From:	John McKenzie
To:	#FHFA REG-COMMENTS
Subject:	[EXT] Enterprise Regulatory Capital Framework/RIN 2590–AA95 Comment Letter from Indiana Credit Union League
Date:	Monday, August 31, 2020 10:59:48 PM

Alfred M. Pollard, General Counsel,
Attention: Comments/RIN 2590–AA95
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street SW
Washington, DC 20219

Re: Enterprise Regulatory Capital Framework/RIN 2590–AA95

Dear Mr. Pollard:

The Indiana Credit Union League (ICUL) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) proposed rule addressing the new regulatory capital framework for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The ICUL member credit unions represent 99% of assets and members of Indiana's credit unions, with those memberships totaling more than 2.6 million consumers.

While we understand the need to develop a solid regulatory capital framework for Fannie Mae and Freddie Mac, we want to stress the importance that the new framework developed does not result in negatively impacting credit union and smaller lender access to secondary markets. We support the Credit Union National Association's Housing Reform Principles which include:

- Equal secondary mortgage market access to lenders of all sizes on an equitable basis;
- An emphasis on affordability, in recognition of the fact that smaller lenders, such as credit unions, often meet mortgage needs that banks are unwilling or unable to address in rural and working-class communities that require greater flexibility in underwriting requirements;
- A reasonable and orderly transition to a new housing finance system;
- Strong oversight and supervision to ensure the safety and soundness of secondary market entities;
- Durability, by including an explicit federally insured or guaranteed component to ensure that, even in troubled economic times, the secondary mortgage market continues to exist; and
- Preserving what works, such as cost-effective and member-oriented credit union mortgage servicing options, emphasizing consumer education and home-purchase counseling, and applying reasonable conforming loan limits that adequately consider local real estate expenses in higher cost areas.

With these principles in mind, we offer the following comments on the proposed rule.

We believe that there should be a thorough and specific analysis of the impact any proposed new capital structure may have on mortgage pricing. Credit unions are increasingly important sources of mortgage lending to low- and moderate-income borrowers while serving all income-level consumers in their memberships. We recognize that credit unions and their members, as well as others in the mortgage market, need to be prepared to pay guarantee and loan level fees related to capital requirements. We are concerned that without a full impact analysis on mortgage pricing, the revised capital structure could ultimately reduce affordability, and therefore access to mortgage funding, especially for low and moderate-income borrowers.

We are also concerned the approach being taken to establish the capital framework is too focused on what occurred in 2008 and does not adequately take into consideration regulatory changes that have occurred since then. The FHFA acknowledges in the proposed rule commentary that a “disproportionate share of the Enterprise’s crisis-era credit losses …arose from certain single-family mortgage exposures that are no longer eligible for acquisition by the Enterprises.” However, much of the analysis of the proposed framework references pre-2008 timeframes. We are concerned that focusing too much on what happened in 2008 will result in requirements of too much capital by Fannie Mae and Freddie Mac, driving up the cost of mortgages and reducing funds available for mortgage lending.

We recognize the need for a solid capital framework, and the importance of adequate capital for Fannie Mae and Freddie Mac to support a vibrant secondary market for mortgage lending. We believe that whatever new capital framework is developed and implemented should be phased in over an extended period of time. We are concerned that the current mortgage market could be significantly disrupted if the timeframe for Fannie Mae and Freddie Mac to reach new capital standards is too short.

One additional recommendation we would make is if Debt-to-Income (DTI) ratios are to be included in the list of risk multipliers, we encourage the FHFA to set the upper limit at 43 percent to be consistent with the CFPB’s Qualified Mortgage rule. The proposed rule sets the DTI range for the lowest multiplier at 25 percent to 40 percent. While we do not agree that all mortgages with a higher DTI than 43 percent represent a higher level of risk, we do believe that some consistency between various regulations utilizing DTI would make it easier for mortgage lenders to consistently apply DTI for all regulatory purposes.

We appreciate the opportunity to comment on the proposed rule. We believe in a strong secondary market readily accessible to all mortgage lenders of all sizes. It is important that any new capital framework not be constructed in such a way that if deters access or increases the costs to the consumer for a mortgage loan to the point where low- to moderate-income consumers are priced out of the market. If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,
John McKenzie
President, Indiana Credit Union League