



Testimony of

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On behalf of

The National Association of Federally-Insured Credit Unions

“A Legislative Proposal to Provide for a Sustainable Housing Finance System:

The Bipartisan Housing Finance Reform Act of 2018”

Before the

United States House Financial Services Committee

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Introduction

Good morning, Chairman Hensarling, Ranking Member Waters, and Members of the Committee. My name is Rick Stafford, and I am testifying today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU). I appreciate the opportunity to share NAFCU's views on housing finance and the *Bipartisan Housing Finance Reform Act of 2018*. In addition to our testimony, NAFCU member credit unions look forward to continuing to work with you beyond today's hearing to ensure access to the secondary mortgage market for credit unions and their 114 million members.

I currently serve as the President and CEO of Tower Federal Credit Union (Tower) in Laurel, Maryland. Tower Federal Credit Union is a \$3.1 billion institution serving nearly 185,000 members with 16 branches in the Baltimore-Washington corridor. Tower was originally chartered in August of 1953 to serve a national security component of the Department of Defense. Today, we serve the defense and intelligence sectors, along with several associations and select employers. We offer our employer groups a full range of financial products and services, including checking accounts, deposit accounts, credit cards, auto loans, mortgages and home equity loans. We also provide a suite of ancillary services including wealth management, residential real estate brokerage services and car buying services.

I have over 30 years of senior management experience in the financial services industry, including leading mortgage lending for community-based financial institutions. I am a graduate of Adrian College, and earned a Masters from Walsh College of Accounting & Finance. I also am a graduate of the School of Banking at Georgetown University. My number one priority every day at Tower is to manage the organization in a safe and sound manner. No exceptions. My second priority is to add value back to our member-owners by managing an incredible workforce focused on listening to members' needs and providing solutions to improve their financial well-being while delivering exceptional service.

Credit Union Principles in Housing Finance Reform Efforts

As the future of housing finance has become a focal point in Congress, the Administration, and among regulatory agencies, NAFCU has established an updated set of principles that the association would like to see reflected in any reform efforts. The objective of these principles is to help ensure that credit unions are treated fairly during any housing finance reform process. The following are NAFCU's housing finance reform principles:

- **A healthy, sustainable and viable secondary mortgage market must be maintained.** Credit unions must have unfettered, legislatively-guaranteed access to the secondary mortgage market. In order to achieve a healthy, sustainable and viable secondary market,

there must be vibrant competition among market participants in every aspect of the secondary market. Market participants should include, at a minimum, at least one government-sponsored enterprise (GSE), the Federal Home Loan Banks (FHLBs), Ginnie Mae, and private entities.

- **The U.S. government should issue an explicit government guarantee on the payment of principal and interest on mortgage-backed securities (MBS).**

The explicit guarantee will provide certainty to the market, especially for investors who will need to be enticed to invest in MBS, and facilitate the flow of liquidity through the market.

- **The GSEs should be self-funded, without any dedicated government appropriations.**

Although the U.S. government should be involved in the secondary mortgage market, the GSEs should not be government-funded mortgage programs. The GSEs' fees should provide the revenue necessary for sustained independent operation. Those fee structures should, in addition to size and volume, place increased emphasis on the quality of loans. Risk-based pricing for loan purchases should reflect that quality difference. Credit union loans provide the high quality necessary to improve the salability of the GSEs' securities.

- **Creation of a Federal Housing Finance Agency (FHFA) board of advisors.**

A board of advisors made up of representatives from the mortgage lending industry should be formed to advise the FHFA regarding the GSEs and the state of the secondary mortgage market. Credit unions should be represented in such a body.

- **The GSEs should be allowed to rebuild their capital buffers.**

Rebuilding capital buffers ensures the safety and soundness of the GSEs, maintains investor confidence, prevents market disruption, and reduces the likelihood of another taxpayer bailout in the event of a future catastrophic market downturn. The GSEs should be permitted to begin rebuilding capital slowly over a period of several years.

- **The GSEs should not be fully privatized at this time.**

There continues to be serious concerns that in a fully privatized system, in which the GSEs are sold off to the secondary market, small, community-based financial institutions could be shut out of the secondary market. Any privatization efforts should be gradual and ensure that credit unions have continued access to the GSEs and the secondary mortgage market.

- **The FHLBs must remain a central part of the mortgage market.**

The FHLBs serve an important function in the mortgage market as they provide their credit union members with a reliable source of funding and liquidity. Housing finance reform

must take into account the consequence of any legislation on the health and reliability of the FHLBs.

- **Credit risk transfer transactions should be expanded and the Common Securitization Platform (CSP) and Single Security retained.**

Although there are concerns regarding credit unions' ability to participate in certain credit risk transfer (CRT) transactions, the GSEs should continue to expand CRT as well as initiatives to create deeper mortgage insurance to further disperse risk among private investors. Credit unions should be permitted to participate in transactions such as front-end CRTs through a special purpose vehicle, such as a credit union service organization or the FHLBs. The CSP and Single Security have the potential to simplify the sale of loans to the GSEs and allow greater, more affordable access to the secondary mortgage market.

