their risk-based capital requirement. This would create a procyclical dynamic, which the Agency proposes to mitigate by limiting LTVs from being marked up or down when the house price index increases or decreases more than 5% above or below norms. We believe the key to addressing procyclicality is a MTMLTV approach combined with regionalizing countercyclical adjustments. This approach is more favorable because capital flows more (or less) freely depending upon the temperature of the market. An important factor to this balance is the role of CRT, as transferring risk to investors is also effective in addressing cyclicality.

Additionally, the Agency calls for a one-size-fits-all risk-weighted floor set at 15% for all mortgage risk exposure. While setting a floor would help distribute the overall increase in capital more evenly across the credit risk spectrum, we believe it would reduce the incentive for the GSEs to guarantee lower-risk loans that have no economic basis for such an increase.

Lastly, the Agency proposes to require each GSE to hold capital against any MBS guaranteed by the other enterprise to cover counterparty risk in the absence of an explicit government guarantee. We believe that this would reduce liquidity and increase mortgage costs for borrowers, as well as call into question the viability of the single security going forward.

II. The Agency Should Consider the Negative Implications of the Capital Framework on the GSEs' Mortgage Origination Share

A highly functional mortgage market is built upon a duty to ensure that every American who desires to become a homeowner (and can responsibly afford to do so) has broad and fair access to the market, regardless of their background or the community in which they live. To promote the goal of homeownership, reforms to the secondary mortgage market must preserve consumer access to an affordable 30-year fixed rate mortgage and reliable and efficient access to the secondary market for lenders of all sizes and types throughout the credit cycle. Moreover, a government guarantee for mortgages is vital. Without a guarantee, obtaining a mortgage would become more difficult for many Americans, as they would need to satisfy tougher credit requirements and provide a larger down payment, while still facing the possibility of being unable to secure 30-year, fixed-rate loan. This is particularly true in times of stress.

Accordingly, one of the most important issues to consider is the potential impact that the proposed rule would have on the GSEs' mortgage origination share. Currently, the GSEs own approximately 45% of all the outstanding single-family mortgages in America, and they help facilitate the path to homeownership by guaranteeing single-family and multi-family residential mortgages and providing liquidity to the secondary markets.[i] Under the proposed rule, it is estimated that the GSEs would lose 10 to 14 percentage points of their origination market share through the business cycle, where approximately two-thirds of the lost market share would go to portfolio lenders and possibly private-label securitization as pricing for the lowest-risk loans merge with what is offered in those markets.[ii] The other one-third of the loss would be from higher risk loans going to the Federal Housing Administration (FHA).

The stability of the market depends, in part, upon the consistency of primary market participants. Both private label securities ("PLS") and banks certainly pull back from the market when the economy is weakened. We saw this immediately following the financial crisis and the passage/implementation of the Dodd Frank Consumer Protection Act ("Dodd Frank"). And we are seeing it again during the current COVID-19 pandemic. PLS and banks alike are severely reducing access to credit by utilizing higher credit scores floors and capping loan-to-value ratio (LTV) limits. The impact has been dramatic, as estimates show that mortgage credit availability has plunged by more than 25% since the outbreak of the virus in the U.S.[iii]

The current economic reality caused by the COVID-19 pandemic raises the question: what would the market look like if the GSEs lost 14% of the market share? It would mean more borrowers finding themselves unable to get a mortgage, particularly during times of stress, and among those that can get a mortgage more getting one through the FHA. In short, we would have a system that affords less access to credit, is less stable, and poses greater risk to the taxpayer.[iv] It is unclear why we would choose such a course, particularly at a time when the importance of the government's support has been made so clear by the pandemic.

The economic consequences of COVID-19 show with particular clarity the negative impact that a reduced GSE market share could have on borrowers in underserved communities and borrowers of color. Many of those borrowers were hurt badly in the aftermath of the financial crisis, which was due in part to discriminatory and predatory lending practices. As the financial crisis began to escalate, PLS and banks have significantly diminished lending to borrowers in those communities.[v] A significant portion of those borrowers have yet to fully recover from the losses they sustained, with minority homeownership back to levels not seen in a generation.

