Testimony of

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On behalf of

The National Association of Federally-Insured Credit Unions

"Housing Finance Reform: Maintaining Access for Small Lenders"

Before the

United States Senate Committee on Banking, Housing, and Urban Affairs

July 20, 2017

Introduction

Good morning, Chairman Crapo, Ranking Member Brown, Senator Tillis and Members of the Committee. My name is Chuck Purvis 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 Reform and the importance of maintaining secondary market access for small lenders. NAFCU appreciates the bipartisan approach committee leadership and members have demonstrated on this critical issue. 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 110 million members.

I currently serve as the President and CEO of Coastal Federal Credit Union in Raleigh, North Carolina. Coastal Federal Credit Union is a $2.9 billion institution serving 235,000 members with 22 branches in central North Carolina. Coastal was originally chartered in August of 1967 to serve employees of IBM in Raleigh. Today, 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 and residential real estate brokerage services. In 2016, Coastal received a low income designation from NCUA, meaning at least fifty percent of our members live in census tracts that are identified as being low income by the federal government.

I joined the team at Coastal in May of 2001 and became President/CEO on July 1, 2012. I have 35 years of senior management experience with credit unions, including serving on the board and as chairman of the National Credit Union Foundation. I was also recently recognized by the *Triangle Business Journal* as the 2016 Business Person of the Year, the first time that a credit union executive has been honored with that award.

I go to work every day with three things in mind:

> #1 – How can I make Coastal a great place to work for our 475 employees? If they don't enjoy coming to work, find their work rewarding, and love to serve, we will not succeed in providing exceptional service and value to our members;
>
> #2 – How do we best use our resources to put more money into the pockets of our members every day? They are who we are here to serve; and,

#3 – How do we help make the dreams of our members come true – whether their first home, first car for a college graduate, or a basic car to allow someone to work every day and support their family? These dreams and aspirations are why we exist.

NAFCU's Perspective on Emerging Senate Debate

NAFCU applauds Chairman Mike Crapo and Ranking Member Sherrod Brown for their continued bipartisan attention to housing policy as the Banking Committee agenda aggressively pursues housing finance reform ideas from the perspective of all stakeholders. NAFCU is the only national organization exclusively representing the interests of the nation's federally-insured credit unions. NAFCU-member credit unions collectively account for approximately 69 percent of the assets of all federally chartered credit unions. My testimony today will explore the longstanding and vital relationships credit unions have with the government sponsored enterprises (GSEs) and how important it is for any housing finance reform package to ensure credit union access to the secondary market under fair pricing conditions.

We appreciate the approach the committee has taken to not rush any efforts on housing finance reform, and to carefully consider the practical implications of any changes that may be made. Although we have not endorsed any particular plan at this time, we appreciate the stakeholder focused approach and the Committee holding this hearing. We do, however, have several housing finance reform principles that should be included in any reform effort to guarantee the continued safety and soundness of the credit union industry.

We believe that efforts to fund a new system be done in a way as to limit the cost to smaller financial institutions as much as possible. High costs of entry into, or establishment of, a new system, could be a major barrier of access for small lenders. To date, we do not believe that any housing finance reform solution suggested in previous Congresses fully took into account the needs of small lender access. For instance, the legislation before the Committee in 2014, S. 1217, had a $15 billion cap for participation in a new mutual securitization company designed for smaller lenders. With that model, we remain concerned that institutions below that arbitrary asset size threshold would be unable to generate enough volume to ensure liquidity and that smaller lenders would have a difficult time capitalizing such an entity. If the Committee were to consider such an

approach again, we believe it should be open to a full range of institutions to ensure that these concerns are addressed.

We also want to stress that it is critical that large institutions not be given control of the market. Even though large institutions play an important role, including serving as a loan purchaser for small lenders, their market dominance would have negative consequences for smaller institutions. In many instances, they compete for mortgage business with small lenders. They may be willing to buy small lender loans to package them in good economic times, ensuring liquidity for small lenders. However, in an economic downturn, they may limit this activity, drying up liquidity for small lenders and reducing competition for them on the front-end. In that scenario, the consumers and communities small lenders serve lose access to mortgage credit. Congress must ensure that does not happen in a reformed system.