- **The FHFA or its successor should continue to provide strong oversight of the GSEs and the new system, whatever it may look like.**

A strong, reliable single federal regulator helps to provide consistency and focus to the GSEs so they can stay on track with their core missions and objectives. The FHFA helps maintain safety and soundness in the secondary mortgage market. A new system should also utilize the current regulatory framework and GSE pricing and fee structures.

- **The transition to a new system should be as seamless as possible.**

Regardless of whether the GSEs in their current form are part of a new housing finance system, credit unions should have uninterrupted access to the GSEs or their successor(s) and the secondary mortgage market as a whole, in particular through the cash window and small pool options.

Background on Credit Unions and Credit Union Mortgage Lending

Historically, credit unions have served a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system was created as a way to promote thrift and make financial services available to all Americans, many of whom would otherwise have limited access to financial services. Every credit union is a cooperative institution organized “for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes” (12 § USC 1752(1)). Congress established credit unions as an alternative to banks and to meet a precise public need—a niche credit unions fill today for nearly 114 million Americans. Despite the passage of over 80 years since the *Federal Credit Union Act* was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

- Credit unions remain totally committed to providing their members with efficient, low-cost, personal financial services; and,
- Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

The nation's approximately 5,500 federally-insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions, united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors—something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true "volunteer spirit" permeating the credit union community.

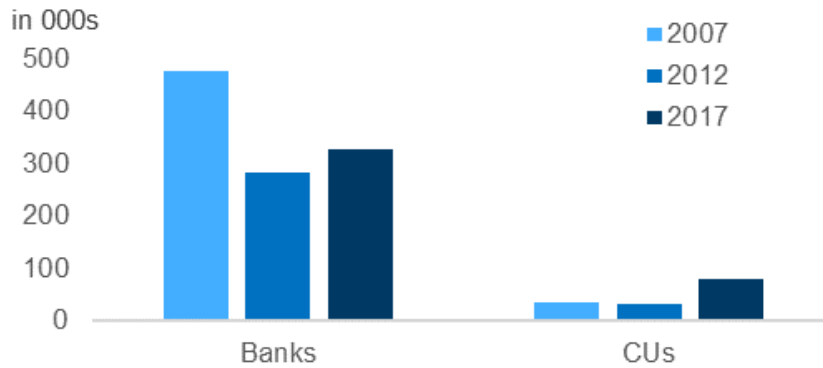
Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. Since the Great Recession, consolidation of the commercial banking sector has progressed at an increasingly rapid rate. With the resulting depersonalization in the delivery of financial services by banks, the emphasis in consumers' minds has begun to shift not only to services provided, but also—more importantly—to quality and cost of those services. Credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

As has been noted by Members of Congress across the political spectrum, credit unions were not the cause of the Great Recession, and an examination of their lending data indicates that credit union mortgage lending outperformed bank mortgage lending during the recent downturn. This is partly because credit unions did not contribute to the proliferation of subprime loans. Before, during, and after the financial crisis, credit unions continued to make quality loans through sound underwriting practices focused on providing their members with solid products they could afford.

In addition, both during and after the crisis, credit unions have been committed to helping the portions of their communities that are most in need with high quality products and services. Recent *Home Mortgage Disclosure Act* (HMDA) data indicates the extent of credit union lending to communities within census tracts defined as "distressed" in 2007 by the Federal Financial Institutions Examinations Council (FFIEC). As evidenced in the chart below, the one-to-four family, first-lien purchase loan originations made by credit unions in these communities held up better through the Great Recession than those made by banks (from 2008 to 2012, there was a 33 percent decline in credit union mortgages versus a 59 percent decline in bank mortgages). In 2017, credit unions expanded their mortgage loan originations by 70 percent in these "distressed" areas

as compared to 2007, whereas bank mortgage lending actually decreased by 46 percent during that same period. This is just one example of credit unions' willingness to serve communities that other lenders have abandoned.

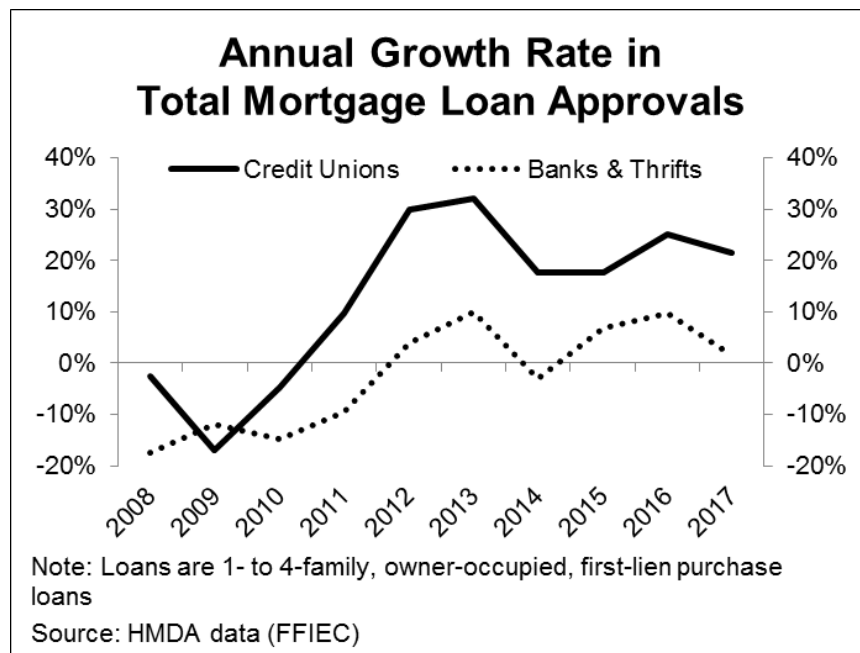
Nbr. of Mortgage Originations in Distressed Areas

