

July 19, 2017

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

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

Dear Chairman Crapo and Ranking Member Brown:

As small and mid-sized lenders serving the housing needs of thousands of communities throughout the country, we are pleased to see that much of the current policy debate on the future of Fannie Mae and Freddie Mac—the government-sponsored enterprises (GSEs)—has focused on the critical role that companies like ours play in the mortgage market. In addition to offering a more diverse set of choices for borrowers, small and mid-sized lenders can strengthen the market by leveraging our knowledge of our local customers and local markets to offer products that suit their unique demands.

We believe the best protections for small and mid-sized lenders and our competitive status in the market can be found in the GSE reform plan developed by the Mortgage Bankers Association (MBA). The MBA plan includes a number of provisions that would ensure direct and transparent access to the secondary market for small and mid-sized lenders. These provisions include:

- Specifying equitable access to the secondary market as part of the utility-style regulatory mandate and in the Guarantor charters;
- Prohibiting preferential pricing or disparate underwriting standards for lenders based on loan volume;
- Requiring all Guarantors to maintain cash window and small pool execution options;
- Preventing vertical integration by large lenders through strict limits on ownership or control of a Guarantor;
- Maintaining the “bright line” between primary and secondary markets to ensure that Guarantors do not compete with lenders; and
- Minimizing transition risks and “switching costs” by preserving those aspects of the current system that work well.

Concerns about consolidation of mortgage lending among the largest institutions are not simply theoretical. Between 1998 and 2010, for example, the ten largest single-family lenders increased their market share from less than 40 percent to nearly 80 percent. Much of this concentration in lending can be attributed to GSE policies. By enticing high-volume lenders through lower guarantee fees and beneficial underwriting variances, the GSEs reduced the ability of smaller institutions to compete. This outcome not only hurt mortgage borrowers and smaller lenders, but also had negative consequences for the health of the GSEs and the financial system more broadly.

The market served today by the GSEs features a more diverse set of lenders offering more competition and choices for borrowers. Independent mortgage bankers, community banks, and credit unions have all gained market share, in part due to administrative reforms undertaken by the Federal Housing Finance Agency (FHFA). For example, through its powers as conservator of the GSEs, FHFA has curtailed the use of volume-based pricing discounts or preferential underwriting standards for select institutions.

However, without legislation to codify and strengthen the reforms put in place by FHFA, these gains remain at the discretion of future FHFA directors. As such, they are susceptible to being rolled back or reversed entirely. Further, if the GSEs are recapitalized and simply released from conservatorship in their current forms, FHFA will not be able to exercise its powers as conservator—which are considerably greater than its powers as regulator—to maintain all of these gains. Administrative reforms simply do not provide any certainty. Only through comprehensive legislative reform can we lock in the protections needed to preserve a diverse and competitive market for lenders of all sizes.

It is therefore our view that the best path forward is one of legislative GSE reform. The MBA plan addresses the needs of small and mid-sized lenders in a future system and ensures that we have the ability to compete with our larger competitors on a level playing field. The specific protections called for in the MBA plan align closely with reforms recommended by other groups, but are locked in through legislation.

We respectfully urge you to move forward with legislation that would accomplish the objectives set forth in the MBA plan, and we stand ready to work with you as this effort progresses through the Committee process.

Sincerely,

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