We are now in the midst of yet another crisis that has critically impacted borrowers in underserved communities and borrowers of color. This is a point in time where their interests in accessing credit responsibly and affordably should be reinforced, and why the reduction in the GSEs market share via the proposed capital rule should be reconsidered. The pre-pandemic market was far from ideal as evidenced by disparities in minority homeownership rates and credit score levels.[vi] According to the Urban Institute's August 2020 Chartbook, "access to credit remains tight, especially for lower FICO borrowers. The median FICO for current purchase loans is about 43 points higher than the pre-housing crisis level of around 700." [vii] This is important to note because now, during a pandemic, potential minority and/or underserved borrowers could be faced with even higher costs or perhaps be excluded from getting a mortgage altogether. While independent mortgage lenders like Quicken Loans have stepped up to provide access in these communities when others would not, it would become much more difficult if the GSEs were to pull back on their support for the market.[viii]

It is also important to note that the Consumer Financial Protection Bureau (CFPB) is working on two key measures that could benefit borrowers: the revised General Qualified Mortgage Definition, and elimination of the GSE Qualified Mortgage Patch. These two proposals would responsibly expand access to credit and allow for comprehensive/innovative underwriting while preserving critical consumer protections. A capital rule that makes mortgages more expensive and limits options for credit-worthy borrowers may directly contradict the potentially positive outcomes of reforms to the Qualified Mortgage rule, especially for minority and underserved borrowers.

Moreover, home ownership is still the most effective means of building individual and multi-generational wealth, especially for minority and low-income households. According to the Joint Center for Housing Studies at Harvard University, "homeownership continues to represent an important opportunity for individuals and families of limited means to accumulate wealth. As such, policies to support homeownership can be justified as a means of alleviating wealth disparities by extending this opportunity to those who are in a position to succeed."[ix] It is also important to bear in mind that the desire to own a home is not solely—or even primarily—motivated by financial goals: "homeownership's appeal lies strongly in associations with having control over one's living situation, the desire to put down roots in a community, and the sense of efficacy and success that is associated with owning."[x]

These principles tie directly with the core purposes of the GSEs. Prior to the GSEs existence, financing a home purchase was out of reach for many, and America faced a housing crisis during the Great Depression where nearly 25% of homeowners lost their homes to foreclosure and banks did not have the capital to make home loans. In response to this need, the GSEs were created to provide reliable, steady sources of funding for housing that was available in all markets and could help finance the long-term fixed rate mortgage.[xi] That purpose still rings true today, and is why it is important that the capital rule be structured in a way to preserve the size and utility of the GSEs' mortgage origination footprint.

III. The Agency Should Consider Bolstering Incentives for Credit Risk Transfers

Creating a sustainable private market should not come at the expense of Credit Risk Transfer (CRT).The proposed rule seeks to dramatically reduce the GSEs' incentive to do Credit Risk Transfer (CRT), which will directly lead to the GSEs holding more of the risk that they guarantee, much like they did prior to the financial crisis. At the start of 2020, the GSEs retained approximately 50% of their risk; yet under the proposed rule, the GSEs would retain up to 90% of their risk. This 40% increase is due in part to the fact that the capital charges and the risk-weight floor that the GSEs would be subject to would effectively cut *in half* the capital relief the GSEs receive under the risk-based requirement for transferring credit risk to private investors. The GSEs would have no incentive to do CRT when the leverage ratio is binding.

It is difficult to understand the Agency's justification for decimating the GSEs' incentive for CRTs. Unnecessarily impairing the viability of CRTs directly undermines the ability of the GSEs to distribute their credit risk, which will in turn increase the capital needs of the GSEs, the risk exposure of the taxpayer while in conservatorship and the concentration of risk and market power in a duopoly once they are out of conservatorship. Moreover, CRT provides price signals to the Agency, and is a risk transfer tool that has been adopted by several market participants.