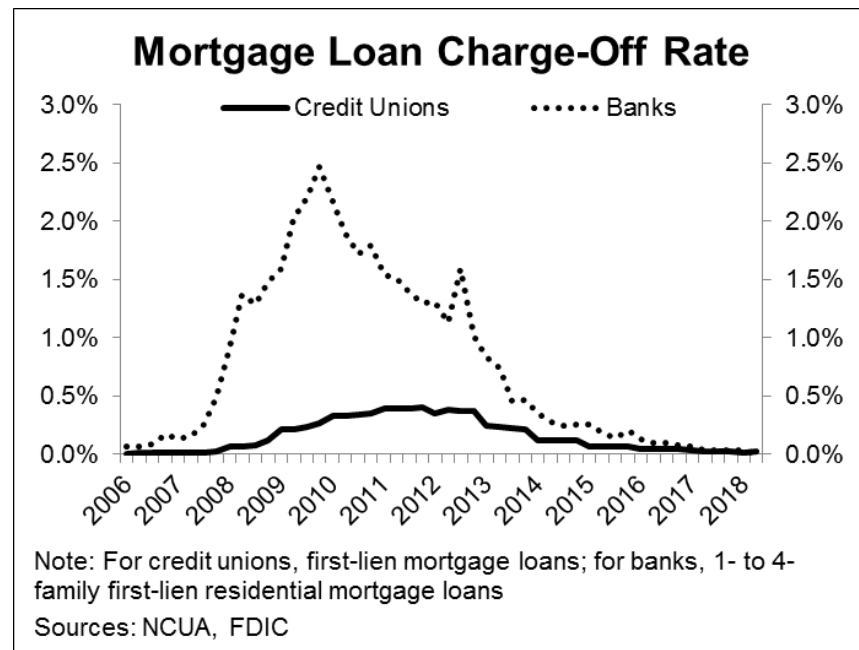
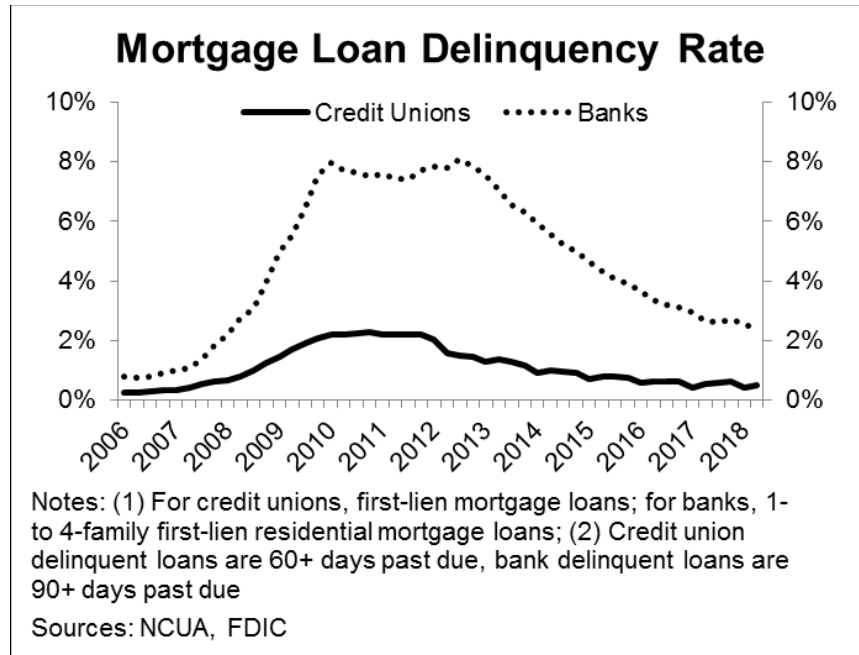


Note: Figures reflect 1- to 4-family, first-lien purchase loan originations in MSAs where median income declined between 2007 and 2012