Credit Union Principles in Housing Finance Reform Efforts

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

- **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 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 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, and has been recognized, as a way to promote thrift and to 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 110 million Americans. Despite the passage of over 80 years since the *Federal Credit Union Act* (FCUA) 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 service; and,
- Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism. Credit unions are not banks.

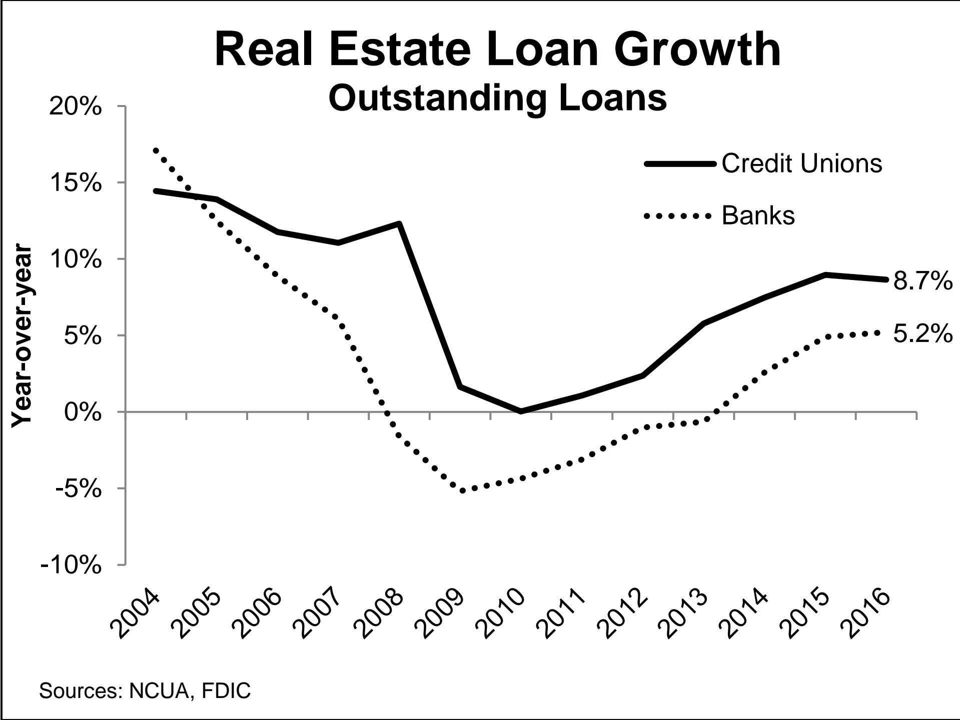
The nation's approximately 5,700 federally-insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. 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.

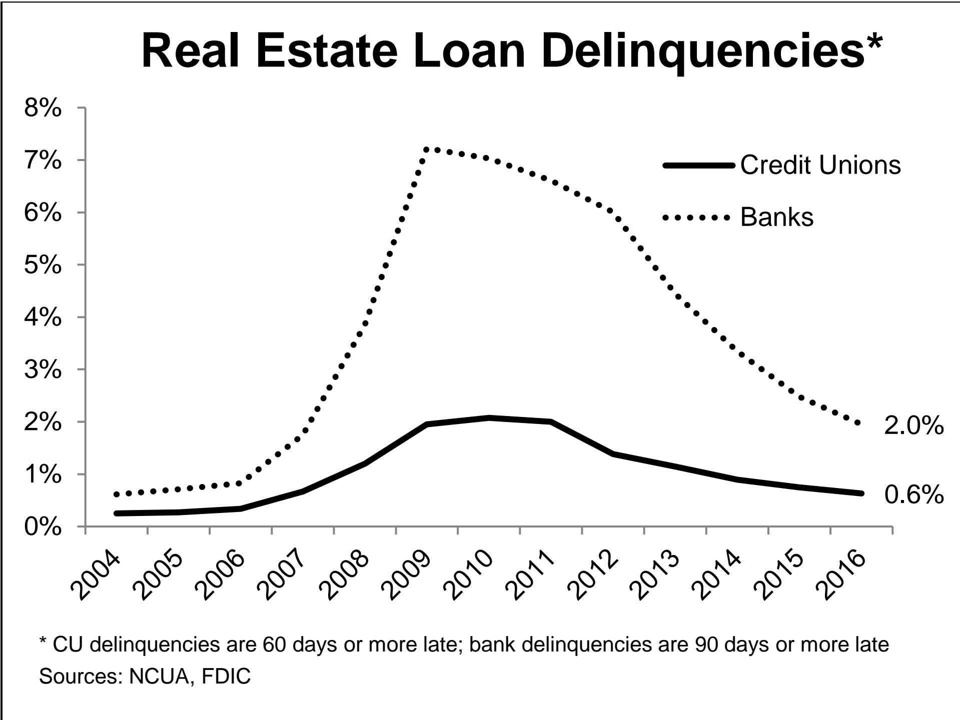
Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. Since the financial crisis of 2008, consolidation of the commercial banking sector has progressed at an increasingly rapid rate. With the resulting depersonalization in the delivery of financial 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

