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**National Association of Federally-Insured Credit Unions**

January 21, 2020

Federal Housing Finance Agency  
Division of Conservatorship  
400 7<sup>th</sup> Street SW  
8<sup>th</sup> Floor  
Washington, D.C. 20219

**RE: Request for Input Regarding UMBS Pooling Practices**

Dear Sir or Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) regarding the pooling practices for To-Be-Announced (TBA)-eligible Uniform Mortgage-Backed Securities (UMBS). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 119 million consumers with personal and small business financial service products. NAFCU appreciates and supports the FHFA's efforts to improve efficiencies and competition between the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. As the FHFA and the Administration consider the future of the GSEs and our nation's housing finance system, the agency should continue to evaluate the consistency of the GSEs' pooling requirements to ensure fungibility of the UMBS and support investor confidence.

NAFCU supports the FHFA's efforts to enhance the liquidity of the TBA market, as it is essential to the overall stability of the secondary mortgage market and to credit unions' access to vital liquidity necessary to continue to make mortgage loans to their communities. Despite this general support, NAFCU cautions the FHFA against adopting changes to the types of loans that may be included or excluded from its multi-lender pools without further review and analysis of industry trends, beyond that in the FHFA's quarterly Prepayment Monitoring Reports. NAFCU requests the FHFA first evaluate the potential negative ripple effects on the credit union industry and other small, community-based lenders before modifying requirements for the multi-lender pools.

**General Comments**

NAFCU members are actively involved in the primary mortgage market and rely heavily on the GSEs to sell their mortgages to the secondary market. Based on recent *Home Mortgage Disclosure Act* (HMDA) data, of the mortgage loans that credit unions chose not to hold in portfolio, 47 percent were sold to Fannie Mae and Freddie Mac. Additionally, for credit unions, a higher share of mortgage originations are refinances (both non-cash and cash-out refinance loans) than any other lender type, totaling around 36 percent of all originations. Credit unions are also the only depository institutions to do more cash-out refinance loans than non-cash refinance loans and have the highest approval rate for cash-out refinances at 60 percent approval.

Credit unions are responsible lenders and follow strong underwriting practices that ensure their loans will perform well; the credit union industry, on average, has lower delinquency and default rates on loans than banks. Additionally, credit unions, as not-for-profit, member-owned, community-based financial institutions, take great care to protect the financial well-being of their members and only make loans and offer refinances that their members can afford.

As noted in NAFCU's comment letter on the agency's proposed rulemaking on UMBS, dated November 15, 2019, the securitization processes of the GSEs are key components to the safety and soundness of credit unions across the country. According to the 2019 NAFCU Report on Credit Unions (2019 Report), 47 percent of credit unions base their decision to utilize the GSEs on pricing relative to alternatives, while 34 percent are persuaded by ease of access. Credit union respondents surveyed indicated that 60 percent of credit unions' first-mortgage loans outstanding qualified to be sold to the GSEs. In addition, 27 percent of respondents said that they expect to sell a larger share of mortgage originations over the next 12 months, as compared to the most recent 12 months.

Given the importance of the GSEs to the credit union industry, NAFCU applauds the FHFA's efforts to ensure the liquidity of the TBA market through better alignment of pooling practices for the GSEs, specifically with respect to prepayment speeds. These pooling requirements can affect investor interest in the UMBS, which could have a spillover effect on credit unions' ability to sell loans to the secondary market and, as a result, increase interest rates for consumers. NAFCU encourages the FHFA to consider additional policies, as described below, to discourage predatory lending practices and prevent the misalignment in prepayment speeds.

NAFCU also supports the alignment of pooling practices as it would facilitate the use of the UMBS for future entrants into the housing finance system. NAFCU's Housing Finance Reform Principles include support for the UMBS as well as the continuation of credit risk transfer (CRT) transactions to offload risk on mortgage-backed securities (MBS) from the GSEs onto private investors. Success of the UMBS and continued use of CRT transactions is vital to any housing finance reform efforts as it reduces overall risk in system and levels the playing field for potential new entrants to compete with the GSEs. NAFCU supports market competition generally but stresses the importance of first ensuring the GSEs are on safe and sound footing with respect to their current practices and overall economic conditions.

### **Pooling Practices in Multi-Lender Pools**

NAFCU supports the inclusion of certain loans with faster prepayment speeds in multi-lender pools to reduce the likelihood that investors will receive pools with undesirable prepayment characteristics. More diverse portfolios including loans with faster prepayment speeds in multi-lender pools not only helps investors receive a more consistent return, but also attracts greater investor activity, and helps credit unions and other financial institutions keep mortgage interest rates attractive to consumers. Diversified portfolios level the playing field for institutions of all sizes and provide enhanced access to the secondary marketplace, fulfilling one of NAFCU's primary objectives for any housing finance reform efforts.