Source: FFIEC

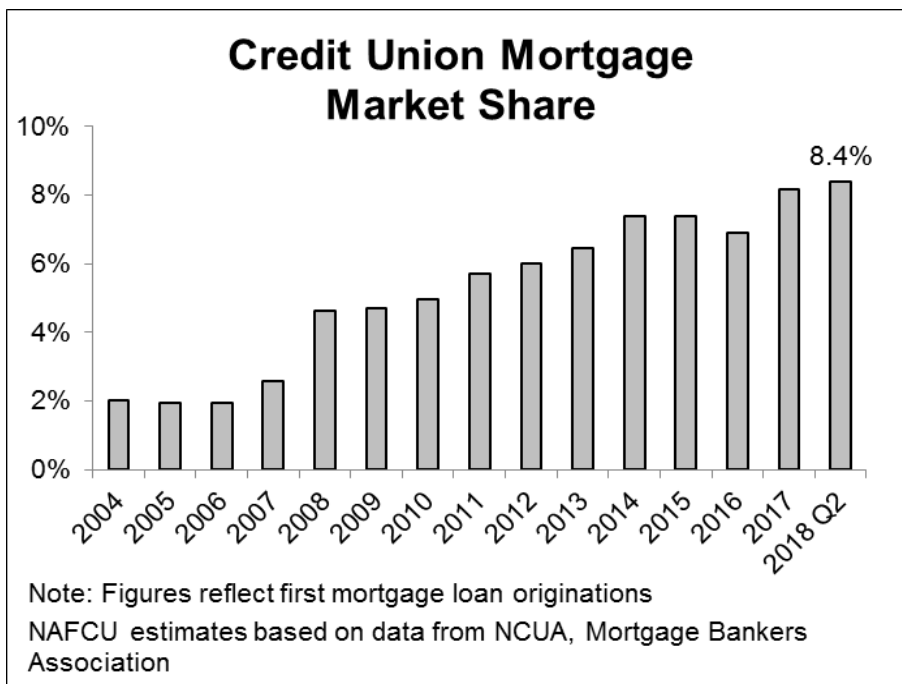
As the housing market continues to recover from the financial crisis, and Congress works to put into place safeguards to ensure such a crisis never happens again, credit unions continue to focus on providing their member-owners with the basic financial products they need and demand. The graphs below highlight how credit union real estate loan growth has outpaced banks since the downturn and how credit unions have fared better with respect to real estate delinquencies and real estate charge-offs. It is with this data in mind that NAFUCU urges members of the Committee to recognize the historical performance and high quality of credit union loans as housing finance reform moves forward.



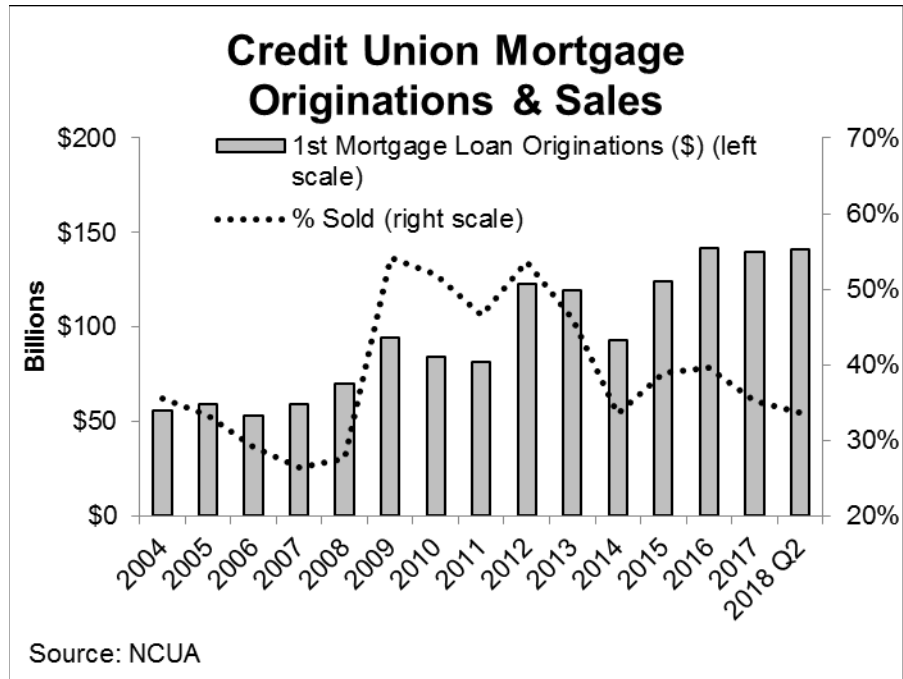


As you can see from the above charts, credit union mortgage lending continues to be strong, outpacing that of banks on many fronts. The current secondary market set up plays a role in that strength. That is why a primary concern of credit unions in reform is continued, unencumbered access to the secondary mortgage market. This includes adequate transition time to any new system. A second concern, which is equally as important, is the GSEs' (or any secondary market entity's) recognition of the quality of credit union loans through a fair pricing structure. As credit unions originate a relatively low number of loans compared to others in the marketplace—

federally-insured credit unions had roughly 8 percent of first mortgage originations in 2018 through the second quarter (see chart below)—NAFCU’s member credit unions are opposed to any pricing structure based on loan volume, institution asset size, or other geopolitical issues that could lead to discrimination and disadvantage their member-owners. As such, credit unions should have access to pricing focused on quality, not quantity.



