NAFCU

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B. Dan Berger
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March 9, 2007

The Honorable Paul Kanjorski
Chairman
Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Deborah Pryce
Ranking Member
Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Kanjorski and Ranking Member Pryce:

The National Association of Federal Credit Unions ("NAFCU") supports your efforts and those of your Congressional colleagues to craft a solid legislative package dealing with the critical issues in ensuring the safety and soundness of our nation's secondary mortgage market. In conjunction with Monday's hearing, I would like to share some of our thoughts on this important issue.

Homeownership is a core American value and our members are proud of the role that credit unions have come to play in recent years - in conjunction, with Fannie Mae, Freddie Mac and the Federal Home Loan Banks (collectively the GSEs") in helping an ever increasing number of Americans achieve the dream of owning their own home. NAFCU's member credit unions hold approximately 65 percent of all Federal credit unions assets. While the average NAFCU-member credit union has $341 million in assets, the median is significantly smaller with assets of $99 million.

Within the credit union community, NAFCU's membership has a vital interest in the consideration of matters related to GSE reform and in the preservation of a viable secondary mortgage market. GSEs allow credit unions to obtain the necessary capital to create new mortgages for their member-owners by utilizing the secondary market, despite the capital restrictions that are in place. Moreover, the GSEs are a key conduit for access to mortgage credit throughout the nation by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. As of December 2006, NAFCU-member credit unions accounted for:

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73.44% of all Federal credit union real estate loans;
74.51% of all Federal credit union 1st mortgage loans outstanding;
76.41% of all Federal credit union mortgages granted in 2006;
81.56% of all Federal credit unions 1st mortgages sold in 2006.

NAFCU recognizes that GSE-reform is a multi-faceted issue. In this letter, NAFCU will limit our comments to four specific issues in which our member credit unions have a particular interest: the need for an independent GSE regulator, prior program approval, limits on portfolio holdings, and minimum capital levels.

GSEs Warrant an Independent Regulator

NAFCU strongly supports the efforts to create an effective, world-class, independent regulator. However NAFCU believes that an independent regulator would need to be outside the Congressional appropriations process and, moreover, be independent of the political process. These steps are necessary to ensure that the independent regulator would be focused on the safety and soundness of GSEs. Additionally, GSEs warrant an independent regulator that would be equivalent to those of the other federal financial regulators, with the same supervision and enforcement powers. Absent an independent regulator, there will always be a danger that the GSEs will from time to time find themselves unintentionally pulled in different directions by well-intended regulators whose statutory emphasis is on different aspects of their regulatory framework.

Prior Approval of Programs, Products and Activities

Some have suggested that as part of the GSE reform process, Congress should require that Fannie Mae, Freddie Mac and the Federal Home Loan Banks submit to the new regulator for prior approval before implementation, any proposals for new and/or innovative programs, products or activities. NAFCU recognizes the vital importance of proper regulatory supervision and the need to ensure that the GSEs' programs products and activities remain mission-centric; however, NAFCU is concerned that if Congress mandates prior approval of programs, products and activities, the net result could be a stifling of creative thinking and an unintended decline in innovation. In lieu of prior approval, NAFCU recommends Congress take a more moderate approach of requiring the GSEs to submit to the new regulator, a notice of intent to implement new or innovative programs, products and/or activities, thus giving the regulator the authority to block or "veto" implementation if it is deemed unfit. Absent such a "veto," new programs, products and activities should be allowed to move forward from concept to implementation, without the need for public notice and comment and without explicit agency approval.

Limits on GSEs' Portfolio Growth and Holdings

Some have advocated that hard caps be placed on the growth potential of GSEs' portfolios. NAFCU urges Congress to exercise restraint in imposing such limits. NAFCU is concerned that such hard caps would obstruct GSEs from being fully capable in fulfilling their mission and in fact, might erect unnecessary obstacles to the GSEs in ensuring that we have a strong secondary market for mortgages. Additionally, NAFCU does not support the forced or "directed" divestiture of GSEs' investments/holdings, except when deemed appropriate by the new regulator for legitimate and documented safety and soundness concerns.

Minimum Capital Levels

As congress considers the regulatory authority for the GSEs' minimum capital levels, NAFCU recommends that any changes be done solely for safety and soundness concerns. Requiring the GSEs to hold excess capital beyond what is necessary for the safe and sound operation of the enterprises will limit the liquidity that the GSEs can provide to credit unions. Because of this impact, changes to the minimum capital levels of the GSEs by their new regulator should be made cautiously and should be detached from political decisions on the role of the GSEs in the housing market. While the regulator should have discretion to change the minimum capital requirements for Fannie Mae and Freddie Mac similar to other federal financial regulators, such discretion should be limited to changes that are directly tied to specific safety and soundness concerns.

Thank you for the opportunity to share NAFCU's views on these important issues. If you have any questions or if we can be of further assistance to you or your colleagues in the consideration of matters related to GSE reform please do not hesitate to contact me or NAFCU's Director of Legislative Affairs, Brad Thaler at (703) 522-4770 ext. 204.

Sincerely,

B. Dan Berger.
Senior Vice President, Government Affairs

cc: Members of the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Committee on Financial Services