It is important to note that the Agency's proposed treatment of CRT directly contradicts recommendations from the Department of Treasury in its recent housing finance reform proposal to the Administration, which states:

> [t]he GSEs' CRT programs enhance taxpayer protection and foster price discovery and market discipline, and in light of these features, FHFA should continue to support efforts to expand these programs. In particular, the reduction in retained credit risk that is achieved through CRT generally should be reflected in FHFA's regulatory capital requirements. At the same time, each of the existing CRT structures has strengths and weaknesses, and it remains unclear how CRT will function over the long term. FHFA should therefore encourage the GSEs to continue to engage in a diverse mix of economically sensible CRT, including by increasing reliance on institution-level capital.[xii]

We strongly encourage the Agency to consider upholding this vital feature, which will mean increasing the credit the GSEs get for CRT and reducing the credit risk-invariant features of the risk-based capital requirements and the leverage ratio.

IV. Suggested Improvements to the Proposed GSE Capital Framework

We believe that the Agency can improve the framework by, among other things, readjusting the types and quantities of required capital, simplifying (and clarifying) its risk-based capital standard, and addressing issues with procyclicality, the risk-weighted floor, and cross-holding of MBS.

1. The Agency Should Readjust the Quality and Quantity of Required Capital

Under the current proposed capital rule, the GSEs would maintain as much as $267 billion in capital, equal to 4.4% of the GSEs' nearly $6 trillion in total assets.[xiii] $267 billion is a significant amount of capital – comparable to the amount of which commercial banks would be required to hold on their mortgage loans. In effect, the proposed rule would require the GSEs to hold anywhere from 5.6 to 13.5 times the amount of losses the GSEs would potentially face under the Federal Reserve's Dodd-Frank Act Stress Tests (DFAST).[xiv]

Requiring GSEs to carry such significant amounts of capital is excessive, as GSEs do not have the same risk profiles as banks. The reality is that banks are required to carry a large amount of capital because they must guard against various types of risks (credit, liquidity, and interest rate/market risks etc.), to support their ability to repay depositors and funders on time and in full regardless of what else impacts their balance sheets –such as credit defaults, unexpected withdrawals, or spikes/declines in interest rates.[xv] On the other hand, GSEs are, by law, monolines concentrated in just residential mortgage credit risk. In fact, they do not do risk intermediation on about 90% of their balance sheets (whereas banks absolutely do), thus, compared to banks, GSEs need very little capital to support interest rate and liquidity risks.[xvi]

We believe that the Agency's pursuit of bank level capital for the GSEs will be costly for the mortgage market overall. It would increase mortgage rates beyond what is necessary and distort GSEs incentives to undertake and off-load credit risks. We would essentially be faced with a high-priced and overly capitalized housing finance system that would be an even *riskier* version of the one that existed before the financial crisis. The Agency should instead consider shifting its focus toward expanding access to credit by supporting the GSEs as intermediaries, shifting risk out of the finance system, and lowering mortgage costs overall.

2. Clarification and Transparency is Needed for Types of Stress Events GSEs Should Withstand

A risk-based capital standard for the GSEs should have three distinct and clearly identified elements. The first is the amount of initial capital required to survive the Agency's defined stress environment; the second would be additional capital required to cover operations and other risks (as well as model risk or imprecisions in the stress test); and third a level of "buffer capital" appropriately sized to ensure continued access to the markets throughout the stress period. However, the proposed rule falls short of clearly identifying the types of stress events that the GSEs should withstand.

Specifically, the proposed rule and the previous Federal Reserve stress tests seem misaligned. The 2019 DFAST "severely adverse scenario" results published by the Agency showed two losses for the combined GSEs: $18 billion and $43 billion.[xvii] A $243 billion proposed capital floor requirement is 13.5 times *greater* than the calculated loss in a "severely adverse scenario" as it relates to the $18 billion loss; and is also 5.6 times greater as it relates to the $43 billion loss.[xviii] Considering, as an example, subtracting the higher (or more conservative) of the two DFAST losses of $43 billion, from a total capital requirement of $243 billion, the "going concern buffer" would equal $200 billion. That figure is more than 80% of the total, which on its face appears excessive.

The proposed rule does not address major inconsistencies with the DFAST results, which calls into question whether the proposed required capital amounts for GSEs are appropriate estimates for stress events. We believe that the Agency should begin with a stress test that draws on historical data to project the amount of initial capital required to cover all projected credit losses which will allow for a much clearer understanding of what the GSEs need to sustain during the stress period.