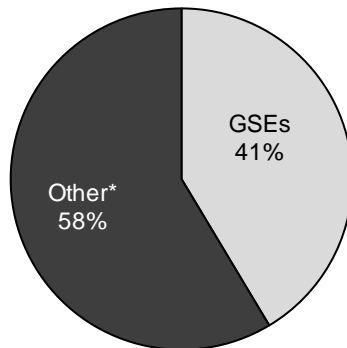
Recent trends in asset portfolios, coupled with the current interest rate environment, present a unique challenge to credit union management. Until recently, interest rates had fallen to record lows, credit unions experienced vigorous share growth, and credit union participation in the mortgage lending arena increased to historic heights. Even though interest rates have started rising again, credit union first mortgage originations remain strong. Between 2007 and 2018, the credit union share of first mortgage originations expanded from 2.6 to 8.4 percent. The portion of credit union first mortgage originations sold into the secondary market increased overall from 26 percent in 2007 to 34 percent in 2018, according to National Credit Union Administration (NCUA) call report data (see chart below).



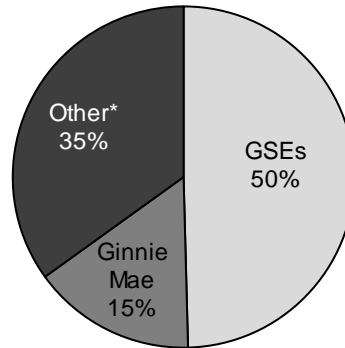
Credit unions hedge against interest rate risk in a number of ways, chief among these is selling products to be securitized and sold on the secondary market. Lenders must have guaranteed access to secondary market sources (including Fannie Mae, Freddie Mac, and the FHLBs) because they are valuable partners for credit unions that seek to sell their fixed-rate mortgages. Not only does the selling of mortgage loans allow credit unions to better manage their risk, but it also means they are able to reinvest those funds to provide new loan products and additional financial services for their members. Responses to NAFCU’s 2018 Federal Reserve Meeting Survey highlight the growing utilization of the GSEs among credit unions. Survey respondents indicated that 23 percent sell mortgages to Fannie Mae, 10 percent sell to Freddie Mac, and another 23 percent sell to both. Additionally, many credit unions’ board policies restrict the percentage of real estate loans that may be held on their balance sheet in order to help mitigate risk. Without these critical relationships, credit unions would be unable to provide the services and financial products their memberships demand and expect.

HMDA data also shows how heavily credit unions have come to rely on the GSEs when they sell to the secondary market. Between 2007 and 2017, the portion of credit union first mortgages that were sold to Fannie Mae and Freddie Mac grew from 41 percent to 50 percent.

CU Mortgage Sales by Purchaser Type (2007)



CU Mortgage Sales by Purchaser Type (2017)



*Includes banks, mortgage banks, credit unions finance or life insurance companies, affiliate institutions, and other types of purchasers

Source: FFIEC

Mortgage Lending at Tower

The ability to sell to Fannie Mae on the secondary market is very important to Tower. Without access to liquidity through Fannie Mae, we would not have been able to originate a number of loans and serve the needs of our membership. Over the past 10 years, we have sold 80 percent of our loans to Fannie Mae. In the last five years, this amounts to a total of \$1.2 billion in liquidity, assisting 2,700 members in our community.

Tower, like many credit unions, never participated in the type of risky mortgage lending that contributed to the Great Recession. We did not originate negative amortizing adjustable rate mortgages, ALT-A loans, subprime loans, or “no income, no job, no assets (NINJA)” loans. The demand existed; we had members who asked for these types of loans, but we took our fiduciary responsibility to our members seriously and refused to put them into a home they could not realistically sustain.

We sell our loans directly to Fannie Mae because they offer competitive pricing for affordable lending to our members, as well as diverse mortgage products and the ability to maintain a servicing relationship with our members. To us, these are more than just loans. Each one represents a family in a home, and each mortgage application is a new opportunity to help make a family’s dream of home-ownership come true. Even though most of our mortgage business is within Maryland, we do originate loans for our members across the country.

Tower firmly believes that access to affordable credit for homebuyers is essential to the financial well-being of hard working Americans. The GSEs benefit consumers because access to the

secondary market and access to capital provides us with additional lending capacity. Without the GSEs, our capacity to lend would be outstripped by demand. Our ability to sell loans, as opposed to keeping them on our balance sheet, also mitigates our long-term interest rate risk, reduces concentration risk, and keeps rates competitive overall. If not for access to the GSEs, local consumers would suffer from higher rates and fees, more stringent credit requirements and overall fewer options. NAFCU urges you to keep this in mind as you consider the important business of housing finance reform.

