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National Association of Federally-Insured Credit Unions

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Federal Housing Finance Agency
400 7th St., SW, Eighth Floor
Washington, D.C. 20219

RE: Fannie Mae and Freddie Mac's Proposed Underserved Markets Plans

Dear Sir/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 Fannie Mae and Freddie Mac's (the GSEs) proposed Underserved Markets Plans (Plans), pursuant to the Federal Housing Finance Agency's (FHFA) Duty to Serve rule. Overall, NAFCU supports the FHFA's efforts to serve very low-, low-, and moderate-income families achieve their dreams of homeownership.

NAFCU and its member credit unions do, however, have concerns regarding certain aspects of the proposed Plans, including the GSEs' plans to launch chattel loan pilot programs, begin purchasing small multifamily affordable loans from financial entities with $10 billion or less in assets, and to begin purchasing rural housing loans from small financial institutions. NAFCU requests that the FHFA closely evaluate the GSEs proposals with regard to these regulatory activities to ensure that credit unions' vital role in these markets is recognized and their access to the secondary mortgage market is expanded.

General Comments

On December 13, 2016, the FHFA published its final rule to implement the Duty to Serve requirements of the *Federal Housing Enterprise Financial Safety and Soundness Act* of 1992 (Safety and Soundness Act), as amended by the *Housing and Economic Recovery Act* of 2008. The Safety and Soundness Act establishes a duty for Fannie Mae and Freddie Mac to serve three underserved markets: manufactured housing, affordable housing preservation, and rural housing. By the end of 2016, the FHFA finalized its implementing regulation, or the Duty to Serve rule, which required the GSEs to submit three-year plans for each underserved market. Fannie Mae and Freddie Mac have submitted their first draft Underserved Markets Plans and the FHFA is now requesting public input on the proposed plans.

The FHFA's final Duty to Serve rule specifies that as part of its obligation for the manufactured housing market, the GSEs may participate in a pilot program to support the financing of manufactured housing titled as personal property, or "chattel." Loans for manufactured housing may be titled as either real estate property or chattel, typically have a shorter term of 15 to 20 years, carry a higher interest rate – often times qualifying the purchase loans as higher-priced mortgage loans, and are subject to fewer consumer protections, including disclosures for borrowers in the loan application process. In a previous comment letter, dated March 20, 2017, NAFCU expressed hesitation regarding the proposed inclusion of chattel loan pilot programs in the GSEs' draft Plans without comprehensive research and analysis of the chattel loans market.

In their proposed Plans, the GSEs have, however, indicated their intent to establish chattel loan pilot programs. NAFCU is requesting the FHFA provide regular updates on the GSEs' progress in pursuing their chattel loan pilot programs and hopes that the FHFA will encourage the GSEs to take a very cautious and measured approach to these programs. NAFCU also requests that the FHFA critically evaluate the GSEs Plans with respect to small multifamily affordable loans from financial entities with $10 billion or less in assets and rural housing loans from small financial institutions.

Manufactured Housing Market

NAFCU would like to thank the GSEs for acknowledging and incorporating into their Plans our request to more closely analyze and study the chattel loans market prior to initiating a pilot program. Although NAFCU firmly believes that such research should have been done prior to explicitly stating an objective to pursue a chattel loan pilot program in the proposed Plans, NAFCU appreciates the GSEs' transparency and hopes that extensive research and data collection will help the GSEs make appropriate decisions regarding these pilot programs. NAFCU encourages continued transparency from the FHFA and the GSEs as they move forward with their Plans. It is essential that the all stakeholders collaborate and share in the research, analysis, and steps the GSEs plan to and actually take in the creation of their pilot programs.

NAFCU would like to reiterate its position that the FHFA should tread carefully in allowing the GSEs to purchase chattel loans because: (1) of the volatility of the chattel loan market as demonstrated by the wave of defaults and repossessions in the early 2000s; (2) there is still very little research and data on the market for chattel loans; and, most importantly, (3) credit unions are concerned that jumping into the chattel loans market too quickly will cause a negative disruption in the mortgage market.

NAFCU's members are also uncertain whether the GSEs fully recognize and understand the intricacies that credit unions face when serving manufactured housing portfolios. This uncertainty has caused concern because if the GSEs enter the chattel loans market too quickly our nation could face another mortgage crisis. Yet another blow to the secondary mortgage market would significantly impede current efforts to reform the housing finance market – a result that must be avoided. Therefore, NAFCU requests that the FHFA encourage the GSEs to proceed in a slow and steady manner with regard to the chattel loans market.

