Cooperative Credit Union Association, Inc.

Priority Considerations for Housing Finance Reform

Credit Union Goal:

Preserving the 30-year fixed mortgage which allows lower- and middle-income families to own a home, build savings, and stabilize our communities.

Credit union access to the secondary market is essential and the sale of loans to such market is vital for credit unions. By working directly with first-time home buyers to make loans, credit unions take on credit risk. Secondary market investors, such as Freddie Mac and Fannie Mae, help a credit union clear its balance sheet, making room for new loans. They provide capital support. Regulatory requirements promote selling loans in this manner to help credit unions alleviate interest-rate, credit and liquidity risks associated with holding loans on balance sheets. The bounce effect is that by making more loans, credit unions can serve more members and can increase market share thereby ensuring that credit unions remain viable players in the primary market.

Guiding Principles:

-Vibrant and Liquid Secondary Market

The secondary market must be open to lenders of all sizes on an equitable basis. Prices paid for mortgages sold should not be based on volume of loans originated but on be equitable for credit unions and smaller lenders.

-Servicing Rights

In order to ensure a completely integrated mortgage experience for member-borrowers, credit unions should continue to be afforded the opportunity to retain or sell the right to service their members' mortgages, at the sole discretion of the credit union, regardless of whether that member's loan is held in portfolio or sold into the secondary market. Moreover, to the extent national mortgage servicing standards are developed, such servicing standards should be applied uniformly and not result in the imposition of any additional or new regulatory burdens upon credit unions.

-Skin-in-the-Game

Lenders, including credit unions, should be required to retain on their books a certain percentage of each loan sold on the secondary market/pooled into a mortgage-backed security. When entities do not bear the full consequences of or responsibility for their actions, "moral hazard" arises. All risk should not be borne by the government or taxpayers.

-Strong Oversight and Supervision

Secondary market entities must be subject to appropriate regulatory and supervisory oversight to ensure their safety and soundness. Accountability, effective corporate governance, preventing future fraud, and strong capital requirements must be adopted. Such entities must also have flexibility to operate well and develop new programs in response to marketplace demands.

-Fiduciary Standards

Alignment of the interests of servicers, trustees, and investors in both the guaranteed and the private label markets so that servicers act in the best interest of investors. Financial

incentives, such as receiving larger fees for foreclosures than for loan modifications, should be impermissible.

-Neutral Third Party
There must be a neutral third party in the secondary market, with its sole role as a conduit to the secondary market. This entity must be independent of any firm that has any other role or business relationship in the mortgage origination and securitization process, to ensure that no market participant or class of participants enjoys an unfair advantage in the system.

-Durability
The housing finance system should include an explicit federally-insured or guaranteed component to ensure that, even in troubled economic times, the secondary mortgage market continues to exist. An explicit guaranty applies to the mortgage backed securities and not the entities issuing or guarantying the securities. The guaranty should be expressly limited and conditioned on private capital occupying a significant first-loss position. Credit enhancement programs are a model.

-Education
Consumer education and first-time home purchase counseling must be included to ensure that borrowers receive appropriate mortgage loans. A careful balance must be maintained so that repeat, informed borrowers are not delayed in obtaining access to credit.

-Affordable Housing
The important role of government support for affordable housing should be a function separate from the responsibilities of the secondary market entities. The requirements for a program to stimulate the supply of credit to lower income borrowers are not the same as those for the more general mortgage market.

-New England Real Estate and Reasonably Priced Products
Any new housing finance system should apply reasonable conforming loan limits that adequately take into consideration local real estate prices in higher cost areas. In addition, it must include consumer access to a variety of products that provide for predictable, affordable mortgage payments to qualified borrowers such as fixed-rate mortgages and standardized adjustable rate mortgages.

-Reasonable and Orderly Transition
Any transition from the current system to a potential new housing finance system must be reasonable and orderly, in order to prevent significant disruption to the housing market which would harm homeowners, potential homebuyers, the credit unions who serve them.