Key Elements of the Current System

As you consider reform, it is important to note that there are many key elements to the current system. Our partnership with Fannie Mae is critical to Tower's mortgage lending function. We use Fannie Mae's Desktop Underwriter® platform to underwrite all mortgage loans that we originate. This ensures conformity and consistency across our portfolio, whether we sell the loan or not. Using Desktop Underwriter® provides Tower with a level of efficiency that we might not otherwise achieve. Additionally, it enhances the member experience by automating and expediting parts of the loan process. If comprehensive housing finance reform includes any significant changes to the Desktop Underwriter® platform, it would have widespread effects on our operations.

Access to such technology must be preserved in any new model. The GSEs' tools provide critical benefits to small lenders. Desktop Underwriter® is an important tool for Tower and we want to ensure continued utilization. There are some opportunities for improvement, including updating the Agency's antiquated credit risk scoring platform, which would subsequently lessen some punitive results in loan level pricing adjustments borne by the consumer.

Consequently, we are naturally wary of efforts to eliminate the GSEs. The current aggregation model at the GSEs has had benefits for credit unions. We do not want to see a regression to the previous aggregation model used before conservatorship, where market share agreements with the largest lenders created underwriting exceptions and lower guarantee fees based on volume, not on the underlying loan risk. This priced out smaller lenders and forced them to sell to larger lenders, instead of directly to Fannie Mae. These practices created huge volumes of underpriced risk that were a part of the predatory culture that precipitated the financial crisis. Instead, we want a system that ensures equal market access for lenders of all sizes and business models and maintains a deep, liquid market for long-term options. Furthermore, even though Tower is not currently using it, the functions of the cash window at the GSEs (as a single loan execution process and best-efforts loan commitments) are also vital to many credit unions and should be maintained in any new system. The cash window serves as a quick and efficient means of liquidity for credit unions that would otherwise be unable to sell to the GSEs. We are pleased to see the bill before the Committee today recognizes this.

The Bipartisan Housing Finance Reform Act of 2018

NAFCU would like to thank Chairman Hensarling and Representatives Delaney and Himes for their bipartisan and thoughtful efforts to advance the housing finance reform debate with their legislation. This legislation seeks to protect key aspects of the current system while also transforming existing players and opening opportunities for new entrants into a new housing finance framework. NAFCU recognizes a number of strengths of this bill, including the requirement of strong capital standards, a guaranteed cash window for small lenders who are permitted to retain the servicing rights on their loans, the maintenance of a vibrant FHLB System, and the preservation and enhancement of credit risk transfer transactions and the CSP. We are committed to continuing to work with the Committee as it considers amendments and revisions of this bill so that credit unions are afforded the protections necessary to ensure they are able to continue to provide their communities with access to credit.

Section 110 of the bill requires the FHFA to establish a regulatory capital framework for private credit enhancers (PCEs). NAFCU strongly supports the establishment of a capital framework for the GSEs and their successor institutions in a future housing finance state. In our comment letter to the FHFA regarding the recent proposed rule, NAFCU calls for the FHFA to focus on working with the U.S. Department of the Treasury to modify the Senior Preferred Stock Purchase Agreements to allow the GSEs to rebuild capital now. The FHFA should also permit the GSEs to submit capital restoration plans, as outlined in the *Housing and Economic Recovery Act of 2008* (HERA). These two steps may be done during conservatorship and are critical for the GSEs to meet the proposed capital standards. NAFCU makes clear that such steps should only be taken if Congress can successfully codify certain improvements that have occurred during conservatorship, including the elimination of pricing discrimination for mortgages sold to the GSEs. As the Committee works on this bill, we urge you to not shut the door to a piecemeal approach to legislative reform so that such protections can be put in place and the GSEs can begin to rebuild their capital should comprehensive reform stall.

NAFCU is also encouraged by the bill's protections against vertical integration by providing for a bright-line distinction between PCEs and issuers of securities. We are hopeful that this will maintain the appropriate degree of separation between the activities and prevent the rise of any perverse incentives. Section 116 provides a limited exception to this distinction between PCEs and issuers for purposes of the Small Lender Access Program. We appreciate this section's provision allowing small lenders to retain servicing rights for loans sold into the secondary market through this cash window. It is important for credit unions to maintain a relationship with their members through the life of the loan so that certain servicing standards are met and the member remains satisfied with the process.

NAFCU recognizes the importance of a limited government role in the housing finance system, particularly in the form of an explicit government guarantee on the payment of principal and interest on MBS that is reinforced by credit enhancements. Such a guarantee is a key part of the foundation of any successful future housing finance system and should help ensure continued availability of the 30-year fixed rate mortgage.

NAFCU acknowledges that the bill's proposed securitization structure through Ginnie Mae would carry an explicit government guarantee on MBS, but notes it would also create a bifurcated regulatory system with both Ginnie Mae and the FHFA responsible for supervising market participants. NAFCU's principles call for a single, strong independent regulator that can provide stability and confidence in the market and is concerned that this dual-regulator structure has the potential to create confusion and potentially conflicting directives for market participants.

