

July 19, 2017

The Honorable Mike Crapo
Chairman
Senate Committee on Banking,
Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
Senate Committee on Banking,
Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Chairman Crapo and Ranking Member Brown,

The undersigned trade associations represent predominantly small and mid-sized lenders involved in financing housing for low- and moderate-income families and first-time homebuyers. Our members serve consumers across the country, often providing access to mortgage credit for borrowers who would not otherwise be served by larger institutions. The presence of small lenders also spurs competition in the market and increases choices for borrowers.

As the Committee embarks on the task of reforming Fannie Mae and Freddie Mac (the Enterprises), it is critical to address how those reforms will impact the ability of small lenders to compete fairly and serve local housing markets effectively. Without clear and well-defined protections for small lenders, housing finance reform—or the failure to act on sensible reforms—risks returning us to the highly-concentrated mortgage market that persisted in the lead-up to the financial crisis. Most importantly, housing finance reform must ensure that small lenders have direct access to the secondary market and options to sell loans servicing retained or released without any forced dependence on a larger institution acting as an aggregator.

There have been many proposals released recently to address housing finance reform. Many support the principle of protecting small lender access. However, the plan developed by the Mortgage Bankers Association (MBA) backs that principle with detailed, specific proposals—in statute—to create a level playing field for small and mid-sized lenders, including:

- requiring the regulator to ensure fair and direct secondary market access for small lenders;
- prohibiting guarantors from charging lower guarantee fees or offering special underwriting concessions based on the volume of loans delivered, or other opaque criteria not open to all lenders;
- maintaining cash window and small pool execution options, including the option for lenders to sell loans servicing retained or released;
- preserving the “bright line” separating primary and secondary markets so that the guarantors cannot compete with lenders or pick winners and losers;
- enforcing strict limits on the ability of a large bank or lending institution to acquire a controlling interest in a guarantor in order to prevent vertical integration; and

- minimizing “switching costs” to the new system and ensuring a smooth transition by leveraging the infrastructure of the current Enterprises wherever possible.

To its credit, the Federal Housing Finance Agency (FHFA), while acting as conservator of the Enterprises, has taken some steps to level the playing field for small lenders. For example, FHFA has stopped the Enterprises from offering special deals, such as favorable guarantee fee pricing or underwriting variances, to lenders based on their loan volume. The MBA and undersigned state associations have supported those actions, and they have effectively contributed to the reduced concentration in the mortgage market over the past several years.

However, there are limits to the progress that can be made administratively, and there are no guarantees that a future FHFA director would continue or maintain these initiatives. Only through legislation can we lock in these important gains. True reform of the Enterprises must also include legislative reforms of the regulator that would impose a utility-style regulatory framework that balances the interests of guarantors (and their investors), their customers (e.g., lenders and servicers), and the consumers they both serve. This “regulatory compact” is necessary to ensure no undue exercise of market power by a handful of market participants given their unique power to place a full faith and credit federal guarantee on mortgage securities.

Such an approach is the best way to provide the legitimacy and certainty that small lenders require to effectively serve their communities. On behalf of our associations and the small and mid-sized lenders we represent, we urge the Committee to work expeditiously towards a bipartisan proposal that would foster a strong, vibrant secondary mortgage market that is accessible to all lenders.

Sincerely,

Mortgage Bankers Association of Alabama
Arizona Mortgage Lenders Association
Mortgage Bankers Association of Arkansas
California Mortgage Bankers Association
Colorado Mortgage Lenders Association
Connecticut Mortgage Bankers Association
Delaware Mortgage Bankers Association
Mortgage Bankers Association of Metropolitan Washington
Mortgage Bankers Association of Florida
Mortgage Bankers Association of Georgia
Mortgage Bankers Association of Hawaii
Idaho Mortgage Lenders Association
Illinois Mortgage Bankers Association
Indiana Mortgage Bankers Association
Mortgage Bankers Association of Kentucky
Maine Association of Mortgage Professionals
Maryland Mortgage Bankers and Brokers Association

Massachusetts Mortgage Bankers Association
Michigan Mortgage Lenders Association
Mortgage Bankers Association of Greater Kansas City
Nebraska Mortgage Association
Nevada Mortgage Lenders Association
Mortgage Bankers and Brokers Association of New Hampshire
Mortgage Bankers Association of New Jersey
New Mexico Mortgage Lenders Association
New York Mortgage Bankers Association
Mortgage Bankers Association of the Carolinas
Ohio Mortgage Bankers Association
Oklahoma Mortgage Bankers Association
Oregon Mortgage Bankers Association
Rhode Island Mortgage Bankers Association
Tennessee Mortgage Bankers Association
Vermont Mortgage Bankers Association
Virginia Mortgage Lenders Association
Washington Mortgage Bankers Association
Wisconsin Mortgage Bankers Association