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Chairman Crapo, Ranking Member Brown, and Members of the Committee, I appreciate this opportunity to testify before you today. I am the President of Platinum Home Mortgage, an independent mortgage banker, based in Rolling Meadows, a suburb of Chicago, Illinois. I appear before you today as President of the Community Home Lenders Association (CHLA).

The Community Home Lenders Association is the only national association that exclusively represents non-bank mortgage bankers.

CHLA members are all small businesses, with single family mortgage lending and servicing as their sole or principal business line. Our Members are community-based, generally serving either local or regional markets.

CHLA Members are all independent mortgage bankers (IMBs). IMBs are non-banks that originate and service mortgage loans. Unlike banks and other depository institutions, IMBs do not put taxpayers at risk through an underlying FDIC or NCUA guarantee.

CHLA members are all small- and mid-sized IMBs. These types of lenders are not – either singly or collectively - large enough to pose systemic risk to the financial system.

For all these reasons, CHLA is uniquely qualified to advocate for GSE policies that protect the interests of small mortgage lenders in general and IMBs in particular – in order to advocate for policies that promote consumer access to mortgage credit through community-based IMBs.

Why Small, Community-Based IMBs Are Important

In the aftermath of the 2008 housing crisis, many banks dramatically scaled back mortgage lending. For example, Bank of America terminated their correspondent lending business for smaller mortgage lenders. And many banks imposed credit overlays, even for FHA-insured loans, limiting mortgage loans to only the highest credit quality borrowers.

In the face of this mortgage credit vacuum, it was IMBs that stepped in to increase mortgage lending, particularly for first-time and low/middle income homebuyers. The reason for this is simple. **Mortgage lending is all that IMBs do. Unlike banks that reduce or restrict mortgage lending when it does not meet their Return on Investment targets, IMBs keep lending.**

Neither Fannie Mae nor Freddie Mac (or their regulator, the Federal Housing Finance Agency [FHFA]) keep data on non-bank market share of Fannie and Freddie loan originations. However, we believe that IMBs (and smaller IMBs in particular) have stepped up their share of GSE mortgage loan origination as banks decreased theirs.

In the one area where we do have data - FHA - we know this has been the case. Historically, IMBs have consistently averaged over 50% of the FHA loan origination market. **However, since the 2008 housing crisis, non-bank market share of FHA loan originations has increased - from 57% in 2010 to 85% in 2016. And, IMB non-bank market share of Ginnie Mae issuance also increased in that same period – from 12% in 2010 to 73% in 2016.** [A link to this data is provided at http://communitylender.org/chla-releases-data-showing-non-bank-dominance-in-fha-loan-origination-is-not-new-5417/]

This data shows that IMBs stepped in to fill the mortgage access to credit vacuum created when the large banks severely limited their lending and it also shows that many IMBs began using GNMA to securitize FHA loans as banks left the correspondent business. Our experience is that there are similar patterns with GSE lending, aided in part by the GSEs providing secondary market access to small IMBs through their cash window, as some banks no longer served as aggregators.

The implications for GSE reform are clear: Small mortgage lender access to the secondary GSE market is critically important, because IMBs have a long history of consistently providing affordable mortgage loans, particularly to low and moderate income borrowers, in all economic and housing cycles.

The Role of Congress in GSE Reform

There seems to be a consensus that we cannot return to the pre-2008 model of "private gain, public loss" with regard to the GSEs and federal housing policy. CHLA agrees with this position.

Many GSE reform plans include a recapitalization of Fannie Mae and Freddie Mac and their ultimate exit from conservatorship. Opinions on how this should be done range from a belief that there is sufficient authority under the 2008 Housing and Economic Recovery Act (HERA) to accomplish this administratively to a belief that recapitalization should not take place without comprehensive Congressional reform legislation. CHLA's position is that it is far preferable to have Congress pass a sound bill to make permanent changes – but that reforms can (and should) continue while Congress debates the issues.

CHLA believes FHFA should establish a $10 billion capital buffer for each GSE (the amount in the original Treasury Department's reserve plan, which was later rejected in favor of a mandated draw down to zero capital at year-end) and that FHFA should develop a Capital Restoration Plan to show how the GSEs could be recapitalized and exit conservatorship. This analysis will be helpful regardless of the direction Congress ultimately takes with respect to GSE reform.