Additionally, NAFCU is concerned about the rate at which Ginnie Mae's systems, processes, and procedures can be brought up to the standards envisioned under the bill. The bill proposes a new, much more extensive role for Ginnie Mae in the secondary mortgage market, yet Ginnie Mae currently lags behind Fannie Mae and Freddie Mac in its technological capabilities and focus on services available to lenders. Although Ginnie Mae, in recent years, has made substantial efforts to conduct outreach and provide more service to credit unions, it is important to note that asking Ginnie Mae to step in and fill such a major role in the market within the bill's prescribed five-year timeframe would be a huge challenge requiring significant oversight and flexibility. As the Committee considers questions of how to ensure a smooth transition to a future state, NAFCU would like to stress the importance of getting it done right, versus getting it done quickly.

NAFCU supports several of the FHFA's ongoing initiatives as they would facilitate a smooth transition to a future state that allows for more market participants to enter the guarantor space. These initiatives include the implementation of the CSP and Single Security as well as continued activities with respect to CRT transactions. CRT transactions are a critical component of reducing systemic risk and protecting our nation's taxpayers. NAFCU supports the bill's call for increased CRT as a part of reforming our nation's housing finance system. Coupled with strict capital standards, the continued offloading of credit risk onto private investors will ensure that taxpayers are protected in the event of a severe economic stress scenario like the 2008 financial crisis. Additionally, NAFCU strongly supports Section 112's prohibition on PCEs holding mortgages as portfolio investments. Such activity was part of what led to the conservatorship of the GSEs following the financial crisis and this restriction would prevent future PCEs from being similarly over-leveraged and risking the safety and soundness of the nation's housing finance system.

The Importance of Servicing Rights to Credit Unions

Any new housing finance system must contain provisions that ensure credit unions can retain servicing rights to loans they make to their members. As noted above, we are pleased that the bill before the Committee today would do that under Section 116's Small Lender Access Program, but we would encourage that this goal be clarified throughout other areas of the bill as well. We are concerned that depending on the definition that is established for "small lender," some credit unions may not qualify and would consequently not be permitted to retain servicing rights on their loans. Many consumers turn to credit unions for lower rates and more palatable fee structures, but they also want to work with a reputable organization that they trust will provide them with high quality service. Because credit unions work so hard to build personal relationships with their members, relinquishing servicing rights has the potential to jeopardize that relationship in certain circumstances.

At Tower, we retain servicing rights on all of our loans. This was especially beneficial during the Great Recession, as it allowed our members to approach us when they were facing economic hardship and allowed us to work closely with them to help keep them in their homes. In addition, maintaining the servicing rights for the life of the loan ensures no disruption to our members. This ability to retain servicing rights must be preserved for credit unions of all sizes in any new housing finance system. If national servicing standards are created, they should be done in such a way as to not create new burdens on credit unions.

Underwriting Criteria in Any New System

NAFCU would like to see changes to some of Section 102's requirements for conventional mortgages to be eligible for a government guarantee through Ginnie Mae Plus. The 5 percent minimum down payment requirement unnecessarily restricts a credit union's ability to help its community by making loans to low- to moderate-income borrowers. Such borrowers could be a good credit risk even though they may not possess the cash on hand for a 5 percent down payment. This effect is compounded in high-cost metropolitan areas where affordable housing is scarce. NAFCU is opposed to such a statutory down payment requirement and would urge it be changed to ensure greater lender flexibility.

NAFCU is also troubled by the use of the Bureau of Consumer Financial Protection's (Bureau) "Qualified Mortgage" (QM) standard to determine loans eligible for the government guarantee. Although NAFCU appreciates the focus on preventing another subprime lending crisis, credit unions have historically practiced very prudent underwriting standards. Nonetheless, credit unions were subject to a one-size-fits-all regulation and have faced increased costs and compliance burdens as a result of the QM standard. Given the unique nature of member-relationships, many credit unions are making good loans that work for their members but do not fit into all of the

parameters of the QM box. At Tower, we are comfortable making credit worthy non-QM loans, but not all credit unions are. Using the Bureau's QM standard for the guarantee could discourage many credit unions from making non-QM loans, only further increasing costs and compliance burdens.

Moreover, in the future state under the bill, Ginnie Mae could establish such standards for eligible conventional mortgages through regulation that allows for public notice and comment. Underwriting standards should not be statutorily established and are best left to the regulator. This would allow the regulator to adapt to changing market conditions and act in a counter-cyclical manner, if necessary.

NAFCU would also like to caution Congress against perpetuating the use of only one credit-scoring model. Both Fannie Mae and Freddie Mac currently require loans that are underwritten using Classic FICO. Recently, Section 310 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act* (S. 2155) required FHFA to establish a validation and approval process for new credit score models. NAFCU supports the FHFA's efforts to implement this portion of S. 2155 and encourages Congress to account for the variety of available credit score models as it contemplates the structure and requirements of a new housing finance system.

Transition to a New Housing Finance System

NAFCU and our member credit unions also have general concerns about overall costs and workability, including the transition, to any new housing finance system. Although great strides have been made to address these concerns in the bill, we urge general caution and enhanced flexibility as major changes are contemplated to the housing finance system to ensure any reform is done right. As noted above, we believe that transitioning Ginnie Mae and the GSEs should be done methodically over expeditiously. Housing finance reform must ensure equal and competitive access for credit unions, while avoiding further concentration of the primary and secondary mortgage markets to the largest of lenders and Wall Street firms. It is critical that any increased costs associated with establishing a new housing finance system be minimized so as to not increase the cost of borrowing for consumers and not serve as a barrier to entry for small lenders.

