National Association
of Federal Credit Unions
3138 10th Street North
Arlington, VA 22201-2149
NAFCU | Your Direct Connection to Education, Advocacy & Advancement

December 3, 2012

Mr. Edward J. DeMarco
Federal Housing Finance Agency
400 7th Street, SW
9th Floor
Washington, D.C. 20024

RE: Whitepaper–Building a New Infrastructure for the Secondary Mortgage Market

Dear Mr. DeMarco:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing you regarding the Federal Housing Finance Agency (FHFA) whitepaper, titled *Building a New Infrastructure for the Secondary Mortgage Market*, released on October 4, 2012.

The whitepaper follows FHFA's *Strategic Plan for Enterprise Conservatorships*, published in February 2012, in which the FHFA set forth strategic goals for Fannie Mae and Freddie Mac (GSE) conservatorships. One of the goals was to build a new infrastructure for the secondary mortgage market.

NAFCU would first like to express our appreciation for FHFA's efforts to carefully examine the secondary mortgage market and identify ways to improve the market as part of the process of housing finance reform. The FHFA should be assertive in the reform process as its role as the regulator of the GSEs and the Federal Home Loan Banks places it in a unique position to help shape discussion and debate. NAFCU is mindful of the difficulties that the agency, Congress and the Administration confront in reforming the housing finance market; however, as the GSEs, the Federal Housing Administration and Ginnie Mae decrease their market share and the private sector gains more, many key issues must be addressed.

Role of Government Guarantee

A key issue in housing finance reform remains the future role of the Federal government in the housing market. Furthermore, the FHFA has indicated that one of its main goals is to attract private funds back to the secondary market. While NAFCU recognizes this goal as important in order for the secondary mortgage market to become more fully functional, we reiterate our position that we do not support full privatization of the GSEs at this time because of the likely exclusion, even if it occurs slowly and unintentionally, of small community-based financial institutions from the secondary market.

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 any reform does not discount the importance of maintaining at least two entities in which mortgage-backed securities have a government guarantee. In fact, we 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, should be a central component of the future market. The guarantee should support single- and multi-family mortgages that the GSEs have historically supported.

The government guarantee is needed in order to ensure that all small financial institutions have access to liquidity. 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' successors place significant value and focus on the quality of mortgages rather than merely engaging lenders with greater quantity of mortgages in their portfolios. 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 mortgages from lenders with relatively lower volume.

The FHFA states that the credit enhancement functionality of its proposed securitization platform contained in the whitepaper is adoptable to multiple ways of credit enhancement of the securities, including via a government guarantee. NAFCU welcomes this flexibility; however, we are concerned that the agency does not give adequate recognition to the government's role generally and the government guarantee specifically. We encourage the FHFA to expound on credit enhancement via the government guarantee as it further develops the whitepaper and potentially submits proposals to Congress.

Industry Role in Reform

A key FHFA objective should be to ensure that the mortgage lending industry actively participates in the formulation of FHFA's work products related to secondary mortgage market reform. In fact, one of NAFCU's key principles on housing finance reform is that a board of advisors be formed to advise the FHFA on the GSEs and housing finance reform. At least one member of such board should be a person from the credit union industry to ensure that credit union voices are represented. NAFCU strongly urges the FHFA to establish a body of advisors as soon as possible. NAFCU would welcome the opportunity to further discuss this matter with the agency.

NAFCU appreciates the opportunity to share our thoughts on the whitepaper. Should you have any questions or require additional information please contact me at (703) 842-2234 or Tessema Tefferi at (703) 842-2268.

Sincerely,

Carrie R. Hunt

Carrie Hunt
General Counsel and Vice President of Regulatory Affairs