Our CHLA GSE Reform Plan explicitly calls for Congress to act on GSE reform legislation that includes specific provisions to protect small mortgage lenders.

Finally, the CHLA Plan calls for Congressional action to continue or where necessary codify the **significant number of reforms that protect taxpayers have already been put in place**, which include:

1. **End to GSE No-Doc Mortgage Loans.** A major factor in the GSEs' conservatorship was the purchase of no doc (Alt A) loans, in part in response to similar loans made by subprime lenders. Congress since adopted the Qualified Mortgage (QM) law establishing Ability to Repay standards, and Fannie or Freddie no longer make no-doc loans.

2. **Credit Risk Sharing.** The GSEs have been doing risk sharing on over 90% of new loans, and to date have transferred $50 billion in credit risk to third party private entities.

3. **Portfolio Wind Downs.** The significant interest rate risk that the GSEs were exposed to before 2008 has largely been eliminated with a major winding down of their portfolios.

4. **Strong Regulator.** The 2008 HERA legislation replaced a weak regulator (the Office of Federal Housing Enterprise Oversight or OFHEO) with a strong regulator (FHFA) that has focused on effective, proactive regulation.

5. **Taxpayer Compensation for Federal Guarantee.** The pre-2008 deal in which GSEs had an implicit guarantee without compensating fees has been replaced by a full profit sweep under the Preferred Stock Purchase Agreement (PSPA) (also known as the "Sweep Agreement") – and an expectation of fair guarantee fees under GSE reform.

6. **Common Securitization Platform (CSP)/Common Security.** FHFA, Fannie Mae and Freddie Mac continue their work on a CSP and single security - to create a more uniform, competitive securitization process.

Objectives of GSE Reform

CHLA believes that the key to effective GSE reform effort is to preserve and codify a housing finance system that facilitates full access for all qualified small mortgage lenders on a fully competitive pricing basis, and that this can be done while protecting taxpayers and without growing the federal government.

This principle of full and fair access to the housing finance system is also best for consumers. Recently, CHLA joined three major affordable housing/consumer groups (the NAACP, the Leadership Council on Civil and Human Rights, and NCRC) along with two other small lender groups (CMLA and the Leading Builders of America) to publicly release the Main Street GSE Reform Coalition **"COMMON GSE REFORM PRINCIPLES"**.

This document identifies a simple objective that the groups believe should govern GSE reform: ***"The primary objective of any GSE reform legislation should be to promote broad access to affordable, sustainable mortgage credit in all communities while minimizing risk to taxpayers."***

This "Common GSE Reform Principles" document lays out principles that Congress should adhere to in adopting GSE reform legislation. We appreciate that the Committee entered this document into the record at its recent GSE hearing. We urge Committee Members to review it.

CHLA GSE Reform Plan. In July 2015, CHLA released a plan for GSE reform, and re-released our plan in March of this year, to reflect developments over the last two years. **The CHLA Plan is enclosed as an Appendix,** and will be explained in this testimony. We encourage Committee Members to read our Plan.

Immediate Actions Are Needed

CHLA appreciates the Committee's commitment to adopting comprehensive GSE reform legislation. However, regardless of whether or how soon this is done, we believe there are two very important actions that should be taken immediately that do not require Congressional action.

First, the FHFA – preferably with the support of the Treasury Department- should use its authority under the 2008 HERA to suspend GSE dividend payments to the Treasury, allowing Fannie and Freddie to build a $10 billion capital buffer.

Some have argued that a Treasury Advance would be fine, that it would have no impact or even could have a positive impact by prompting Congress to act on GSE reform. However, this perspective is contradicted by the GSEs' financial regulator, FHFA Director Mel Watt, who has referred to the GSEs' lack of capital as ***"the most serious risk***" facing these entities - noting both a potential negative impact on MBS investors and an adverse Congressional reaction to a Treasury Advance.

It is also important to distinguish between a modest capital buffer and full recapitalization of Fannie and Freddie. The temporary suspension of dividends to build a $10 billion capital buffer is of a completely different magnitude from the amount of capital needed to recapitalize the GSEs. Moreover, the establishment of a modest capital buffer does not commit the GSEs to a full recapitalization and does not move it close to release from conservatorship. It is just sound policy, reflecting the main lesson we learned from the 2008 crisis - that it makes no sense for entities to engage in credit and other financial risks without the necessary capital to offset credit or accounting losses.

