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November 14, 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-AA94
Uniform Mortgage-Backed Security 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. CUNA's members have adopted a core set of Credit Union Principles for Housing Finance Reform.¹ Key among those principles is the need to ensure a reasonable and orderly transition to any new housing finance system. Accordingly, it is with this principle in mind that we respectfully offer the following commentary, on behalf of America's credit unions and their members, with respect to the FHFA's proposed rule on the Uniform Mortgage-Backed Security and its impact on the housing finance market.

Background

The Federal Housing Finance Agency (FHFA) previously announced its intention to require Fannie Mae and Freddie Mac to cease their current To-Be-Announced (TBA) market offerings and start issuing a new, common mortgage security by June 9, 2019.² A number of industry stakeholders, including the Securities Industry and Financial Markets Association (SIFMA), responded to that announcement by identifying a series of unresolved issues that could

¹ https://www.cuna.org/uploadedFiles/Advocacy/Related_items/Credit-Union-Principles-for-Housing-Finance-Reform.pdf.

² FHFA, [Press Release: FHFA Announces June 2019 Implementation of the New Uniform Mortgage-Backed Security](https://www.fhfa.gov/mobile/Pages/public-affairs-detail.aspx?PageName=FHFA-Announces-June-2019-Implementation-of-the-New-UMBS.aspx), (03/28/18), available at <https://www.fhfa.gov/mobile/Pages/public-affairs-detail.aspx?PageName=FHFA-Announces-June-2019-Implementation-of-the-New-UMBS.aspx>.

jeopardize the success of the Uniform Mortgage-Backed Security (UMBS) launch.³ The FHFA's recently proposed rule is in direct response to the concerns raised. Specifically, the proposed rule seeks to address concerns about the potential for pricing variation due to misalignments between the policies, programs, and practices adopted by each individual government-sponsored enterprise by requiring alignment through consultation, reporting, and FHFA oversight.

Credit Unions Play a Vital Role in Both the Primary and Secondary Mortgage Markets

As member-owned, not-for-profit financial cooperatives, credit unions have become an increasingly prominent provider of mortgage credit in the United States. In just two years, between 2015 and 2017, mortgage lending by credit unions grew from six percent to thirteen percent of the overall primary mortgage market.⁴ Accordingly, a fast-rising number of this nation's millions of credit union members rely upon their credit union to help them purchase, renovate, or refinance their home. This strong growth in mortgage lending is not slowing down. In the first quarter of 2018 alone, credit unions extended more than \$100 billion to members in the form of fixed-rate, first mortgages.⁵

To meet this growing demand, credit unions must be able to efficiently and affordably access the secondary mortgage market. With significantly fewer tools than banks to mitigate interest-rate risk, access to the secondary mortgage market plays a critical role in credit unions' efforts to increase liquidity, while effectively managing their balance sheets. In fact, the GSE securitization process is a key tool in many credit unions' tool boxes when looking to ensure their institution's safety and soundness. In just the first half of 2018, credit unions sold approximately one third of all their first-mortgage originations on the secondary mortgage market.⁶ Most of those transactions likely made their way to the TBA market given the reality that 90 percent of all trading in Agency mortgage-backed securities occurs there.⁷ Accordingly, any disruption in the TBA market would pose a threat to the ability of credit unions to effectively access the secondary market to increase liquidity and manage their bottom line.

The Viability of the TBA Market is Critical to Both Credit Unions and Their Members

Preserving the strong liquidity offered by the TBA market is not only of critical importance to credit unions as lenders, but also their members who derive direct benefit from a robust secondary mortgage market. Specifically, the demand created by the TBA market has a direct impact on credit unions' ability to lower the interest rates charged to borrowers in the primary

³ SIFMA, July 10, 2018 letter to FHFA, Single Security-Priority Issues to be resolved before launch, *available at* <https://www.sifma.org/wp-content/uploads/2018/07/Single-Security---Priority-Issues-to-be-resolved-before-launch.pdf>.

⁴ Experian, *2017 State of Credit Unions Report*, *available at* <http://www.experian.com/assets/credit-unions/reports/cu-state-of-credit-report.pdf> (last accessed 11/09/18).

⁵ <https://www.ncua.gov/analysis/Pages/call-report-data/reports/paca-facts/paca-facts-2018-Q1.pdf>

⁶ CUNA Mutual Group, *Credit Union Trends Report* (September 2018), *available at* https://www.cunamutual.com/-/media/cunamutual/about-us/credit-union-trends/public/sept_2018_cu_trends_report.pdf.

⁷ James Vickery and Joshua Wright, TBA Trading and Liquidity in the Agency MBS Market, Federal Reserve Bank of New York, at <http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.

market and, as a result, increases the affordability of mortgage credit.⁸ The TBA market also allows credit unions to offer members the additional benefit of being able to lock in interest rates a month or more before their loan is finalized.⁹ Thus, the consistency provided by a stable, liquid TBA market encourages mortgage lending by credit unions and expands access to responsible mortgage credit for credit union members.

CUNA Applauds FHFA's Efforts to Address Misalignment Concerns

Given the importance of the TBA market to credit unions and their members, CUNA is pleased that the FHFA has released proposed regulation in advance of the UMBS launch date that seeks to establish a procedure for addressing investor concerns about the potential for price variation between the entities' offerings due to misalignments in their activities. The adoption of SIFMA's recommendations regarding oversight demonstrate the FHFA's awareness that the success of the UMBS and the TBA market depends upon investor comfort and confidence in the underlying mechanics of the new security.

In conclusion, CUNA recognizes and applauds FHFA's efforts to address concerns with respect to the UMBS in order to facilitate the security's smooth transition into the TBA market. Because a key component of CUNA members' Credit Union Principles for Housing Finance Reform is ensuring that the transition from the current system to any new housing finance system is reasonable and orderly, we encourage the Agency to continue its efforts and fully address stakeholders' concerns prior to requiring the GSEs to launch the UMBS.

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 & Counsel
CUNA

⁸ See James Vickery and Joshua Wright, TBA Trading and Liquidity in the Agency MBS Market, Federal Reserve Bank of New York, at <http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.<http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.<http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.<http://www.newyorkfed.org/research/epr/2013/1212vick.pdf>.

⁹ Congressional Budget Office, Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market, at 38 (December 2010).