Credit Union National Association
CUNA

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The Honorable Mike Crapo
Chairman
U.S. Senate Committee on Banking,
Housing and Urban Affairs
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
U.S. Senate Committee on Banking,
Housing, and Urban Affairs
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

On behalf of America's credit unions, thank you for holding the hearings entitled, "Chairman's Housing Reform Outline: Part 1 and Part 2." The Credit Union National Association (CUNA) represents America's state and federal credit unions and the 115 million members that they serve.

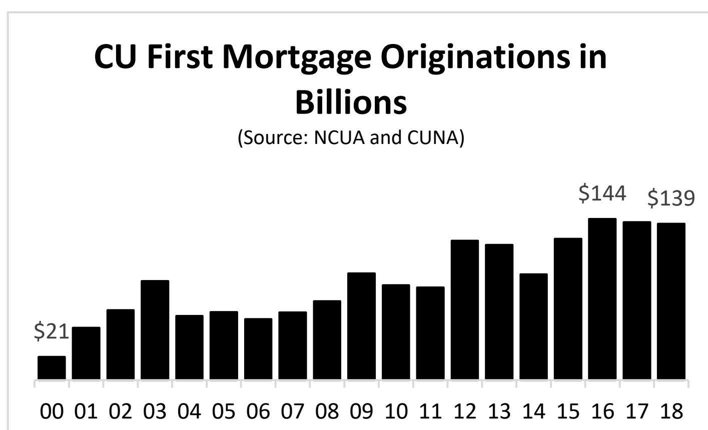
We believe that the Chairman's early blueprint for housing finance reform is a solid start to beginning the work of rebuilding the secondary mortgage market. Moreover, CUNA and our credit union members are committed to working with the Chairman, the Ranking Member and members of the Committee to refine that blueprint to make sure that it creates a strong foundation for reform.

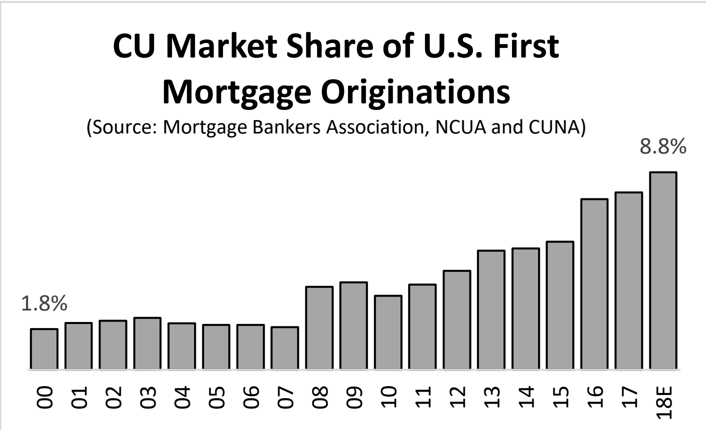
Credit Unions' Relationship to the Secondary Mortgage Market

The nation's 5,500 credit unions are unique, member-owned, democratically-controlled, not-for-profit financial cooperatives that currently serve over 115 million members. Many of those members rely on their credit union to meet their housing finance needs. In each of the past three years, credit unions extended nearly $140 billion in first mortgages to members and nearly two-thirds of that total consisted of fixed-rate loans.

A robust, smoothly functioning national housing finance system with an efficient, effective and fair secondary market that provides equal access to lenders of all sizes is a key concern for credit unions and the members they serve.

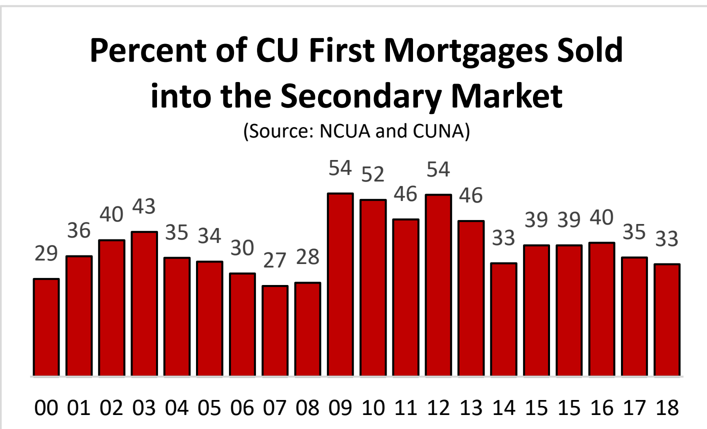
Credit unions are a small but increasingly important source for average working Americans to obtain safe, affordable mortgages. Collectively, credit unions held a total of $432 billion in first mortgages at year-end 2018. This represents 41% of total loans in these institutions – up from 25% of total loans at yearend 2000.





Credit union first mortgage originations accounted for nearly 9% of total U.S. first mortgage originations in 2018 – up significantly from 2% of total originations annually prior to the start of the financial crisis.

According to 2017 Home Mortgage Disclosure Act (HMDA) data the average first mortgage loan size at credit unions is approximately $200,000 – roughly 28% lower than the average loan size at banks. Credit union mortgage loan applicant incomes are about 15% lower than the average at banks.



Credit unions are primarily portfolio lenders, reflected in the fact that only 30% of these institutions sold mortgages into the secondary market in 2018. However, credit union mortgage operations depend on a smoothly-functioning secondary market: As a group, credit unions sold one-third of their first mortgage originations into the secondary market in 2018 and sold an average of 39% of their originations since 2000. Sales peaked at nearly 55% of originations in both 2009 and 2012.