Secondly, CHLA believes the FHFA, as the GSEs' conservator and under its authority in HERA, should develop a capital restoration plan to show how the GSEs could emerge from conservatorship.

CHLA believes the best approach for GSE reform is to preserve and recapitalize Fannie and Freddie pursuant to a Utility Model, with taxpayers protected through capital to absorb losses, risk sharing to reduce direct GSE risk, strong underwriting of loans and counterparty risk, and fees to compensate for the federal backstop. Many other plans propose to recapitalize the GSEs in a similar manner. Regardless of what Congress, the FHFA, and the Administration ultimately decide to do with Fannie Mae and Freddie Mac, Congress and other federal policy makers would benefit from understanding how GSE recapitalization could be implemented as well as the cost in both dollars and continuing oversight staff.

Both of these recommended actions are included in CHLA's GSE Reform Plan.

How Mortgage Lenders Access the GSE Secondary Market

The key to understanding small mortgage lender concerns about changes to our housing finance system is to understand how the system currently works, particularly with regard to GSE loans.

The process of mortgage lenders originating mortgage loans constitutes the "**primary market.**" Mortgage lenders – ranging from the tiniest community bank or IMB to the largest megabank – underwrite and close new mortgage loans in conformity with underwriting standards established by Fannie Mae and Freddie Mac. These two GSEs approve qualified seller/servicers, who are then eligible to originate and sell qualified loans to Fannie and Freddie.

Since the 2008 housing crisis, Fannie and Freddie have significantly reduced their mortgage loan portfolios with the great majority of loans sold and pooled into Mortgage Backed Securities (MBS) that are guaranteed by Fannie and Freddie. The activity of liquefying these mortgage loans is referred to as the "**secondary market.**"

Originated loans find their way into the secondary market in two ways. The first is the **cash window.** Through the cash window, mortgage lenders sell loans or pools of loans directly to Fannie Mae or Freddie Mac.

The second option for execution into the secondary market is **securitization of loans.** Mortgage lenders pool a group of loans qualified for the Fannie or Freddie guarantee and sell those loans into the secondary market through a securities broker/dealer. This can either be done directly by the originating mortgage lender or can be done by selling to an aggregator that buys different pools of loans and aggregates and securitizes such loans.

Generally, smaller mortgage lenders or lenders with smaller loan volume tend to use the cash window, while larger mortgage lenders use the securitization option. However, mortgage lenders that securitize loans sometimes use the cash window option, particularly when the price is competitive with or better than doing securitization.

Key Provisions Needed to Protect Small Mortgage Lenders

The key to understanding small mortgage lender concerns regarding how GSE reform is done revolves around the relationship between the primary and secondary markets.

The unifying theme behind these concerns is that secondary market players – particularly vertically integrated investment banks or banks - might be able to use their market clout as a secondary market force to monopolize or dominate the primary loan origination market, acting through their bank affiliates that originate mortgage loans.

Such a development could: (1) harm small mortgage lenders by reducing their access to the GSE secondary market, (2) harm consumers by reducing competition, (3) increase financial concentration, and (4) concentrate the GSE mortgage market in the hands of the very institutions that developed the subprime mortgage market and funded that market through their MBS infrastructure in the period leading up to 2008.

There are related concerns regarding the development of risk sharing – either that risk sharing providers could use risk sharing to gain control or dominate the mortgage market, or that they might engage in volume discounts or other more favorable pricing treatment for certain mortgage lenders based solely on the size of the lender or their loan volume.

In light of these two forms of secondary market execution, there are two key objectives:

1. **It is essential that a cash window exist which is fully capable of meeting ALL the demand for origination and sale of GSE loans under fully competitive prices, terms, and conditions, and**

2. **It is essential that the securitization execution option is preserved – also under competitive prices, terms and conditions - for all participants.**

CASH WINDOW. Under the GSE reform bill that passed the Senate Banking Committee last Congress, Fannie and Freddie were ultimately eliminated, and the infrastructure needed for continuation of a cash window were spun off into a mutual cooperative. While that legislation did provide for the transfer of needed infrastructure to the co-op to try to maintain this function, there was not a viable plan to capitalize the mutual cooperative. The bill referenced using GSE profits to do so – but it is doubtful that would be sufficient, and in practice, the Sweep Agreement has meant that no profits are being accumulated for that potential purpose.