Moreover, the proposed capital framework is excessively complex, employing a host of grids, multipliers, and internal models to determine a number of floors and buffers that are challenging to understand for the GSEs, much less others in the market. This results in a level of opacity and uncertainty that will make it difficult for the market to anticipate and plan for the behavior of the GSEs, behavior that will drive a wide range of extremely important variables in the market at any given time.

Of specific concern is the Agency's use of internal models. The Agency employs a number of internal models to identify the types of stress events that the GSEs should withstand. However, it is difficult to interpret the models in a meaningful way because they leave out a wealth of detailed information regarding key assumptions and calculations as compared to the 2018 proposal. In particular, transparency is needed regarding the GSEs' new liquidity requirements referenced in their recent quarterly filings; details regarding the loss experience on which certain risk grids are based (which will help to determine loss experiences are analyzed over the same historical stress events or if different stress events are used to determine single family and multifamily risk grids); and data on the frequency of when the leverage ratio is the binding capital constraint under the re-proposed framework.

In order to be an effective tool, any stress testing framework should be transparently designed with industry input, rigorously tested, and carefully applied under the Agency's existing scope of authority to provide useful risk insights without placing undue operational burdens on the GSEs. The fundamental question of whether the GSEs have ample liquidity to withstand unforeseen market dynamics can only be answered after a significant review of their internal models. The Agency should disclose the internal models with market participants to ensure the most accurate and data driven approaches are used to contemplate stress events. Further, the Agency should work with industry to determine the viability of the framework to learn what additional information may be needed and prioritize how the GSEs would react in a time of stress and what plan is in place to access the right amount of capital.

3. Stress Buffers Significantly Inflate Risk Based Capital Requirements

In order for the GSEs to pay out bonuses and dividends, the proposed rule imposes three capital buffers as part of their risk-based capital requirements: a) a stress capital buffer (the additional capital to remain a "going concern" under stress scenarios); b) a stability capital buffer (tailored to the risk that an Enterprise's default or other financial distress could have on the national housing finance market); and c) a countercyclical capital buffer (initially set at zero, but would be built up during periods of economic growth and deployed in times of economic stress).[xix]

These stress buffers generate a sizable increase in the amount of capital that the GSEs need relative to the minimum required capital under the risk-based capital framework. Use of these buffers as part of the capital requirements further reduces the transparency of incentive features that are built into the risk-based capital framework. To that end, we agree with other commenters who have suggested that analysis and/or approval of dividend distributions and bonus payments can be done via stress testing rather than inflation in the amounts of capital required of the GSEs from the use of stress buffers.

4. Concerns with Procyclicality Through Countercyclical LTV Adjustment

The re-proposed rule seeks to require the GSEs to mark to market their loan-to-value (MTMLTV) ratios to determine how much capital to hold under their risk-based capital requirement, which has the potential create a procyclical market. The Agency proposes to mitigate procyclicality with collars that limit LTVs from being marked up or down when the house price index increases or decreases more than 5% above or below norms. There is some difference in opinion across the industry in terms of how best to address the problem of procyclicality: whether it should be done using collars on the home price growth assumed for the LTV calculations (with the idea to lessen the procyclicality of MTMLTV while more accurately representing GSE risks); or if it should be done by using original loan-to-value ratios (OLTVs).

It is important to note up front that procyclicality is inevitable with capital that tracks credit risk. In a market that is on the up-swing, credit risk tends to fall, leading to lower capital requirements and still more of an upswing; and as the market declines, credit risk increases, leading to higher capital requirements and yet more downward pressure on the market. Capital requirements and credit risk can disconnect at the extremes, as when a market overheats and rising home prices begin to increase rather than decrease risk, but there is little consensus on how to measure when that turn happens. Absent a way to measure that shift, the only way to prevent capital requirements from being procyclical is to mute its relationship with credit risk in some way, recognizing that this will distort the GSEs incentives to take credit risks.

One extreme would be to use the original LTV to determine capital all through the cycle. This would remove cyclicality from the rule altogether, but dramatically disconnect the capital requirements from actual credit risk. The GSEs would not be able to release capital as the LTVs on their loans naturally fall along with the credit risk they pose; nor would they be required to build capital as credit risk rises along with the LTVs on their loans. The other extreme would be to require a pure marked-to-market LTV, which would track risk much more cleanly through most of the cycle yet expose the system to extreme procyclicality. Neither of these extremes is satisfactory, however, so the challenge is finding the right middle ground.

