MORTGAGE BANKERS ASSOCIATION

July 9, 2014

The Honorable John Carney
1406 Longworth House Office Building
Washington, DC 20515

The Honorable John Delaney
1632 Longworth House Office Building
Washington, DC 20515

The Honorable Jim Himes
119 Cannon House Office Building
Washington, DC 20515

Dear Congressmen Carney, Delaney, and Himes:

On behalf of the Mortgage Bankers Association (MBA)[1], and at your request, I am pleased to offer our summary views regarding your newly-introduced proposal designed to reform our nation's secondary mortgage market system. MBA recognizes this bill is the product of many months of research, consultation, and study by the three of you and your respective staffs. We are pleased to have been part of the stakeholder dialogue leading up to your bill's introduction.

We appreciate the bill's approach regarding the appropriate level of private capital required. The bill recognizes that 5% capital will be more than sufficient in most cases to cover losses in very stressful economic environments. Return on required capital typically represents the largest component of guarantee fees, thus limiting the amount of required capital to an appropriate level prevents unnecessary increases in costs for consumers.

The bill also proposes an innovative approach for bringing in additional private capital to help support the residual risk, and for utilizing market prices for helping to determine the appropriate premium. The mechanics of this process would need to be studied further to ensure that it does not harm market liquidity, but the innovation is substantial and of interest.

We also believe that the bill should include a "bright line" between the primary and secondary mortgage markets. The potential for vertical integration between issuers and guarantors of the new Ginnie Mae security poses a substantial risk in the single-family and multifamily markets. A clear distinction between origination and secondary market activities would go a long way toward addressing these concerns and provide a solid foundation for the future secondary mortgage market.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

MBA commends the thoughtful approach taken with regard to the multifamily housing finance market, which supports a vital source of housing for Americans. Your legislation underscores the important role of private capital in supporting multifamily housing, while ensuring liquidity in all market cycles through a federal guarantee.

The bill recognizes the unique attributes of the multifamily finance market, as well as the strong performance, underwriting discipline, and risk sharing in both of the housing Government Sponsored Enterprises' current multifamily executions. The bill also provides a transition path forward for these multifamily businesses, while ensuring liquidity and competition with other capital sources. While we believe further enhancements and modifications would be appropriate, the legislation provides a sound framework for the future of the government's role in multifamily housing finance.

Your bill would also establish a much larger role for Ginnie Mae than the one it currently plays. There are possible advantages in terms of efficiency and consistency to having one agency providing a full faith and credit behind mortgage-backed securities. Additionally, Ginnie Mae already has a platform for securitization purposes that might be potentially utilized to support the broader market. However, in this new role, Ginnie Mae would take on much more counterparty risk with respect to first loss guarantors. Although the bill contemplates incorporating the Federal Housing Finance Agency fully within Ginnie Mae, we would still want to ensure that the proper risk management capabilities are in place, and that there could be a smooth transition path to this new system.

MBA has traditionally highlighted the need for the future secondary market to provide a level playing field for lenders of all sizes and business models. We therefore appreciate that the bill provides for "cash windows" and other aggregation facilities so that small lenders can directly access the secondary market. We also commend your thoughtful approach to utilizing the Federal Home Loan Bank System. Providing lenders of all sizes and types with a stable, liquid execution option will ensure that the origination market remains vibrant and competitive. One area of concern is the potential for regulatory arbitrage in the origination market that could lead to an inefficient allocation of capital. MBA recommends that the new regulatory authority provided for in the bill be applied evenly within the origination market.

In short, your bill is a very constructive proposal that will certainly help move this important secondary mortgage market reform debate forward. We applaud your efforts, and look forward to continued dialogue with you – and other engaged policymakers and stakeholders – on this topic in the coming weeks and months.

Sincerely,

David H. Stevens
President and Chief Executive Officer

cc: The Honorable Jeb Hensarling, Chairman, House Committee on Financial Services
The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services