It is for these reasons that small mortgage lenders generally support the recapitalization and preservation of Fannie Mae and Freddie Mac, which have historically carried out the cash window function. It is also why many groups support the concept of a Utility Model. This would make it more likely that Fannie Mae and Freddie Mac would focus on their primary mission of facilitating access to the secondary market with a level playing field.

Finally, the need to have a fully competitive cash window is a major reason why many groups like CHLA oppose chartering new entities to compete with Fannie and Freddie, particularly if such new entities have secondary market capabilities such as the Wall Street Banks.

SECURITIZATION EXECUTION. Most of the small mortgage lender groups tend to focus on the cash window and CHLA has made this a priority. However, **CHLA has also been a leader in emphasizing the importance of preserving full and competitive access to securitization execution to create a broadly competitive market.**

It is our Members' experience that the securitization option is important to help ensure that Fannie and Freddie offer fully competitive cash window pricing and execution. Thus, maintaining a strong, vibrant securitization execution option is not just important to lenders that securitize loans; it is also critically important for small mortgage lenders that use the cash window, and for consumers who benefit through increased competition in pricing and customer service.

SMALL MORTGAGE LENDER PROTECTIONS:

For all these reasons, CHLA strongly recommends that any GSE reform legislation include the following key features or provisions which are designed to protect small mortgage lenders:

1. Preservation and Recapitalization of Fannie Mae and Freddie Mac, using a Utility Model.

Fannie and Freddie need to be preserved and recapitalized to ensure they can continue to play their historic role in facilitating small lender access to the secondary market for GSE-type loans or MBS that are backed by the federal government. A Utility Model helps ensure their focus on this role and their long-term sustainability.

2. No new charters should be authorized to carry out functions that Fannie Mae and Freddie Mac carry out.

GSE reform legislation should not charter any new entities to compete with the GSEs, particularly ones that could have any role in the primary mortgage loan origination market.

First, CHLA believes that it is a mistake to create new Too-Big-To-Fail (TBTF) institutions, particularly entities affiliated with FDIC-insured institutions. The likely impact of authorizing new charters would be to grow the government, to increase the risk of a taxpayer bailout like we experienced with TARP, and to expand the scope and burden of the regulator(s) with respect to monitoring both their financial safety and soundness and their conduct in the mortgage market.

The risk of increased financial concentration of chartering new TBTF entities is great. In a May 12th speech by FDIC Vice Chairman Thomas Hoenig, he noted that while the four largest U.S. banking firms in 1992 held roughly 14% of total industry assets, they now hold 42% of such assets – with $7 trillion in assets, roughly 38% of the U.S. gross domestic product. And, the 20 largest banks hold more than 60% of industry assets. Mr. Hoenig went on to note that the current size of these institutions has transformed banking in the U.S. and that these institutions dominate the industry and increasingly dominate our economy.

While we appreciate the desire to bring in more private capital into the GSE process, we believe this can be better accomplished through risk sharing, dispersed among a large diverse source of investors, than by giving large banks, investment firms, or insurance companies a major new role in government-backed mortgages and a significant new financial risk related to that role.

Secondly, chartering Wall Street investment banks to compete against Fannie and Freddie could invite the same types of practices that we saw in the subprime crisis, with a race to the bottom on credit quality followed by taxpayer bailouts of these TBTF institutions during a crisis. The lesson we learned from that crisis is that when the TBTF institutions go too far and need a bailout, small lenders also suffer the consequences, from heightened regulations.

Third, the Senate Banking Committee had grave concerns about vertical integration in their previous GSE reform legislative effort. We urge the Committee not to open the door to new GSE charters for as there is no way to ensure that such new charters will not be influenced or controlled a large bank or investment bank with even a modest ownership interest or that had a major role in funding or creating the new charter entity.

Finally, the creation of new charters designed to have the entities compete on things like pricing seems somewhat inconsistent with the concept of a Utility Model, and seems to take the GSEs beyond the role of simply facilitating secondary market mortgage access.