We believe that the proposed rule is right to begin at the MTMLTV end of the spectrum, capping adjustments to mute the pro-cyclicality, but should adjust these caps to account for regional variations. As others have noted, if applied nationally, where larger metro areas are in the cycle will wind up driving the GSEs behavior nationwide, even in markets at very different places in the cycle. The GSEs will be pulling back in markets where they should be leaning in, and vice versa.

If CRT is given the treatment we believe it should, as the GSEs offload their credit risk, they will also off-load the capital burden that runs with that risk, thus minimizing whatever pro-cyclical dynamic the capital burden might create. This is yet another reason for the Agency to reconsider its treatment of CRT.

5. The Proposed Risk Weighted Floor Is Arbitrary

The proposed rule includes a number of components that makes the calculation for the amount of initial capital that the GSEs must hold unnecessarily complicated. The components and elements are spread throughout the stress test in ways that make them difficult to discern or quantify. For instance, one of the elements includes a one-size-fits-all risk-weighted floor set at 15% for all mortgage risk exposure. It is unclear how and or why the Agency arrived at a 15% for the risk weight floor, and the lack of transparency makes the figure seem arbitrary, particularly in light of the excessive liquidity requirements as discussed above.

While setting a floor would help distribute the overall increase in capital more evenly across the credit risk spectrum, a floor disregards the impact to loans with low risk. Loans with low risk carry little to no risk weight, and thus normally very little capital requirements. However, by setting a floor, those low risk loans are treated as if they are riskier, and would penalize affordable housing borrowers and reduce the incentive for the GSEs to guarantee lower-risk loans that have no economic basis for such an increase.

We believe that instead of the current 15% risk weight floor, the Agency should set a data-driven minimum capital percentage to serve as a floor for the risk-based standard once the risk-based standard has been specified, which would be binding only under extreme or unusual circumstances.

6. The Agency Should Not Adjust Capital Treatment to Facilitate the Cross Holding of MBS

The Agency seeks a response as to whether it should adjust the regulatory capital treatment for exposures to MBS guarantees by the other Enterprise to mitigate any risk of disruption to the Uniform Mortgage Backed Security (UMBS). The 2018 proposal did not require the GSEs to hold capital against the MBS they cross guarantee because of the implicit guarantee from Treasury. Specifically, the proposed rule seeks to assign a 20% risk weight to the exposures of one Enterprise to the other Enterprise or another GSE (other than equity exposures and acquired CRT exposures). This 20% risk weight would mirror consistency with the banking framework.

Our position is that the Agency should not readjust the capital treatment for MBS exposures, and that GSE reform should come with an explicit government guarantee for MBS. Moving from an implicit guarantee of the GSEs to an explicit guarantee on the securities will provide added protection for those securities, which in turn should provide a more stable and liquid market and lower risk to taxpayers. The other distinct benefit of an explicit guarantee is that it preserves the 30-year, fixed-rate, single-family mortgage. To do so, there must be a deep and liquid market for securities backed by conventional single-family loans that attracts global capital that, in turn, will preserve liquidity during economic stress periods. A post-conservatorship system without clarity around the government's role will introduce market uncertainty. Accordingly, the Agency should strongly consider an explicit guarantee on the securities.

V. The Agency Should Safeguard the Progress Made Since the GSEs Entered Conservatorship

The Agency established three conservatorship performance goals designed to restore confidence in the GSEs and return them to a safe and solvent condition:

1. The GSEs must promote a well-functioning national housing finance market while operating in a financially safe and sound manner;
2. Credit or default risk to U.S. taxpayers should be reduced by increasing private capital's role in the mortgage market; and
3. The GSEs must construct a contemporary single-family securitization infrastructure for their use and other private mortgage securitizers.[xx]

The GSEs have made significant progress toward those goals since entering conservatorship nearly twelve years ago. Prior to the crisis, the GSEs relied heavily on the financial stability of other companies. When other companies were both susceptible to and suffering from catastrophic risks, so were the GSEs. Since the crisis, the GSEs have reduced risks in the following ways:

- **Addressed Counterparty Risk** – the GSEs implemented Private Mortgage Insurers Eligibility Requirements (PMIERs) 1.0 AND 2.0 and Master Policies that govern the payment of claims and dictate and raise the financial position of mortgage insurers, many of whom failed or took a long time to pay the GSEs during the crisis. The GSEs also implemented Servicer Eligibility Requirements, and the FHFA continues to contemplate best policies and practices around them.