As noted in NAFCU's comment letter to the Government National Mortgage Association (Ginnie Mae) on its recent Request for Input regarding pooling eligibility changes for its Multi-Issuer Program (letter dated May 22, 2019), credit unions aim to provide access to credit and liquidity

for all of their members. Credit unions do so while ensuring that members are fully informed of the process and potential risks associated with a certain product. Some market participants do not take this consumer-friendly approach and instead encourage consumers to refinance, without explaining the risks, or even to repeatedly refinance their loan in a short period, a process often referred to as “churning.” Credit unions do not engage in such activities and strongly support efforts to target and eliminate such lending practices that inevitably hurt consumers and negatively impact the efficacy of the TBA market.

Although the RFI does not specifically discuss cash-out refinances, it does recognize the detrimental effects of loan churning on the performance of multi-lender pools. The RFI also acknowledges that not all loans with faster prepayment speeds are detrimental to the performance of the TBA market and may benefit consumers. NAFCU urges the FHFA to closely evaluate the benefits and risks of co-mingling first mortgage loans and refinances, including cash-out refinances, in multi-lender pools.

Overcorrections in policies to address prepayment behaviors that hurt consumers and investors could lead to unintended consequences in the form of steering credit unions and other small lenders away from offering certain refinance options. As noted above, HMDA data indicates that a significant amount of credit union mortgage originations are refinance loans, including cash-out refinances. If, as a result of changes in UMBS pooling practices, credit unions were to stop offering refinance loans, consumers would likely be harmed even more as they would be left with fewer safe alternatives to the aggressive tactics of some lenders offering quick refinance options. The FHFA should work with other government agencies, including Ginnie Mae and the Federal Housing Administration to determine the most effective means of curbing predatory lending practices, such as churning, and how to best address the overall performance of the TBA market.

Considering these potential implications for credit unions and consumers, NAFCU cautions the FHFA against creating arbitrary thresholds for the exclusion of certain loans from multi-lender pools. The RFI is silent on the method for measuring what constitutes a high prepayment rate and how the FHFA would adopt new pooling practices in this area to increase alignment between the GSEs. Although the GSEs have certain practices already in place to analyze prepayment behavior and take corrective action, it is unclear how changes to multi-lender pooling practices could impact smaller lenders and the overall market.

The RFI proposes that on a case-by-case basis, certain lenders may be directed to deliver all or part of their loans into non-TBA-eligible, single-lender pools, subject to criteria that would be aligned between the GSEs. In the absence of clearly defined criteria, NAFCU is hesitant to support changes in practices that could unintentionally sweep in certain credit union mortgage refinance loans, hurting both lender access to liquidity and consumer access to safer refinance options. Smaller lenders may be disadvantaged by being required to deliver to non-TBA-eligible, single-lender pools as those pools are less marketable in the TBA market and do not receive favorable pricing.

Without robust data analysis of the potential effects such changes could have on lenders and consumers, the FHFA should not modify its policies or practices for allowing faster prepaying loans into, or excluding them from, multi-lender pools and instead creating non-TBA-eligible,

single-lender pools. In the interest of transparency, NAFCU encourages the FHFA to issue a report and formal rulemaking with detailed analysis of the potential effects the various options for altering the permissible prepayment requirements for its multi-lender pools may have on the broader housing market. The FHFA currently issues quarterly Prepayment Monitoring Reports, which provide information regarding the consistency of prepayment rates across cohorts of the GSEs' TBA-eligible MBS. The FHFA should use such reports and accompanying data to compile a report on the projected effects of the proposals in this RFI. Absent such an effort, the FHFA should not alter its current policies and practices for UMBS pooling.

### **Conclusion**

NAFCU appreciates the opportunity to provide comments on the potential impacts the proposals in this RFI may have on the credit union industry. It is important that the FHFA comprehensively evaluate ways to align the pooling practices of the GSEs to enhance the performance of the UMBS, improve liquidity in the TBA market, and pave the way for potential new entrants into the housing finance system to also utilize the UMBS. Changes to policies and practices for the types of loans that may be included in multi-lender pools should recognize the risk of unintended, negative consequences on consumers and lenders. If you have any questions or require additional information, please do not hesitate to contact me at (703) 842-2212 or [akossachev@nafcu.org](mailto:akossachev@nafcu.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Ann Kossachev". The signature is fluid and cursive, with the first name "Ann" and last name "Kossachev" clearly distinguishable.

Ann Kossachev  
Director of Regulatory Affairs