3. All risk sharing should be done as back-end risk sharing.

To date, Fannie and Freddie have carried out the majority of their risk sharing on a back-end basis after GSE purchase of the qualified loan. This practice creates a broad competitive investment market for the risk sharing – and does not negatively affect small mortgage lender access. In contrast, up-front risk sharing could create significant risks for small lender access – as it could result in the risk sharing providers, particularly vertically integrated Wall Street Banks, engaging in anti-competitive practices, such as exclusively dealing with their bank lending affiliate or engaging in the practice of volume discounts.

Moreover, if up-front risk sharing becomes either an exclusive or dominant practice, it would create a chokepoint, where small lenders can't sell to the GSEs without delivering risk sharing at the same time. This threatens small mortgage lender access to the secondary market.

Finally, up-front risk sharing is much more likely to result in the re-aggregation of risk that could result from a small group of institutions or investors doing risk sharing on the front end.

The simplest and most effective way to address this concern is to allow risk sharing only on the back-end - after loans have been delivered to the GSEs.

However, if Congress elects to permit risk sharing on an up-front basis, it should not be allowed to be provided by any entity with a stake in primary loan origination, for the reasons cited above, and should only be allowed by private mortgage insurers (PMIs) or other entities with no ties to primary loan origination. Further, if allowed, protections should be in place to protect small mortgage lenders – including a ban on volume discounts, a requirement that a PMI serve all qualified seller-servicers, and fully transparent pricing.

4. Pricing, underwriting and variance parity.

The FHFA has substantially ended the anti-competitive, discriminatory practices of the GSEs prior to conservatorship. GSE legislation should codify a prohibition of any differential treatment based on lender volume or size with respect to pricing, underwriting or variances by the GSEs in the future. With respect to pricing, this should include G-fees, buy-up or buy-down grids, loan level price adjustments, credit risk transfers or any proxy for these. The GSE legislation should also prohibit special underwriting deals and variances which put certain lenders at a competitive disadvantage and create unnecessary risk for the GSE's. The legislation should require the GSE's to become completely transparent and publish all seller/servicers G-fees and related information. Finally, the legislation should require proper due process for all small and mid-sized lenders, so that there is no discrimination based on charter or lender size or volume in areas such as reps and warrants.

Other GSE Reform Issues Included in the CHLA Reform Plan

CHLA also supports the following provisions in GSE reform:

- **Continued government backstop of qualified MBS.** Whether in the form of an explicit guarantee, substantial federal line of credit, or some other form or guarantee, this is needed to generate broad access to national and international investors in MBS. This should be combined with charging reasonable G-Fees to cover the projected risk of the government backstop in the form of an Insurance Fund that builds up. Combined, this would reform the old "private gain, public loss" approach that characterized the implicit guarantee in place prior to 2008.

- **Prohibit selling off the Common Securitization Platform (CSP) so that Wall Street Banks cannot control it**. The regulatory reform legislation that passed the Senate Banking Committee two years ago included a provision to turn over the CSP to a private entity (which would likely be controlled by the large Wall Street banks). CHLA is strongly opposed to any such provision, as it could have the effect of turning over the GSE secondary market infrastructure to the large private secondary market participants. For the types of reasons outlined in the previous two sections, this would be detrimental to small mortgage lender access to the secondary market.

- **Access to credit requirements – servicing all qualified borrowers, all geographic areas, etc.** CHLA is aware that the details of how this would be accomplished are complicated. However, as a general principle, participants in the GSE loan process utilizing a government guarantee or whatever government support is ultimately provided should not be able to cherry pick loans by serving only the higher credit quality borrowers. Moreover, the overall system should serve all geographic areas, and more generally facilitate affordable housing.

Appendix - CHLA GSE REFORM PLAN

[March 29, 2017]

MAJOR CHLA OBJECTIVES FOR GSE REFORM

- ***Preserve 30-year affordable mortgage, with broad consumer access to mortgage credit***. A federal guarantee of qualified mortgage backed securities (MBS) is needed to access sufficient investors to ensure affordable mortgages for all qualified borrowers, with provisions to ensure a federal guarantee is not just used to serve high FICO borrowers.

