# Housing Finance Reform

**Issue:** The housing market is a critical aspect of our nation's economy and the future of the housing finance system is of great importance to our nation's credit unions and their 114 million members. In the years since the Great Recession, it has become increasingly clear that the status quo for our housing finance system is an unsustainable long-term option.

Before, during, and after the financial crisis, credit unions continued to make quality loans through solid underwriting practices. Regulatory restrictions, however, have made it difficult for credit unions to hedge against interest rate risk. The government-sponsored enterprises (GSEs) are of particular importance to credit unions because they allow credit unions to access the liquidity necessary to provide mortgages to their member-owners. Overall, Fannie Mae and Freddie Mac's (GSEs) securitization processes remains a key component of the safety and soundness of credit unions nationwide.

In addition to maintaining access to a healthy and viable secondary mortgage market, fair pricing is equally as critical in ensuring community-based financial service providers have a seat at the table. Credit unions serve communities of varying compositions and believe that the GSEs should continue to do the same and not discriminate against a financial institution based on the type of institution, an institution's asset size or any other geopolitical factors. As such, GSE pricing for loans should be based on loan quality and not quantity.

These general positions underlie the following specific GSE reform principles that NAFCU believes must be a central part of any legislative reform effort. The ultimate goal is to create a thriving and sustainable market for mortgage-backed securities (MBS) that will provide equal access to lenders of all sizes and will not require another taxpayer bailout.

NAFCU's Principles for Housing Finance Reform include:

- A healthy, sustainable and viable secondary mortgage market must be maintained.
- The U.S. government should issue an explicit government guarantee on the payment of principal and interest on MBS.
- The GSEs should be self-funded, without any dedicated government appropriations.
- A FHFA board of advisors should be created.
- The GSEs should be allowed to rebuild their capital buffers.
- The GSEs should not be fully privatized at this time.
- The FHLBs must remain a central part of the mortgage market.
- Credit risk transfer transactions should be expanded and the Common Securitization Platform (CSP) and Single Security retained.
- The FHFA or its successor should continue to provide strong oversight of the GSEs and the new system, whatever it may look like.
- The transition to a new system should be as seamless as possible.

You can read more about these principles at: www.nafcu.org/HousingFinanceReform.

The FHFA also recently issued a proposed rule to create a risk-based capital framework for the GSEs. The Administration was heavily involved in the development of this rule and believes such a capital structure is necessary before any meaningful housing finance reform can occur. NAFCU plans to comment on the proposed rule by the November 16, 2018 deadline.

**<u>NAFCU Ask</u>**: We urge Representatives and Senators to support the inclusion of NAFCU's principles in any housing finance reform package.