- **Addressed "Too-Big-To-Fail" Risk** – the GSEs spread risk by creating the Common Securitization Platform (CSP) that will have the ability to stand alone and issue securities, even in the event a guarantor were to fail. Further, the GSE capital framework is much more stringent than the past. Pre-crisis, the GSEs used things like deferred tax assets as capital that disappeared when the crisis occurred. By evaluating a truly data driven capital framework (pursuant to this current proposal), the Agency can position the GSEs to continue to perform their critical market functions through the credit cycle.

- **Addressed Credit Risk (exposure to loan losses)** – the GSEs reduced their total investment portfolio of mortgage backed securities (MBS) to less than $250 billion from over $1 trillion, that in turn significantly reduced the GSE's exposure to credit risks and interest rate fluctuations. Guarantee fees (g-fees) were also raised by more than 100%, which, prior to the crisis, were so low that the money the GSEs collected was insufficient to cover the accrued losses.

  The GSEs also expanded the market for credit risk by diversifying and strengthening counterparties. They did so by growing the credit risk transfer (CRT) market using a mix of front-end and back-end executions, including mechanisms that reduce or eliminate rescission or denial risk. The GSEs are now required to sell a large portion of their credit risk exposure to a healthy mix of other investors in a variety of ways. In many structures, the GSEs get the cash up front, so if there is market downturn and loans default, a broader pool of investors incurs the losses, thus avoiding the risk of these losses being absorbed by taxpayers.

  Importantly, the GSE product guidelines became aligned with CFPB underwriting requirements so that GSEs no longer accept loans that do not meet the Ability-to-Repay standards as implemented by the Dodd-Frank Act.

Taken together, these progressive changes in both the GSEs' fundamental market practices and operations have helped to restore confidence in them as safe and solvent entities. We believe that this progress can –and should– be maintained as part of the development of a revised capital framework that ensures robustness as the GSEs emerge from conservatorship.

Restoring the GSEs to their original and intended public utility-like functionalities could be a step in the right direction for the benefit of all market constituents. This will avoid the costs and risks of alternative economic approaches to ensuring nationwide mortgage availability. Specifically, this includes, but is not limited to: allowing more guarantors to compete in the secondary market and enhanced secondary market liquidity; as well as further enhancements to risk sharing to reduce direct GSE risk; government controlled baseline underwriting standards for mortgages eligible for guarantee; and fees to compensate for the federal government backstop.

Conclusion

What we have detailed above recognizes the rapidly transforming nature of our increasingly diverse economy, would help the next generation of homeowners build multi-generational wealth and would contribute to broader and longer-term stability in the market.

Unfortunately, by conflating the capital needs of the GSEs with those of banks, the FHFA has proposed a regime that falls short across each of those dimensions, leaving us with unnecessarily high mortgage rates, too much risk concentrated in the GSEs, and a system that is more risky and less stable than the one we have today.

We strongly urge the Agency to continue its engagement with the financial services industry and related stakeholders to establish a post-conservatorship regulatory capital framework that ensures that each Enterprise operates in a safe and sound manner, and is positioned to fulfill their statutory mission of providing stability and ongoing assistance to the secondary residential mortgage market.

Should you have any further questions, please contact Chrissi Johnson at (313)-373-0036 or at chrissijohnson@rockcentraldetroit.com.

William Emerson
Vice-Chairman
Quicken Loans, Inc.

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[xvi] *Id.*
[xvii] FHFA "Dodd Frank Act Stress Tests Results – Severely Adverse Scenario," August 15, 2019, pg. 6 https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2019_DFAST_Severely-Adverse-Scenario.pdf

[xviii] *Id.*

[xix] "*Enterprise Regulatory Capital Framework*," https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Enterprise-Regulatory-Capital-Framework.aspx

[xx] FHFA, "*Conservatorship*," https://www.fhfa.gov/Conservatorship.