- ***Full & Competitive Small Lender Access to Cash Window & Securitization Execution***. Fannie Mae and Freddie Mac should be preserved to avoid market concentration by Wall Street banks, and facilitate broad lender access with full G Fee/risk-based pricing parity**.**

- ***Protection of Taxpayers.*** Essential elements include: (a) private GSE capital to absorb losses, (b) risk-sharing, (c) strong FHFA regulation, & (d) strong underwriting standards.

- ***Minimize Transition Risk.*** Reform should have a smooth transition and be based on a practical workable plan, to avoid disruptions to the housing market and broader economy.

SIGNIFICANT REFORMS HAVE ALREADY TAKEN PLACE SINCE 2008

There is a consensus not to go back to the pre-2008 model of GSE "private gain, public loss." But claims that recapitalization of Fannie and Freddie means going back to the old failed model are largely a straw man argument. While private capital is still needed to complete the process, significant reforms (with bi-partisan support) have already taken place and are irreversible:

1. **Ability to Repay (QM).** A major factor in the GSEs' conservatorship was their purchase of no doc (Alt A) loans. With adoption of QM, no doc loans are a thing of the past.

2. **Credit Risk Sharing.** The GSEs have been doing risk sharing on over 90% of new loans, and to date have transferred $49 billion in credit risk to third party private entities.

3. **Portfolio Wind Downs.** The significant interest rate risk that the GSEs were exposed to before 2008 has largely been eliminated with a major winding down of their portfolios.

4. **Strong Regulator.** The 2008 HERA legislation replaced a weak regulator (OFHEO) with a strong regulator (FHFA) that has focused on effective, proactive regulation.

5. **Taxpayer Compensation for Federal Guarantee.** The pre-2008 deal in which GSEs had an implicit guarantee without compensating fees has been replaced by a full profit sweep under the PSPA – and an expectation of fair guarantee fees under GSE reform.

6. **Common Securitization Platform (CSP)/Common Security.** FHFA is engineering a CSP and single security - to create a more uniform, competitive securitization process.

CONTINUE REFORMS & RECAPITALIZE UNDER A UTILITY MODEL

While Congress must continue to play a strong oversight and advisory role, comprehensive legislation is not needed at this time. This CHLA GSE Reform Plan would recapitalize and re-privatize Fannie and Freddie using a Utility Model under a plan to be developed by FHFA as conservator, and then agreed to by the Treasury Department and Congress. Taxpayers would be protected by private GSE capital, risk sharing, strong FHFA regulation, and sound underwriting. Other provisions in the Plan protect small lender access and consumer access to mortgage credit.

CHLA Implementation Plan for GSE Reform

1. FHFA Should Immediately Suspend Fannie, Freddie Dividends, to Build a Capital Buffer up to a .5% capital level – in order to Avoid a contrived Treasury Advance under the existing Sweep Agreement.

FHFA Director Watt has identified the GSEs' declining capital buffer under the Sweep Agreement as their "most serious risk," warning that a resulting Treasury advance carries investor and political risks. The GSEs' Net Worth is not declining because they are losing money - they have been routinely profitable and have paid back tens of billions of dollars to Treasury above and beyond their 2008 advance. Rather, the GSEs' Net Worth has been declining because the Sweep Agreement sweeps quarterly profits and arbitrarily reduces their Net Worth to zero on January 1, 2018. FHFA, with the support of Treasury, should suspend dividends as long as is necessary to build a capital buffer to cover short term losses.

2. FHFA Should Develop a Capital Restoration Plan for Fannie Mae and Freddie Mac – under which they are re-privatized pursuant to a Utility Model and ultimately taken out of Conservatorship

FHFA, as conservator, is the appropriate entity to develop a Capital Restoration Plan for the GSEs – with Congress playing an advisory and oversight role in that process.

Further, **CHLA believes that the best approach is a Utility Model**, in which the GSEs build up capital to enable them to exit the conservatorship and re-emerge as private entities, in which they perform a mortgage securitization and standardization role, supported by a government backstop of their MBS. Taxpayers are protected by private GSE capital; third-party credit risk transfers to absorb losses; robust FHFA regulation of underwriting standards and counter-party risk; fees to cover the risk of the backstop.