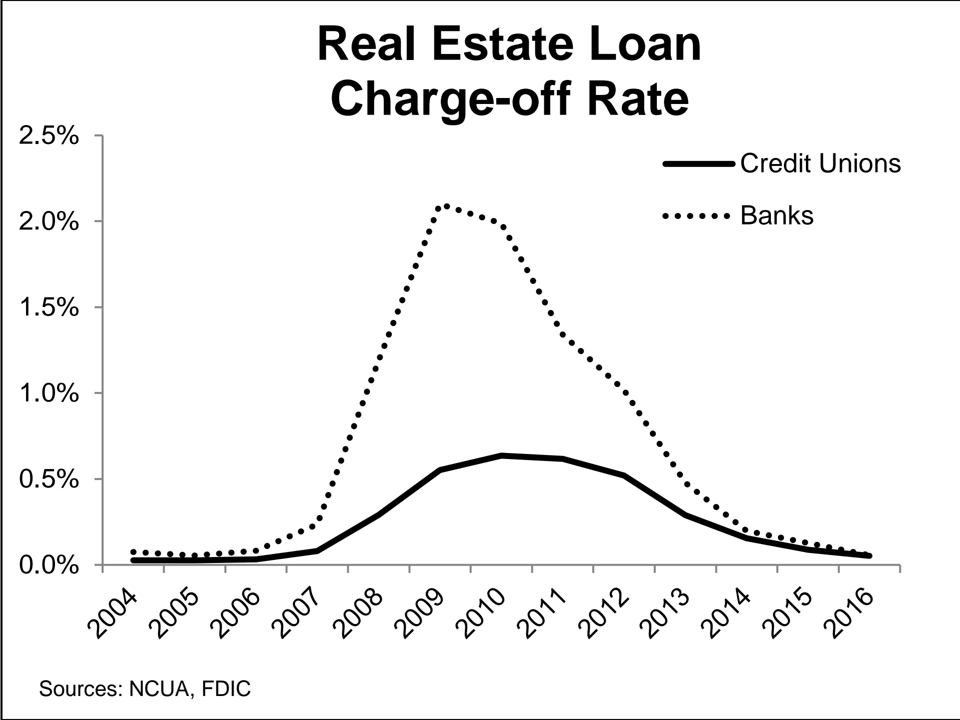
unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

