July 20, 2000

The Honorable Richard Baker
Chairman
Subcommittee on Capital Markets, Securities
and Government Sponsored Enterprises
Committee on Banking and Financial Services
U. S. House of Representatives
Washington, D.C. 20510

Dear Chairman Baker:

The National Association of Federal Credit Unions (NAFCU) – the only national organization exclusively representing the interests of our nation's Federal credit unions – commends you for convening a third day of hearings on H.R. 3703, the *Housing Regulatory Improvement Act*. When you introduced this bill on February 29 of this year Representative Jim Leach, the distinguished Chairman of the full Committee, joined with you as an original co-sponsor of your bill which according to its title is intended "to consolidate and improve the regulation of the housing-related Government sponsored enterprises, and for other purposes."

Having had an opportunity to review the *Housing Regulatory Improvement Act*, I would like to share with you and your colleagues on the Capital Markets, Securities and Government Sponsored Enterprises Subcommittee the views of the National Association of Federal Credit Unions (NAFCU), and respectfully request that this letter be included in the Subcommittee's hearing record on this bill.

Credit unions throughout the country play a vital role in assisting individuals, particularly those of modest means, in achieving the American dream of homeownership. Since Congress conferred mortgage-lending authority on Federal credit unions on November 10, 1978 with passage of Public Law 95-630, credit unions in increasing numbers have worked to implement mortgage-lending programs to meet the needs of their membership. For many credit unions the ability to sell conforming loans in the secondary market is an important if not essential component of their mortgage lending business plan. In fact, NAFCU's analysis indicates that approximately one-third of all first mortgages extended by Federal credit unions are, in fact, sold in the secondary market (see chart labeled "FCU 1st Mortgages: Loans Sold/Loans Granted").

In calendar year 1999 Federal credit unions extended approximately $14.92B in first mortgage loans. Of that amount, $4.07B was sold in the secondary market (see chart labeled “Federal Credit Unions: 1st Mortgage Loans”). Nearly half (226) of the 489 Federal credit unions selling mortgages in the secondary market last year were NAFCU-member credit unions; these NAFCU-member credit unions accounted for 79.2% ($3.22 billion) of the total dollar volume ($4.07B) of Federal credit union originated loans sold in the secondary market. Against this backdrop it is clear that credit unions in general and NAFCU-member credit unions in particular have a vital interest in matters addressed in the *Housing Regulatory Improvement Act.*

A central component of the *Housing Regulatory Improvement Act* is the abolition of the Office of Federal Housing Oversight (OFHEO) and the Federal Housing Finance Board (FHFB), and the creation of the Housing Finance Oversight Board (the “Board”) as a consolidated successor regulator. NAFCU is opposed to this idea and would like to focus its comments on that particular issue.

NAFCU believes that the proposal to replace the Office of Federal Housing Oversight and the Federal Housing Finance Board with a new Housing Finance Oversight Board (and the new responsibilities and regulations that would come with it) would create an additional layer in the oversight bureaucracy. Along with this additional bureaucracy there would appear to be added burdens placed on the GSEs -- and potentially lenders such as credit unions -- without any discernable benefit to safety and soundness.

NAFCU believes that legitimate parallels can be drawn between proposals to consolidate the regulation and oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks on the one hand, and insured depository institutions on the other. At first blush proposals to establish a consolidated “super” regulator may have appeal, since they imply coordination of effort, economies of scale, and more efficient utilization of resources. In the financial services sector we have seen numerous proposals put forward over the years to establish just such a “super” regulator to oversee the activities of banks, thrifts and credit unions. However, for much the same reason NAFCU has opposed the inclusion of the National Credit Union Administration (NCUA) in such a consolidated “super” regulator, NAFCU would oppose a consolidation of OFHEO and the FHFB.

Specifically, NAFCU believes that – like Federal credit unions -- Fannie Mae, Freddie Mac and the Federal Home Loan Banks were chartered by Congress to advance specific public policy goals. The attainment of those goals is more likely to be achieved when the regulated entities operate under the purview of an agency not just familiar with but committed to their specific mission. Just as non-profit, member-owned and volunteer driven credit unions are fundamentally different in organization, structure and mission from for profit banks and thrifts, likewise Fannie Mae and Freddie Mac are fundamentally different in organization, structure and mission from the Federal Home Loan Banks. Any economies or efficiencies to be derived through regulatory consolidation will necessarily come at a price; that price most likely being a dilution of commitment to their respective Congressional mandate.

Against this backdrop the NAFCU would encourage you, Mr. Chairman, and your colleagues on the Capital Markets, Securities and Government Sponsored Enterprises Subcommittee to preserve the existing regulatory and oversight framework relative to Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

NAFCU believes that Freddie Mac and Fannie Mae both provide liquidity and stability in the marketplace; we would be concerned about any provisions that might adversely affect their ability to continue to do so. They also serve credit unions and credit union members by the manner in which they foster innovation and provide an investment source for new types of mortgages and affordable housing mortgage products. Any legislation should be sensitive to these important objectives and not unnecessarily impede the smooth operations of these entities or subject them to undue regulatory processes or restrictions.

Under H.R. 3703, new programs require a public review process entailing publication in the Federal Register with a 30-day comment period. Some might consider such a requirement onerous. In fact, it is not difficult to imagine that such a publication and notice requirement could trigger lobbying efforts by those who give corporate profit motives a higher priority than consumer friendly innovation in the marketplace, or by those that lack either the expertise or resources to roll-out certain new or innovative products.

NAFCU is also concerned that enactment of H.R. 3703 could have a potentially detrimental impact on the housing finance market by bureaucratizing the process by which lenders deal with the GSEs. This process has in the past, and remains today, a one-on-one process. Fannie Mae, Freddie Mac, and – to a lesser extent -- the Federal Home Loan Banks examine the individual strengths and weaknesses of lenders in the process of approving new programs or renewing the terms of annual master agreements (as is the case with Fannie Mae and Freddie Mac). NAFCU is concerned that GSEs would have far less flexibility to deal with the unique attributes of various lenders – particularly member-owned credit unions -- under the terms of the proposed legislation.

While NAFCU has no particular allegiance to the GSEs, in evaluating the proposed legislation in light of what Fannie Mae and Freddie Mac, in particular, have done for housing finance in this country, we have to step back and ask, *What is the problem?* Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are doing their jobs well and are financially sound. They have not shown any proclivity for making careless decisions regarding the way they run their businesses, the new programs they choose to introduce, or the way in which they conduct their activities in the national securities market. If anything, Fannie Mae and Freddie Mac, in particular, have been innovators in managing their businesses to remain strong and continue to offer the all-important stability to the national secondary market. NAFCU would encourage the sponsors of H.R. 3703, the *Housing Regulatory Improvement Act* to think long and hard before tinkering with something that appears to be working so well.

Thank you, Mr. Chairman, for your consideration of the views of the National Association of Federal Credit Unions. If you have any questions or if we may be of assistance to the Subcommittee concerning this or any other matter please do not hesitate to contact me or NAFCU's Senior Vice President and Deputy General Counsel, Bill Donovan, at (703) 522-4770.

Sincerely,

Fred R. Becker, Jr.
President & CEO

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cc: The Honorable Paul Kanjorski