[Note: though not in CHLA's area, the GSEs' role should also include multifamily loan purchases}

3. After FHFA Submission of a Capital Restoration Plan, FHFA and Treasury Should Agree on a Plan.

After FHFA development of a Plan, FHFA and Treasury should then work together to reach agreement on a Capital Restoration Plan – with a goal of either the informal support of Congress or their formal approval by legislation. This should then trigger an amendment of the PSPA – to allow the accumulation of GSE capital, along with modifications of common and preferred stock positions, as follows:

- GSEs should retain & accumulate their profits, to help them meet the Plan's capital requirements.
- The debt under the federal government's Senior Preferred stock holding should be deemed extinguished, since the GSEs have paid back 140% of their original advance – and the warrants should be converted or disposed of consistent with the agreed-upon Capital Restoration Plan.

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- Existing common and junior preferred stock holders' interests should be eliminated or otherwise reduced as appropriate, consistent with the agreed-upon Capital Restoration Plan.
- Fees should be assessed on MBS to reflect the risk of the taxpayer federal guarantee, consistent with the agreed-upon Capital Restoration Plan and their impact on recapitalization efforts.
- Except and unless modified by Congress, existing HERA statutory Housing Trust Fund and Capital Magnet Fund contributions, housing goals, and Duty to Serve provisions shall continue during implementation of Capital Restoration Plan

4. GSEs Should Continue Back-End Credit Risk Transfer (Risk Sharing), and only allow Up-Front Risk Sharing with PMIs on a loan level basis with small lender protections (eg., prohibition on volume discounts).

Up-front risk sharing using a securitization structure could lead to increased market concentration among large lenders, which is bad for consumers. The biggest concern is that this would invite the types of vertical integration abuses that Congress has long been concerned about – where a number of large Wall Street Banks have the size and securities expertise to carry out up-front securitization risk sharing structures and then exclusively use the loan proceeds to originate loans through their bank affiliates. More broadly, up-front risk sharing with a securitization structure creates a choke point – GSE seller-servicers cannot sell loans to the GSEs without third party risk sharing in place.

Up-front risk sharing could be acceptable if done on a loan level basis with PMIs (which don't compete in the loan origination business) – except that there should be formal protections to ensure competitive small lender access - specifically: (1) prohibitions on volume discounts, (2) offering PMI to all eligible seller-servicers, and (3) transparent, publicly available pricing.

5. FHFA should complete work on a Common Securitization Platform (CSP) and Single Security – and should not turn over the CSP to the Too-Big-To-Fail Wall Street Banks (or a new entity that they control).

Completion of the CSP helps to create a more uniform, competitive securitization process, with the single security avoiding pricing discrepancies between the two GSEs that could result in distortions. Additionally, CHLA believes that, since the CSP was effectively developed with taxpayer dollars, it should not be turned over to a non-profit or other new entity, which is likely controlled by the large Wall Street Banks. Instead, the CSP should continue to be used to exclusively facilitate GSE securitizations.

6. FHFA and the GSEs should continue progress towards full G Fee Parity and full transparency in pricing, in order to ensure broad loan origination access to small and mid-sized lenders.

The pre-2008 practice of volume discounts, for lenders like Countrywide, encouraged industry concentration and distortive behavior. FHFA and the GSEs should continue the significant progress they have made since then in moving towards G Fee pricing parity – by extending this treatment to include not just the Cash Window, but also buy-up/buy-down grids. Such a requirement for equitable pricing should be incorporated into FHFA regulations, and into Congressional legislation. Formulation of these policies would be enhanced by maximal transparency in both pricing and seller-servicer eligibility qualifications.

7. Congress Should Ultimately Enact Legislation to adopt provisions that only Congress can do, eg., providing an explicit federal guarantee.

Ultimately, Congress will need to enact legislation to accomplish certain things that can only be done through legislation – as well as to codify key policies that have been developed administratively – ie:

- Provide an explicit guarantee, along with a requirement to charge fees commensurate with the risk of that guarantee.

- Codify provisions like strong regulation, capital levels, risk sharing, & small lender protections - but flexibly (not in an overly prescriptive manner) to allow for changing market conditions.

- Appropriate Access to Credit requirements, including Housing Trust Fund/Capital Magnet Fund contributions, and Duty to Serve/ housing goal provisions to ensure that the federal guarantee is not used to serve only the highest quality credit borrowers – but is instead used to serve a broad range of qualified borrowers, geographic areas, and appropriate product types.