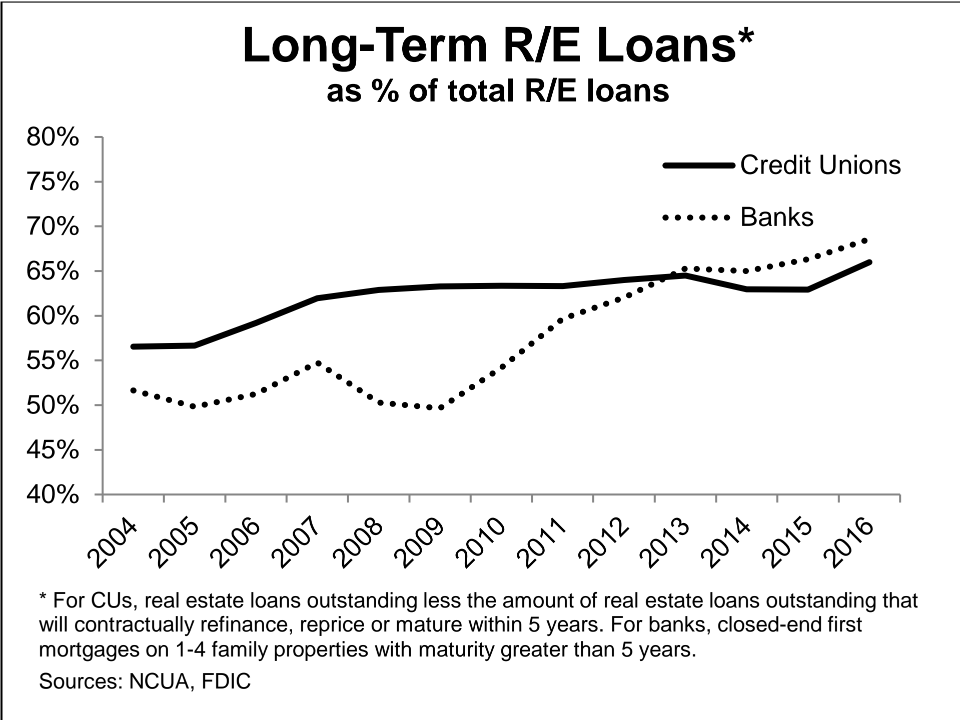
As has been noted by members of Congress across the political spectrum, credit unions were not the cause of the economic crisis, and an examination of their lending data indicates that credit union mortgage lending outperformed bank mortgage lending during the recent downturn. This is partly because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

While 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 NAFCU urges members of the Committee to recognize the historical performance and high quality of credit union loans as housing finance reform moves forward.


Real Estate Loan Growth
Outstanding Loans
20%
15%
10%
5%
0%
-5%
-10%
Year-over-year
Credit Unions
Banks
8.7%
5.2%
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Sources: NCUA, FDIC

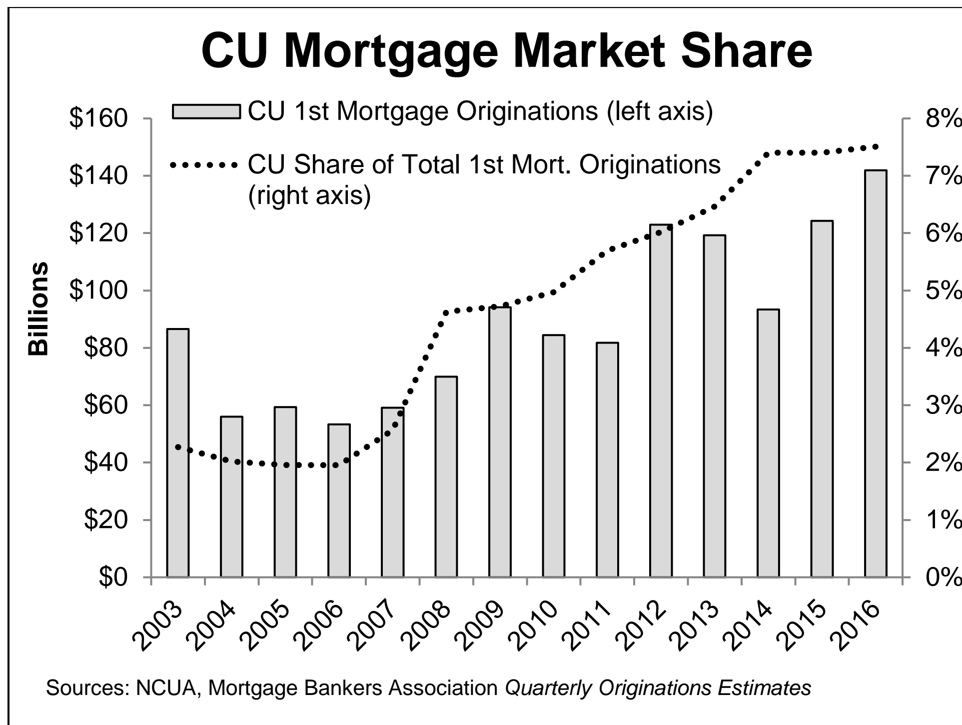

Real Estate Loan Delinquencies*
8%
7%
6%
5%
4%
3%
2%
1%
0%
Credit Unions
Banks
2.0%
0.6%
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
* CU delinquencies are 60 days or more late; bank delinquencies are 90 days or more late
Sources: NCUA, FDIC





