Credit Union National Association
CUNA

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The Honorable Mike Crapo, Chairman
Committee on Banking Housing And
Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown, Ranking Member
Committee on Banking Housing And
Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of America's credit unions, thank you for holding a hearing entitled "Ten Years of Conservatorship: The Status of the Housing Finance System." The Credit Union National Association (CUNA) represents America's credit unions and their 110 million members.

As member-owned, not for profit financial cooperatives, many credit unions offer mortgages to satisfy member demand, and credit unions represent an increasingly significant source of mortgage credit nationally. In 2016, nearly 67 percent of credit unions originated over $143 billion worth of first mortgages, just under 7 percent of the total market. By comparison, in 1996 only 43 percent of credit unions originated just shy of $19 billion in first mortgages. Moreover, credit unions are increasingly active participants in the secondary market. Whereas in 1996 only about 16 percent of mortgage lending credit unions sold loans into the secondary market, by 2016, nearly 30 percent of mortgage lending credit unions sold $56 billion into the secondary market, or 40 percent of total first mortgages originated by credit unions.

Credit unions that elect to sell mortgages into the secondary market do so for a variety of reasons, but predominantly it is a tool to help them manage long term interest rate risk in order to continue to meet their members' mortgage lending needs. Particularly today, with long term interest rates at or near historic lows but expected to rise, access to a highly liquid secondary market with relatively low transaction costs is vital for the health of credit union mortgage lending. Credit unions therefore have a deep interest in the structure of the housing finance system going forward, and CUNA supports an efficient, effective, and fair secondary market with equal access for lenders of all sizes, which adheres to the following principles:

<u>Neutral Third Party</u>
There must be a neutral third party in the secondary market, with its sole role as a conduit to the secondary market. This entity must be independent of any firm that has any other role or business relationship in the mortgage origination and securitization process, to ensure that no market participant or class of participants enjoys an unfair advantage in the system.

<u>Equal Access</u>
The secondary market must be open to lenders of all sizes on an equitable basis. CUNA understands that the users (lenders, borrowers, etc.) of a secondary market will be required to pay for the use of such market through fees, appropriate risk premiums and other means. However, guarantee fees or other fees/premiums should not have any relationship to lender volume.

Additionally, CUNA would caution strongly against regimes that require lenders to retain significant amounts of risk beyond that represented by actuarially appropriate guarantee fees, as these risk retention arrangements may have a disproportionately negative impact on small lenders that are less able to manage such risk, and could therefore result in less consumer choice.

Strong Oversight and Supervision
The entities providing secondary market services must be subject to appropriate regulatory and supervisory oversight to ensure safety and soundness by ensuring accountability, effective corporate governance and preventing future fraud; they should also be subjected to strong capital requirements and have flexibility to operate well and develop new programs in response to marketplace demands.

Durability
Any new system must ensure mortgage loans will continue to be made to qualified borrowers even in troubled economic times. Without the backstop of an explicit federally insured or guaranteed component of any revised system, CUNA is concerned that private capital could quickly dry up during difficult economic times, as it did during the financial crisis, effectively halting mortgage lending altogether.

Financial Education
Credit unions have a noble history of offering a wide variety of financial counseling and other educational services to their members. Any new housing finance system should emphasize consumer education and counseling as a means to ensure that borrowers receive appropriate mortgage loans.

Predictable and Affordable Payments
Any new system must include consumer access to a variety of products that provide for predictable, affordable mortgage payments to qualified borrowers. Traditionally this has been through fixed-rate mortgages (such as the 30-year fixed rate mortgage), but other products that may be more appropriately tailored to a borrower's specific circumstances, such as certain standardized adjustable rate mortgages, should also be available.

Loan Limits
Our nation's housing market is diverse, with wide variation geographically and between rural and urban communities. Any new housing finance system should apply reasonable conforming loan limits that adequately take into consideration local real estate prices in higher cost areas.

Affordable Housing
The important role of government support for affordable housing (defined as housing for lower income borrowers but not necessarily high-risk borrowers, historically provided through FHA programs) should be a function separate from the responsibilities of the secondary market entities. The requirements for a program to stimulate the supply of credit to lower income borrowers are not the same as those for the more general mortgage market. We believe that a connection between these two goals could be accomplished by either appropriately pricing guarantee fees to minimize the chance of taxpayer expense, and/or adding a small supplement to guarantee fees, the proceeds of which could be used by some other federal agency in a more targeted fashion in furtherance of affordable housing goals.

Mortgage Servicing
In order to ensure a completely integrated mortgage experience for member-borrowers, credit unions should continue to be afforded the opportunity to retain or sell the right to service their members' mortgages, at the sole discretion of the credit union, regardless of whether that member's loan is held in portfolio or sold into the secondary market. To lose control over this servicing relationship would be detrimental not only to a large majority of credit union member-borrowers, but could also result in fewer mortgage choices available to credit unions and their members, with higher interest rates and fees alike. Moreover, to the extent national mortgage servicing standards are developed, such servicing standards should be applied uniformly and not result in the imposition of any additional or new regulatory burdens upon credit unions.

Reasonable and Orderly Transition
Whatever the outcome of the debate over the housing finance system in this country, any transition from the current system to a potential new housing finance system must be reasonable and orderly, in order to prevent significant disruption to the housing market which would harm homeowners, potential homebuyers, the credit unions who serve them, and the nation's housing market as a whole.

Once again, on behalf of America's credit unions and their 110 million members, thank you for holding this important hearing, and for your consideration of credit unions' principles for any potential reform of our nation's housing finance system.

Sincerely,

Jim Nussle
President & CEO