The Principles that Should Guide Housing Finance Reform

Accordingly, as Congress works together to reform the current housing finance system, it will be essential for any legislative reform proposal to prioritize the following principles:

Equal Access: The secondary market must be accessible to lenders of all sizes on an equitable basis;

Affordability: The housing finance system must continue to provide qualified consumers with access to predictable, affordable mortgage payments; Affordability incudes recognition of The fact that smaller lenders, such as credit unions, often meet mortgage needs that banks are unwilling or unable to address in rural and working-class communities that require greater flexibility in underwriting requirements and weigh against mandatory minimum downpayments.

A Reasonable and Orderly Transition: Any transition to a new housing finance system must be reasonable and orderly; Accordingly, efforts to transfer guarantee oversight authority to entities, such as Ginnie Mae, must honestly assess and plan for the operational, staffing, and intellectual know-how deficits that exist at those entities that could ultimately frustrate the operation of the secondary mortgage market if not acknowledged, addressed, and corrected well in advance of any transition.

Strong Oversight and Supervision: Secondary market entities must be subject to appropriate regulatory and supervisory oversight to ensure their safety and soundness;

Durability: The housing finance system should include an explicit federally insured or guaranteed component to ensure that, even in troubled economic times, the secondary mortgage market continues to exist; and

Preserving What Works: The housing finance system should preserve the things that work, such as cost-effective and member-oriented credit union mortgage servicing options, emphasizing consumer education and home-purchase counseling, and applying reasonable conforming loan limits that adequately consider local real estate expenses in higher cost areas.

The future secondary mortgage market must build upon and strengthen the existing partnerships between credit unions, guarantors, and Federal Home Loan Banks in ensuring access to responsible and affordable mortgage credit for millions of credit union members.

The Essential Features Necessary for Credit Unions and Other Small Lenders to Continue to Provide Affordable Conventional Mortgage Credit

As important as it is to act to reform the secondary mortgage market, it is even more important to get it right. CUNA and our members continue to believe that for credit unions and our members, getting it right should mean one thing:

Community lenders must be at the core of the future secondary mortgage market.

Consumers want and need responsible, affordable mortgage credit. Historically, it has been community lenders—credit unions and community banks—that have provided access to mortgage credit minus predatory features and without having to first be prompted by their regulators to do so. It bears repeating that retail credit unions—rural, urban, large, and small—did not play a role in the subprime meltdown and ensuing financial crisis. Instead, as careful lenders and not-for-profit cooperatives, incentives at credit unions were already aligned in a way that helped ensure that lenders prioritized member owners' interests over financial profits. Credit unions continue to prioritize member owners' interests today by offering responsible, affordable mortgage loans.

Equity

The ability to offer these products is highly dependent upon the liquidity that the secondary mortgage market provides. So, it is critical that any serious housing finance proposal start with the proposition that the future system should function well for lenders of all shapes and sizes. That means the future secondary mortgage market must be equitable. Acceptable reform proposals must prevent community lenders from being priced out of the secondary market by giveaways to big banks and huge mortgage finance companies in the form of volume pricing discounts, exceptions from complying with certain terms, and other forms of preferential treatment. All lenders should feel confident that they can access the secondary market on a level playing field with everyone else. Ultimately, both consumers and the market benefit when community lenders can fairly compete for mortgage business.

Pricing parity is a crucial change in the way that Fannie Mae and Freddie Mac do business that only occurred because of their conservatorship. It is also a feature of Chairman Crapo's housing finance reform outline. Going forward, it must be a core component of the modern secondary market.

Anti-Discrimination Principle
By itself, however, pricing parity will not achieve equity for community lenders. Proposals for a private multi-guarantor model must go one step further and include an obligation for guarantors to serve all lenders. Absent this obligation, the secondary market of the future may devolve into a system where guarantors simply "cherry-pick" and exclusively do business with lenders offering larger volumes of loans. That result would be detrimental to community lenders and borrowers, who are increasingly turning to smaller, community-based financial institutions to meet their mortgage needs. Ensuring community lenders' equal access to the secondary mortgage market and protecting them from discrimination honors consumer preference.

Preservation of the Cash Commitment Window
Finally, to ensure equity for community lenders, the modern secondary market must preserve the cash commitment window. Smaller lenders need to be able to deliver a single conforming mortgage and receive funding the next day. The simplicity of the cash commitment window is critical for community lenders who are attempting to meet their consumers' needs for mortgage credit without operating a full-scale secondary mortgage market operation. Access to a simplified program allows community lenders to lend to consumers and manage the risk on their books without delving into the complexity of the securitization process.

Each of these features—pricing and term parity, an obligation to serve all lenders, and the simplicity of a cash commitment window—are crucial components of any secondary market housing finance reform proposal that honestly seeks to ensure community lenders can compete and offer consumers an alternative to big banks and huge mortgage finance companies. Given the increasing market share that credit unions have gained in the primary mortgage market over the years, our member owners want to be able to count on their community lender when it comes to buying a home.

Conclusion

On behalf of America's credit unions and their 115 million members, thank you again for holding these hearings on housing finance reform and your consideration of our views. We welcome the opportunity to work with the Committee to develop legislation that ensures that the future secondary mortgage market successfully meets the needs of smaller lenders and the consumers that they serve.

Sincerely,

Jim Nussle
President & CEO