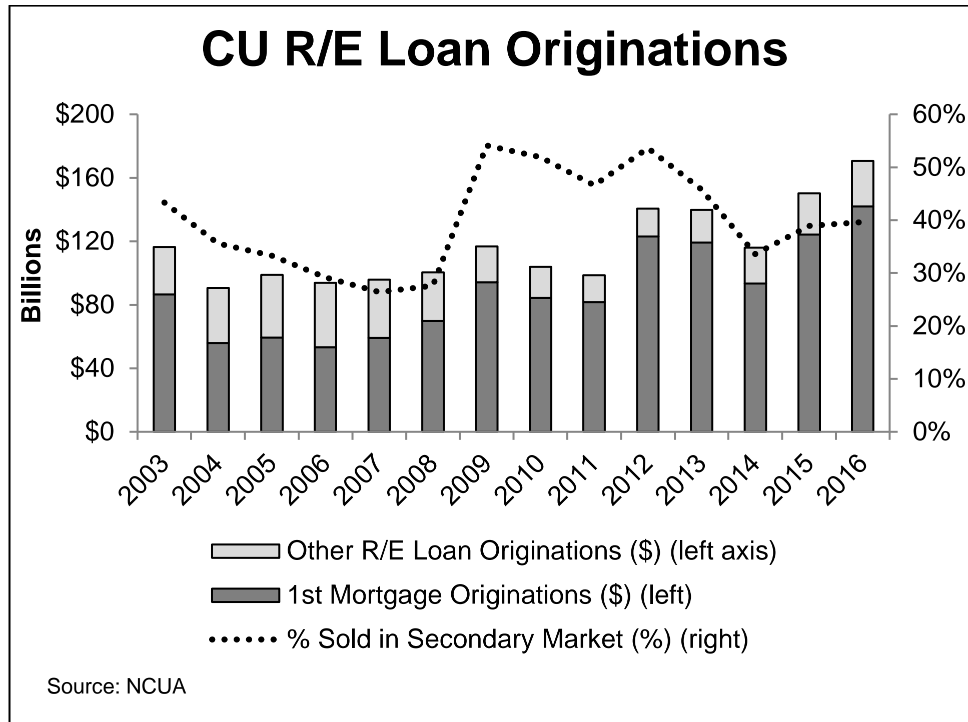
A primary concern of credit unions is continued unencumbered access to the secondary mortgage market. This includes adequate transition time to any new system. A second concern, equally as

important, is recognizing the quality of credit union loans through a fair pricing structure. Because credit unions originate a relatively low number of loans compared to others in the marketplace – federally-insured credit unions had just over 7 percent of the first mortgage originations in 2016 (see chart below) – we do not support a pricing structure based on loan volume, institution asset size, or any other geopolitical issue that will lend itself to discrimination and disadvantage their member-owners. As such, credit unions should have access to pricing that is focused on quality not quantity.



