



National Association of Federal Credit Unions

3138 10th Street North • Arlington, VA 22201-2149

(703) 522-4770 • 800) 336-4644 • Fax (703) 524-1082

www.nafcu.org • nafcu@nafcu.org

July 27, 2005

The Honorable Richard Shelby
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Paul Sarbanes
Ranking Member
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Shelby and Senator Sarbanes:

As you and your colleagues on the Senate Banking Committee prepare to mark-up GSE reform legislation, I wanted to assure you that the National Association of Federal Credit Unions (“NAFCU”) continues to support your efforts to craft a solid legislative package designed to ensure the safe and sound functioning of our nation’s secondary mortgage market. Homeownership is a core American value, and the credit unions we represent are proud of the role we have come to play in recent years – oftentimes 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 home ownership. In anticipation of Thursday’s scheduled mark-up, we would like to share our thoughts on three key issues that will be on the table during that mark-up: the “bright line” test; prior approval of programs, products and activities; and, limitations on portfolio growth.

Bright Line Test

We are pleased to see that the Chairman’s Mark for this week’s mark-up does not include a “Bright Line” test that would clearly distinguish between the primary or mortgage origination market and the secondary market. We are pleased to see that the Chairman’s Mark recognizes the important role that automated underwriting systems play for credit unions and exempts modifications to the automated underwriting systems from certain product approval review. We urge you and your colleagues to reject any amendments intended to remove this protection for the automated underwriting systems.

Prior Approval of Programs, Products and Activities

The bill being considered by the Committee this week would require that Fannie Mae and Freddie Mac submit to the soon-to-be-established new regulator any proposals for new and/or innovative programs, products or activities in order to obtain the regulator’s “prior approval.” 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 and mandatory public notice and comment are part of that process the net result could be a stifling of creative thinking and an unintended decline in innovation. In lieu of prior approval of programs, products and activities, NAFCU recommends that Congress take the more moderate approach of requiring the GSEs to submit to the new regulator notice of intent to implement new or innovative programs, products and/or activities and give the regulator the necessary

authority to block or “veto” such implementation if in its judgment such implementation would not be safe and sound or is outside the GSE’s Congressionally-granted charter. 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

We have concerns that Congress not mandate the growth potential or holdings of the GSEs’ portfolios. NAFCU urges Congress to exercise great constraint in imposing any such limits. As Secretary of the Treasury John Snow noted in comments he recently made in support of such caps, it is also important that the GSEs “are fully capable of fulfilling their basic mission of making sure we have a strong secondary market for mortgages” (*Wall Street Journal*, April 1). Credit unions certainly share that concern and question whether hard (mandated) caps on portfolio growth and specifying categories of eligible portfolio assets might, in fact, erect unnecessary obstacles to the GSEs “fulfilling their basic mission of making sure we have a strong secondary market for mortgages”. We have concerns that the portfolio limitations in the bill being considered for mark-up may ultimately weaken the secondary market for mortgages and cause significant impacts on small lenders such as credit unions. We do support, however, providing the regulator with the authority to limit holdings based on safety and soundness concerns, similar to the authority granted to other federal financial regulators.

Conclusion

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 as you consider matters related to GSE reform, please do not hesitate to contact me or NAFCU’s Senior Vice President and General Counsel, Bill Donovan, at (703) 522-4770.

Sincerely,



Fred R. Becker, Jr.
President and CEO

cc: Members of the Senate Banking, Housing and Urban Affairs Committee