If Congress acts to bring broad reforms to the nation's housing finance system, getting the transition right will be critical. It is of the utmost importance to ensure a smooth transition to a reformed system because credit unions need certainty that changes outlined in legislation and accompanying regulation will function as intended. Credit unions must be kept up-to-date during this transitional period, and lawmakers should build flexibility into the transitional period to account for unforeseen implementation challenges. NAFCU and its member credit unions believe that Congress should first agree on a set of reforms and then, based on the nature and complexity of the reforms, establish a timeframe for transition. Arbitrarily pledging to adhere to a transitional

timeframe before finalizing and beginning implementation of reforms could create otherwise avoidable issues for the GSEs or their successor(s) as well as outside stakeholders.

In order to ease the transition if a new system is established, Congress should consider moving currently approved Fannie Mae and Freddie Mac lenders into a new system en bloc and giving them an expedited certification. This could reduce confusion and, if executed properly, could make the process run more smoothly for all involved. It could take time for lenders to be certified with the new Ginnie Mae Plus, and this time should be factored in to the transition time.

NAFCU and its member credit unions also believe it is important that a new system be up and running before Fannie Mae and Freddie Mac's ability to securitize MBS is shut down. One way to accomplish this may be slowly winding down the two entities throughout the early stages of a new system.

Regulatory Relief and Mortgages

As Congress considers housing finance reform, we urge you to look for ways to provide community institutions such as credit unions relief from overly burdensome regulatory restrictions on mortgages that can serve to constrain mortgage credit.

NAFCU supports certain changes to the QM standard to make it more amenable to the quality loans credit unions are already making. We would like to highlight the following recommended changes:

Debt-to-Income Ratio

NAFCU supports Congress directing the Bureau to revise the aspect of the “ability-to-repay” rule that dictates that a consumer have a total debt-to-income (DTI) ratio less than or equal to 43 percent in order for that loan to be considered a QM. This arbitrary threshold prevents otherwise creditworthy borrowers from obtaining mortgage loans and has a particularly serious impact in rural and underserved areas where consumers have a limited number of options. The Bureau should either remove or increase the DTI requirement on QMs.

Inclusion of Affiliate Fees in the 3 Percent QM Points/Fees Test

After witnessing our members being charged exorbitant fees, Tower started a wholly-owned title company, which, by regulation is defined as an affiliate, to provide better services and more affordable benefits to our members. On occasion, when these fees are added to the Tower loans points/fees, they exceed 3 percent, so the loan becomes ineligible for sale to Fannie Mae and must be retained in portfolio. This means Tower has diminished capacity to provide more loans and services to its members. A similar, or worse, fee structure by an independent title company under

the same scenario would not be counted towards the 3 percent. Thus, lenders are penalized for having affiliated title companies even though they provide a benefit to borrowers.

TRID Reforms

Tower also supports changes to the TILA/RESPA requirements, such as removing the requirement to deliver the Closing Disclosure (CD) three business days prior to closing. There are myriad reasons why this issue creates hardship for all involved. A “real-life” situation includes a final property inspection triggering “last minute” changes to the contract, which are in the best interest of the borrower. Due to the rigid, mandatory, “no exception” nature of the CD requirement, these examples “re-start” the timer and push back closing, which affects the borrower’s moving schedule, utility setups, and other important events. There are also examples where a borrower may be able to get better terms on rates, but cannot afford to move the closing and cannot waive this requirement. Tower finds this requirement especially frustrating for our members who do not understand why this requirement is penalizing them. We are pleased that S. 2155 provided some relief in this area as it relates to high-cost mortgage loans, but we think that relief should apply to all mortgage disclosures.

Finally, there may be specific provisions in the *Federal Credit Union Act* that would have to be amended to ensure a new housing finance system works for credit unions. One example is the limitation on credit union investments that could hinder the ability of credit unions to participate in a new system. NAFCU welcomes the opportunity to work with the Committee on potential changes that may be needed as part of any housing finance reform effort.

Conclusion

NAFCU appreciates the Committee’s attention to this important issue and thanks Chairman Hensarling and Representatives Delaney and Himes for advancing this debate in a bipartisan manner. There are a number of positive aspects about the bill before the Committee today. Still, the current system works for credit unions and we urge you to move cautiously with any reforms. As you consider housing finance reform, we urge you to adhere to the credit union principles outlined in my testimony. Whatever approach is taken to reform the system, it is vital that credit unions continue to have unfettered access to the secondary market and receive fair pricing based on the quality of their loans. The government must also continue to play a role by providing an explicit government guarantee to help stabilize the market.

Thank you for the opportunity to provide our input on this important issue. NAFCU and its member credit unions look forward to working with you as housing finance reform legislation moves forward. I thank you for your time today and welcome any questions you may have.