Fannie Mae's proposed Plan, however, indicates that it intends to begin purchasing between 350 and 425 chattel loans per year, or about $20 to $25 million. Considering Fannie Mae has not purchased any chattel loans in the past three years, this is a dramatic increase. NAFCU requests that the FHFA object to this proposal and suggest that Fannie Mae start by purchasing a much smaller number of chattel loans in the first year—no more than 100 loans—and then gradually work up to between 350 and 425 in year three. Ideally, Fannie Mae would not purchase any chattel loans in the first year and instead, like Freddie Mac, plan to spend that time conducting outreach, research, and analysis of the market.

Although Freddie Mac does not indicate in its Plan how many chattel loans it intends to purchase once it launches a pilot program, NAFCU believes Freddie should follow a similar approach and gradually purchase chattel loans, starting with a very modest amount in the first year of purchases through the pilot program (assuming FHFA approval, this would be the second year of the Plan). A steady entrance into the market for chattel loans is the best approach. Not only is there no guarantee that the GSEs will find the chattel loans market stable enough and truly capable of standardization to fully launch a pilot program, but the potential risks of buying so many loans so quickly far outweigh the benefits.

NAFCU does, however, support Fannie Mae's objective of conducting outreach and market research through engagements with lenders and industry representatives, in particular, through industry and regional conferences. Freddie Mac has also identified outreach and engagement with industry participants as an essential element to truly understanding the chattel loans market. NAFCU would like to see even more opportunities for industry stakeholders, such as our member credit unions, to provide feedback to the GSEs, so the FHFA should encourage Fannie and Freddie to provide such opportunities on a quarterly basis.

Affordable Housing Preservation and Rural Housing Markets

Two more areas that face challenges due to a lack of standardization are the markets for affordable housing preservation and rural housing. With regard to affordable housing preservation, Fannie Mae and Freddie Mac have both outlined their ideas for purchasing small multifamily loans from financial entities with $10 billion or less in assets. NAFCU supports this objective to engage directly with smaller financial institutions and is impressed with the detail and focus presented in Freddie Mac's proposed Plan. Fannie Mae's Plan for this Regulatory Activity is substantially less detailed and provides very little guidance as to how it plans to begin working with lenders in this market aside from the 10 lenders it plans to identify and work with starting in year one.

NAFCU requests that the FHFA require more specific plans from Fannie Mae regarding this effort so that the industry remains informed and may adjust its expectations accordingly. Fannie Mae does, however, establish a goal to purchase at least 45 small affordable loans in the third year of the plan, whereas Freddie Mac does not provide a specific number. When evaluating these Plans and their potential effect on the market is most helpful to have estimates in the same units, therefore, NAFCU requests that the FHFA encourage Freddie Mac to include the number of loans it intends to purchase in each year.

NAFCU is pleased to see Freddie Mac's plan to use various pooling structures to allow small financial institutions to participate in the secondary market and believes Fannie Mae should also consider such options. Above all else, the FHFA must continue to guide the GSEs to purchase loans based on loan quality and not loan volume. Credit unions consistently provide the highest quality loans and should be recognized for this through continued access to the secondary mortgage market for both single family and multi-family loans.

Regarding rural housing, both proposed Plans include a goal to serve small financial institutions that are the primary source of banking services in many communities. Although NAFCU believes that the asset threshold should be higher than $304 million to encompass more credit unions serving rural areas, aside from an amendment to the rule, there are other initiatives the GSEs may pursue to ensure credit unions serving rural areas are able to participate in the secondary market. NAFCU requests that the GSEs create programs to buy both new loans and existing portfolios to serve credit unions that fit this Duty to Serve criteria. The GSEs should also both specifically outline the pooling structures and other efforts they intend to utilize to reach out to and work with more credit unions serving rural areas.

NAFCU is concerned that the volume of loans Fannie Mae plans to begin purchasing during this three-year period is insufficient to fully understand the market for and liquidity needs of the financial institutions providing financing for rural housing. NAFCU suggests that Fannie Mae at least double the amount of loans for rural housing purchased from small financial institutions. Even though Freddie Mac does not list a specific numerical objective, NAFCU encourages Freddie Mac to consider purchasing a higher volume of initial loans in this market as well. Furthermore, the GSEs should take steps to make it easier for credit unions in this market to follow guidelines to sell their rural housing loans in the secondary market. The ultimate goal of the GSEs should be to help provide liquidity to credit unions in these communities and figure out creative solutions to create economies of scale to sell mortgage-backed securities in this market for loans on both single and multi-family homes.

Conclusion

NAFCU appreciates the opportunity to provide our comments on the GSEs' proposed Underserved Markets Plans. 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