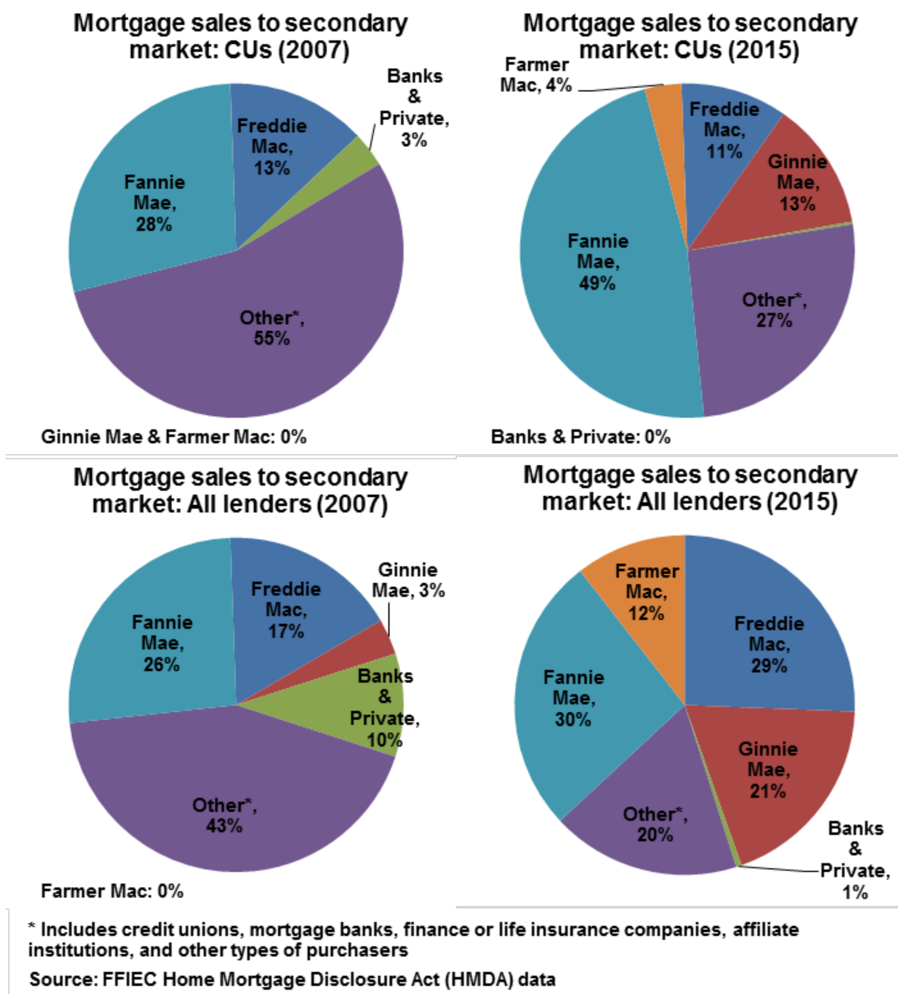
Recent trends in asset portfolios, coupled with the current interest rate environment, present a unique challenge to credit union management. Until recently, interest rates had fallen to record lows, credit unions experienced vigorous share growth, and credit union participation in the mortgage lending arena increased to historic heights. Even as interest rates have begun to rise again, credit union first mortgage originations have continued to grow. Between 2007 and 2016, the credit union share of first mortgage originations expanded from 2.6 to 7.5 percent. The portion of first mortgage originations sold into the secondary market increased overall from 26 percent in

2007 to 40 percent in 2016, according to National Credit Union Administration (NCUA) call report data (see chart below), although it has leveled off in recent years.



Credit unions hedge against interest rate risk in a number of ways, but selling products to be securitized and sold on the secondary market remains a key component of safety and soundness. Lenders must have guaranteed access to secondary market sources including Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Home Loan Banks (FHLBs) as they are valuable partners for credit unions who seek to hedge interest rate risks by selling their fixed-rate mortgages. Not only does this allow credit unions to better manage risk, but we are also able to reinvest those funds into their membership by offering new loan products or additional financial services. A 2015 NAFCU real estate survey highlights the growing use of GSEs among credit unions. More than three-quarters of respondents indicated that credit union board policy restricted the percentage of real estate loans that could be held on their balance sheet, with a median limitation of 40 percent of total loans. Without these critical relationships, credit unions would be unable to provide the services and financial products their memberships demand and expect.

Home Mortgage Disclosure Act data shows how heavily credit unions have come to rely on the GSEs. Between 2007 and 2015, the portion of credit union first mortgages that were sold to Fannie Mae grew from 28 percent to 49 percent. The portion sold to Freddie Mac fell slightly from 13 percent to 11 percent over the same period. Credit unions sold a total of 60 percent of their first mortgages sold to the secondary market to the GSEs in 2015. The total market for mortgage resales is also heavily dependent on the GSEs. The portion sold to Fannie Mae and Freddie Mac in 2007 was 43 percent in 2007 and 59 percent in 2015.



Finally, it should also be noted that the government plays an important role in helping to set standards and bring conformity to the housing market. Any changes to these standards that result in decreased conformity could make it harder for credit unions to sell loans onto the secondary market as they do not have the economies of scale that larger market participants enjoy.

