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November 15, 2018

ATTN: Comments/ RIN 2590-AA94
Mr. Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
Constitution Center (OGC Eighth Floor)
400 7th St., SW
Washington, DC 20219

Re: RIN 2590-AA95
Enterprise Capital Requirements Proposed Rule

Dear Mr. Pollard:

As the largest credit union advocacy organization in this country, the Credit Union National Association's (CUNA) state and federal credit unions currently serve over 110 million members. Many of those members rely upon their credit union to meet their housing finance needs. In fact, in the first quarter of 2018 alone, credit unions extended more than \$100 billion to members in the form of fixed-rate, first mortgages.¹ Accordingly, the health and stability of the housing finance market is a key concern for credit unions and the members that they serve.

Consistent with that concern, CUNA's members have adopted a core set of Credit Union Principles for Housing Finance Reform.² Those principles include the need for strong oversight and supervision, while also ensuring mortgage affordability. It is with these principles in mind that we respectfully offer the following commentary, on behalf of America's credit unions and their members, with respect to the Federal Housing Finance Agency's (FHFA) proposed rule on Enterprise Capital Requirements. Specifically, we urge the FHFA to further examine whether the requirements, as currently proposed, strike the appropriate balance between preserving conventional mortgage affordability and ensuring proper capitalization of Fannie Mae and Freddie Mac.

¹ <https://www.ncua.gov/analysis/Pages/call-report-data/reports/paca-facts/paca-facts-2018-Q1.pdf>

² https://www.cuna.org/uploadedFiles/Advocacy/Related_items/Credit-Union-Principles-for-Housing-Finance-Reform.pdf.

Background

At the height of the financial crisis, government-sponsored enterprises Fannie Mae and Freddie Mac were unprepared to absorb the losses that ensued from the trillions of dollars in debt that went bad. That fact triggered a conservatorship that, to date, still remains and a general consensus that the “minimum capital” requirements imposed by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 were simply inadequate. With the passage of the Housing and Economic Recovery Act of 2008, the then newly created Federal Housing Finance Agency was empowered to “establish, by regulation, new permanent minimum capital requirements that are higher than the requirements under existing statutory authority.”³ Due to the Enterprises’ placement into conservatorship shortly thereafter, however, FHFA suspended all existing statutory and regulatory capital requirements for each Enterprise. Those requirements remain suspended to this day. Thus, this proposed rule—though not slated to take effect while the Enterprises remain in conservatorship—represents the FHFA’s first effort to fully redefine the parameters of the Enterprises’ capital structures in the aftermath of the financial crisis.

CUNA Supports Strong Capital Requirements for the Enterprises

Given the importance of this issue, CUNA and its members applaud the FHFA’s decision to release a proposed capital regime and solicit the public’s input. For years, CUNA has consistently advocated for and supported efforts to ensure that Fannie Mae and Freddie Mac operate under strong capital requirements designed to allow both entities to withstand an economic downturn or the next financial crisis without taxpayer intervention. Capital requirements are a core component of safety and soundness analysis and the insufficiency of the prior minimums imposed by statute only reinforces the need for the FHFA to move forward and adopt stronger capital rules.

Any New Capital Requirements Should Take Affordability Issues into Account

Those rules, however, will undoubtedly have a financial impact in the primary mortgage market. Economists at the Federal Reserve Bank of Philadelphia, for example, have estimated that a 1 percent increase in capital minimums at a financial institution can trigger anywhere from a 5 to 10 basis-point increase in lending rates.⁴ Consequently, there is a direct correlation between the FHFA’s efforts to ensure that Fannie Mae and Freddie Mac are adequately capitalized and the affordability of mortgage credit for consumers. In releasing the notice of proposed rulemaking, however, the FHFA fails to adequately discuss any examination into how the new capital requirements will impact conventional mortgage rates. CUNA believes that the omission of this discussion represents an error in the FHFA’s analysis that should be remedied prior to any final rulemaking. Specifically, given that the Enterprises’ mission involves ensuring the affordability and accessibility of conventional mortgage credit, any choice between alternate capital requirements should include a consideration of their pricing implications in the primary market.

³ Housing and Economic Recovery Act of 2008 (Pub. L. 110–289, 122 Stat. 2654, enacted July 30, 2008).

⁴ Pablo D’Erasmus, Are Higher Capital Requirements Worth It, Federal Reserve Bank of Philadelphia (Q2, 2018).

In conclusion, CUNA recognizes and applauds FHFA's efforts to propose and establish a new capital structure for the Enterprises. In that process, however, CUNA urges the FHFA to examine pricing implications for the primary market. It is critical that the FHFA's final rule strike the appropriate balance between maintaining mortgage affordability and ensuring the adequate capitalization of the Enterprises.

On behalf of America's credit unions and their more than 110 million members, thank you very much for your consideration of our views.

Sincerely,

Mitria Wilson
Sr. Director of Advocacy and Counsel
CUNA