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Housing Policy Council President Ed DeMarco's Remarks at FHFA / Ginnie Mae Listening Session on Servicer Eligibility

Washington, D.C. – *Ed DeMarco, president of the Housing Policy Council (HPC) participated in the Federal Housing Finance Agency's (FHFA) "Listening Session" today to discuss FHFA's re-proposal of minimum financial eligibility requirements for Fannie Mae and Freddie Mac seller/servicers. Below is DeMarco's presentation, as prepared for delivery:*

Thank you for this opportunity. I appear today on behalf of the Housing Policy Council (HPC).

I would like to begin by recognizing that FHFA is holding this session jointly with Ginnie Mae. I am pleased and grateful that both Acting FHFA Director Thompson and Ginnie Mae President McCargo are participating. I also would like to recognize that the first speaker this afternoon was Chuck Cross from the Conference of State Bank Supervisors. State supervisors also have a critical role with respect to today's topic.

You all are sending a welcome signal through your collective participation. The Housing Policy Council supports rigorous and effective capital and liquidity standards for Enterprise seller/servicers. Having such standards contributes directly to the resilience and stability of our housing finance system. But it is critically important that there be consistent, aligned standards across the counterparties – Fannie Mae, Freddie Mac, and Ginnie Mae – and the regulators (that is, state supervisors) with direct responsibility for setting and enforcing such standards.

We take it, then, as a good sign that all those with a role in defining capital and liquidity standards are present and participating in this discussion. And HPC hopes that this signal means that in the coming weeks and months, FHFA, Ginnie Mae, and CSBS will continue down a path of communication and coordination that produces both reasonable and consistent guidelines.

Turning to the FHFA Re-Proposal, HPC appreciates that FHFA has already listened and responded to industry concerns on its earlier, withdrawn proposal. We support the minimum net worth and liquidity requirements and believe that the framework used is sensible.

In the comment letter HPC is submitting today, we recommend that the standards be fine-tuned to encourage the use of existing liquidity risk management practices. Our proposed refinements do not focus on the percentage requirements for capital and liquidity, but on how those requirements are satisfied. Most importantly, HPC advocates that available capacity under committed lines of credit should receive consideration as a source of liquidity. We also identify several places where we would appreciate greater clarification from FHFA as it proceeds to finalize the framework. In the next few minutes, I will provide a brief overview of several of these comments.

The first and primary issue I would like to raise is one that I expect you will hear from other speakers today and in other comment letters. Specifically, we believe there is a good case to be made for including a portion of the available capacity under committed lines of credit to meet the liquidity requirements.

HPC's comment letter goes into detail on why we believe committed lines warrant this consideration. While we make some suggestions as to how this could be done, we recognize that there are many ways to accomplish this objective. My larger point for this session is to note that the HPC comment letter highlight the benefits associated with including committed lines to meet some portion of the proposed liquidity requirements. In doing so, we acknowledge that cash and cash equivalents should be the primary component in meeting the liquidity standards. Yet, committed lines can and should be part of meeting that requirement as well.

Fannie Mae, Freddie Mac, and Ginnie Mae already collect data quarterly on nonbank seller/servicers' lines of credit via the Mortgage Bankers' Financial Reporting Form. Adjustments to the current reporting could provide a more complete picture of the available capacity under committed lines and the Enterprises could modify the reporting to align with whatever portion of committed credit lines FHFA decides to count as liquidity.

In its re-proposal, FHFA introduced a new concept to the liquidity framework: an incremental liquidity requirement for nonbank mortgage originators that use the TBA market to hedge interest rate risk. FHFA indicates that it calibrated this requirement to its observations of margin calls related to hedging in the TBA market during March-April 2020. However, it is unclear if this requirement is to be applied to the gross or net position.

In our comment letter, we explain that one of the responses to the market volatility in March-April 2020 was the expansion of netting agreements between warehouse lenders and seller/servicers. Thus, it is possible that warehouse lenders that also serve as dealers on TBA have entered contracts with nonbank seller/servicers that permit the positions to be netted against each other daily by the warehouse lender. Such netting results mitigate the nonbank's margin call exposure to the TBA position.

Therefore, HPC recommends that the origination liquidity requirement be modified to recognize the offsetting effects of these netted positions when the contracts provide for such netting.

Our last recommendation is that the definition of net worth used by FHFA, Ginnie Mae, and state regulators conform to the standing practice at the GSEs and Ginnie Mae, which makes certain adjustments to GAAP definitions. There are sound business reasons for these adjustments, and they have been part of business practice for some time. Therefore, we recommend that the written guidance align with the standing practices. Our letter provides greater detail.

Finally, there are several areas of the re-proposal that would benefit from additional clarification by FHFA as it finalizes the standards. These are described in our letter.

I will close with three points:

- Coordination and alignment across FHFA and the GSEs, Ginnie Mae, and CSBS would enhance predictability, consistency, and stability in how nonbank seller/servicers manage their capital and liquidity;
- Committed lines of credit are an important element of a prudent liquidity risk management framework and thus deserve some consideration in how they can help meet the overall liquidity requirements imposed; and
- Implementing a new set of capital and liquidity requirements is no small matter, so we urge that appropriate time be granted so affected firms can take the steps needed to comply with the new standards.

Thank you.

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About HPC

The Housing Policy Council is a trade association comprised of the nation's leading national mortgage lenders and servicers, mortgage and title insurers, and technology and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth-building for families.

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