Mortgage Lending at Coastal

Coastal has been offering mortgage loans for the past 40 years. Until 2008, Coastal held the majority of our mortgages in portfolio. As demand grew and long term interest rate risk came into play, we began to work with Fannie Mae to sell many of our loans into the secondary market. From 2008 to 2009, we experienced a 300% increase in the value of loans sold to Fannie Mae.

It's important to note that Coastal never participated in the type of risky mortgage lending that contributed to the economic downfall of 2008 and 2009. We did not get into negative amortizing ARMs, 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 would not put them into a home they could not realistically afford. As a result, we only experienced 70 foreclosures over the past decade, including a period of time where other lenders saw double-digit percentages of their portfolio going bad.

Since 2011, Coastal has made more than 11,700 mortgage loans, for a total $2.25 billion. During that same time period, we sold 72% of those loans directly to Fannie Mae, because they offer competitive pricing for affordable lending to our members, diverse mortgage products, and allow us to maintain the servicing relationship with our members.

We currently service 10,738 mortgages valued at nearly $1.8 billion. Of that, 7,310 loans valued at $1.2 billion are with Fannie Mae. 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 central North Carolina, we do have members in all 50 states.

Within our primary 16-county market footprint, Coastal ranks 10th in market share out of 620 lenders. We achieve this, in part, because of the trust we've built with our membership and the value we return to them. We receive volumes of positive feedback from our members in regard to our mortgage process and our servicing.

We firmly believe that access to affordable credit for homebuyers is essential to middle class financial well-being. Even people who rent can benefit. We represent a market that's home to some

of the highest rents in the state, in part due to supply constraints in a high-demand market. By continuing to make home loans accessible and affordable, we can help do our part to relieve some of that market pressure.

But, without the GSEs, our capacity to lend would be outstripped by demand. The GSEs benefit consumers because access to the secondary market and access to capital provides us with additional lending capacity. Our ability to sell loans, versus keeping them on our balance sheet, also mitigates our long term interest rate risk, reduces concentration risk, and keeps rates competitive. If not for access to the GSEs, our capacity to meet local demand would be greatly diminished, and local consumers would suffer from higher rates and fees, more stringent credit requirements and overall fewer options. I urge you to keep this in mind as you consider reform.

Coastal serves many members who are seeking to buy their first home. We feel an obligation to help make that first mortgage affordable, and are committed to walking members through the home-buying process. We offer a variety of seminars and educational resources for first-time homebuyers, including Fannie Mae's Framework.

Coastal has been making special first-time homebuyer loans since the 1990s. We currently offer two first-time homebuyer mortgages, a 30 year fixed-rate loan and a 7/1 adjustable rate loan. The program is available to home buyers who have not owned a home in the last 3 years. The product conforms to Fannie's standards, so only one spouse needs to be a first-time home buyer. Our first-time homebuyer mortgage is a 100% loan with no mortgage insurance, no income or area limits and up to a $300,000 sale price. We currently service 787 first-time homebuyer loans, totaling $124 million. Our 60-day delinquency rate on those loans is below 1%.

In 2016, due to the increasing number of extended and multi-generational households in our market, we began offering the Fannie Mae HomeReady® loan. HomeReady® allows consideration of income from non-borrower household members (relatives or non-relatives) as a compensating factor to allow for a debt-to-income (DTI) ratio above 45% and up to 50%. It also considers non-occupant borrowers, such as parents.

We are also a member of the Federal Home Loan Bank of Atlanta, and through them, we have access to additional funding to allow us to continue to make home loans at times where loan demand outstrips deposit growth. Currently, we have $110 million outstanding with the FHLB.

Term advances from the FHLB are also a tool to help us manage interest rate risk created by longer term loans.

Key Elements of the Current System

Our partnership with Fannie Mae is critical to Coastal's mortgage lending function. We use Fannie'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.

Our reliance on Desktop Underwriter® provides Coastal with a level of efficiency that we might not otherwise have. Additionally, it enhances the member experience by automating and expediting parts of the loan process. If governmental reform creates any significant changes to the Desktop Underwriter® platform, it would have widespread effects on our operations.

