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September 15, 2014

Federal Housing Finance Agency
Office of Policy Analysis and Research
400 7th Street, SW
9th Floor
Washington, D.C. 20024

RE: FHFA's Strategic Plan for Fiscal Years 2015 through 2019

Dear Sir or Madam:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the Federal Housing Finance Agency's (FHFA) Strategic Plan for fiscal years 2015 through 2019.

First and foremost, NAFCU would like to thank FHFA for its continued work to help stabilize the nation's mortgage market. Since the beginning of the housing market crisis, NAFCU has been in regular contact with FHFA to express credit unions' concerns and interests.

The strategic plan sets forth three goals for the next phase of FHFA's conservatorship of Fannie Mae and Freddie Mac (GSEs). The goals, in general, address (1) ensuring the safety and soundness of the Federal Home Loan Bank (FHLB) System and the GSEs; (2) promoting liquidity and access to the secondary mortgage market; and (3) building a new infrastructure.

Strategic Goal 1: Safe and Sound Regulated Entities

As regulator of the FHLB System, and conservator of the GSEs, FHFA identifies that its first strategic goal is to promote safe and sound operations of these regulated entities. NAFCU strongly supports this goal because, as we have long maintained, a well-functioning, liquid, and safe and sound secondary mortgage market with an explicit government guarantee is critical to the national housing market.

Fannie Mae and Freddie Mac play important roles in the ability of credit unions to offer mortgage loans to their membership. Home Mortgage Disclosure Act data shows how heavily credit unions have come to rely on the GSEs. Between 2007 and 2012, the portion of credit union first mortgages that were sold to Fannie Mae grew from 28 percent to 53 percent. The portion sold to Freddie Mac remained a constant 14 percent over the same period. Credit unions sold a total of 67 percent of their first mortgages to the GSEs in 2012. The total market for mortgage resales is also heavily dependent on the GSEs. The portion sold to Fannie Mae and Freddie Mac in 2007 was 43 percent in 2007 and 53 percent in 2012.

Credit union membership in FHLBs has also been increasing, and, as of June 2014, 19% of credit unions had membership in a federal home loan bank. On September 2, 2014, the FHFA released a proposed rule that would require institutions to hold 10% of assets in residential mortgage loans, not only to become a member, but also to maintain that 10% on a constant basis to remain a member. This proposed rule change threatens to severely hamper credit union access to, and membership in, FHLBs, which provide an array of valuable services to credit unions, including serving as a vital source of liquidity. We will be providing further comments separately on this issue per the FHFA's request for comments, but we would urge a rescinding of this proposal.

Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBs) are valuable partners for credit unions who seek to hedge interest rate risks by selling their fixed-rate mortgages to them on the secondary market. Not only does a safe and sound secondary market allow credit unions to better manage risk, but it also provides credit unions the ability to reinvest funds into their membership by offering new loan products or additional forms of financial services. Without these critical relationships with the GSEs and the FHLBs, credit unions would be unable to provide the services and financial products their members demand and expect. Therefore, NAFCU and our members strongly support a robust FHFA system.

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance

Under its second strategic goal, FHFA indicates that it is committed to promoting stability in the nation's housing finance markets and ensuring that qualified financial institutions and creditworthy borrowers have fair and equitable access to the financial services offered by the FHLB System and the GSEs. NAFCU strongly supports this goal because we believe it is vital that credit unions continue to have unfettered guaranteed access to the secondary market and get fair pricing based on the quality of their loans.

As NAFCU has stated many times, in order to ensure equitable and fair access to the secondary housing market for credit unions, it is critical that mortgage-backed securities have a government guarantee. NAFCU and our members strongly believe that government guarantee of the principal and interest, which carries the full faith and credit of the U.S. government of the securities, is needed in order to ensure that all small financial institutions have access to liquidity, especially in market downturns. Unlike the largest mortgage lenders, credit unions have limited options for obtaining the liquidity they need to continue to meet their members' mortgage needs. In fact, a large proportion of credit unions that are currently engaged in mortgage lending would not have been able to offer their products to the same extent as they have been able to without the presence and availability of the GSEs and the U.S. government's guarantee.

Also, and importantly, it is critical that the GSEs continue to place significant value and focus on the quality of mortgages rather than merely engaging lenders with greater quantity of mortgages in their portfolios. Prior to the financial crisis, credit unions did not always receive fair pricing based on quality from the GSEs for their loans, as many pricing models were based on volume. This has improved in recent years and NAFCU believes a greater focus on quality will help ensure that credit unions have more equitable access to the secondary market. Simply stated, credit union mortgages are of very high quality and a greater emphasis on quality would offset disincentives to purchases of mortgages from lenders with relatively lower volume.

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

Under its third strategic goal, the agency notes that it will continue to work with the GSEs to build a common securitization platform (CSP) to replace the current separate proprietary systems used at Fannie Mae and Freddie Mac.

NAFCU supports the concept of creating a more efficient and standardized securitization platform. The CSP outlined in FHFA's October 4, 2012, whitepaper, titled *Building a New Infrastructure for the Secondary Mortgage Market*, contemplates several functional upgrades that could not only increase equitable access for credit unions to the secondary market, but could also reduce the costs associated with selling products for securitization on the secondary market. While NAFCU and our members remain optimistic about the possibilities of the platform, especially in terms of improving efficiencies, we note that many of the details about the CSP are still unknown. As FHFA continues its development of the CSP, NAFCU encourages the agency to engage with all industry stakeholders in order to ensure that the platform is flexible enough to take into account the operational expertise of all lenders, especially credit unions and other small lenders.

Furthermore, implicit in Strategic Goal 3, is the development of a Single Security, which the agency believes will reduce the trading value disparities between Fannie Mae and Freddie Mac securities. NAFCU will submit comments separately pursuant to FHFA's August 12, 2014, Request for Input on the agency's proposed Single Security Structure.

Conclusion

NAFCU appreciates FHFA's solicitation of input from credit unions and industry stakeholders on the agency's goals for the next phase of its conservatorship of the GSEs. NAFCU and our members encourage the agency to prioritize guaranteed equitable access for credit unions to the secondary market and guaranteed equitable pricing.

NAFCU appreciates the opportunity to provide our comments. Should you have any questions or concerns, please feel free to contact me at anealon@nafcu.org or (703) 842-2272.

Sincerely,

Alicia Nealon

Alicia Nealon
Regulatory Affairs Counsel