Fannie Mae has recently launched a new program, Day One Certainty™, which automates and expedites income and employment verification as part of the application process. This speeds up the mortgage underwriting process by as much as ten business days, adds a level of data integrity, and greatly reduces the risk of fraud. Coastal participated in the pilot program for Collateral Underwriter® for property evaluations, one of four segments of the Day One Certainty™ program.

As Congress considers reform, access to such technology must be preserved in any new model. The GSEs' tools provide critical benefits to small lenders. Desktop Underwriter® and Day One Certainty™ are important tools for Coastal and we want to ensure stability with these platforms. 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.

The current aggregation model at the GSEs has also 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 culture and precipitated the financial crisis. 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 Coastal is not currently using it, the function of the cash window at the GSEs as a single loan execution process is also vital to credit unions moving forward.

Transition to a New Housing Finance System

Should Congress act to reform the nation's housing finance system, getting the transition right will be critical. More than anything, to ensure a smooth transition to a reformed system, 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 believes that Congress should first agree on a set of reforms and then, based on the nature and complexity of such reforms, establish a timeframe for transition. Arbitrarily pledging to adhere to a transitional timeframe before a set of reforms are agreed upon could create otherwise avoidable issues for new entities created under any proposal and outside stakeholders.

In an effort to ease the transition, Congress should consider moving currently approved Fannie and Freddie 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 can take time for lenders to be certified with the GSEs, and this time to certify, whether to the GSEs or to a new system, should be factored in to the transition time.

NAFCU also believes 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 to have the two entities exist in a winding down capacity during the early stages of a new system.

The Importance of Servicing Rights to Credit Unions

Any new housing finance system must contain provisions to ensure credit unions can retain servicing rights to loans they make to their members. Many consumers turn to credit unions for lower rates and more palatable fee structures, but they also want to work with a reputable

organization 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 Coastal, we retain servicing rights on all of our loans. This was especially beneficial during the economic crisis, as it allowed our members to approach us when they got in trouble and allowed us to work with them on their loan and keep them in their home.

Underwriting Criteria in Any New System

NAFCU has concerns about using the "Qualified Mortgage" (QM) standard as the standard for loans to be eligible for the government guarantee, as was proposed in previous legislation before the Committee. We believe underwriting standards may be best left to the new regulator and do not think that they should be statutorily established. Doing so would allow the regulator to address varying market conditions and act in a counter-cyclical manner if needed.

Furthermore, given the unique member-relationship credit unions have, many make good loans that work for their members that do not fit into all of the parameters of the QM box. Using the Consumer Financial Protection Bureau's (CFPB) QM standard for the guarantee would continue to discourage the making of non-QM loans.

We would also like to caution against the perpetuation of the use of one brand of credit scoring model. Both Fannie Mae and Freddie Mac require loans that are underwritten using FICO scoring models. We believe any new system should be open to other possible credit scoring models as well.

Regulatory Relief and Mortgages

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

Loans Held in Portfolio

NAFCU supports exempting mortgage loans held in portfolio from the QM definition as the lender, via its balance sheet, already assumes risk associated with the borrower's ability-to-repay. The following is a real-life example of a loan we would approve to hold in portfolio that we would not approve now:

- Non-conforming loan (jumbo)
- 53% LTV
- Existing long relationship
- Substantial deposit relationship
- 810 FICO score
- DTI is above 43% creating a non-QM loan

Debt-to-Income Ratio

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

We would also support changes to the TILA/RESPA requirements, such as removing the requirement to deliver the Closing Disclosure (CD) 3 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 that are in the best interest of the borrower. Because of the rigid, mandatory, no exception nature of the requirement, these examples "re-start" the timer and push back closing affecting moving schedules, utility setups, etc. There may also be 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.

Another frustration relates to third party fees. The lender is required to know exactly what third parties will charge and if the actual invoice exceeds the tolerance, the lender must pay the difference. Situations arise where an inspection or appraisal may be more involved than originally thought and vendors may justifiably incur more expenses to perform the work. Again, the rigidity of the rules requires the lender to absorb these amounts.

Conclusion

In conclusion, NAFCU appreciates the Banking Committee's bipartisan approach to housing finance reform and the inclusive nature of the process. As you consider 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 get 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 our member credit unions look forward to working with you and your staffs as housing finance reform legislation moves through the legislative process.

I thank you for your time today and welcome any questions that you may have.