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June 24, 2015

The Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Watt:

Our two organizations are writing you today on behalf of of our members, who are small and mid-sized residential mortgage lenders. Our members are deeply concerned about your recent statement on the Common Securitization Platform (CSP), where you said, "our objective is to continue to make progress on building a new securitization infrastructure…this is adaptable for use by other secondary market participants in the future."

The Community Home Lenders Association (CHLA) is the only national association exclusively representing non-bank mortgage lenders. The Community Mortgage Lenders of America (CMLA) represents community-based lenders, both banks and non-banks.

This statement quoted above appears to signal a change from your statement of May 13, 2014, when you said that the goal of the CSP was to reconcile Fannie Mae and Freddie Mac MBS to reduce the pricing disparity between the two, below:

"First, after extensive discussion within FHFA and with the Enterprises, we have clarified that the agency's top objective for the Common Securitization Platform is to make sure that it works for the benefit of Fannie Mae and Freddie Mac."

While on its face, a statement that the CSP could be adaptable for use by other secondary market participants sounds laudatory, in practice any such access will likely not accrue to small lenders, which do not have the ability to invest large fixed sums in staffing and systems to take advantage of issuing and hedging securities. Instead, the largest banks would be the main beneficiaries, as they can invest the sums of money to enter this marketplace and use their existing federal subsidies to help underwrite this new endeavor. One must also ask whether the creation of such a platform, for the use by primary market participants, is allowable under the GSEs charter or under HERA and why the costs of such a platform should be funded by the GSEs rather than passed on to those secondary market institutions who seek access.

Prior to the conservatorships for the GSEs, both Fannie Mae and Freddie Mac provided large discounts on the guaranty fees they charged to their biggest customers. These biggest customers were the largest lenders in the country who used these discounts to garner an even larger share of the mortgage market.

In the last several years, at the urging of CHLA, CMLA and other organizations representing small and mid-sized lenders, the GSEs, under FHFA's direction, have significantly reduced these discounted guaranty fees. The result has been striking. We have seen a significant shift in market place share with a reduction in the combined share of the large bank lenders and a corresponding increase among a much larger group of mid-sized and small lenders.

Consumers have benefitted enormously from these changes, through improved access to credit. Providing more fair and competitive access to smaller lenders means consumers get the benefit of the more personalized loan origination and servicing that these small lenders provide. Reduced market concentration means that consumers have more choices, and therefore more competitive pricing and reduced costs. The GSEs have also benefitted from reduced lender concentration, by diversifying their counterparty risk and having more outlets from which to purchase quality mortgage loans.

We applaud FHFA's decisive role in ending these discounts and creating a far more competitive marketplace. Frankly, this makes the shift in tone and intent regarding participation in the CSP even more baffling. Permitting private lender participation in the CSP will grant the handful of large lenders a significant competitive advantage akin to the previous policy of discounted guaranty fees. There should be no doubt that the large lenders will move quickly to leverage this advantage once again to dominate the market (i.e. restore market dominance, and the dangerous market concentration, that was the reality in the pre-2011 mortgage marketplace).

The role of small lenders today remains tenuous. While overall market share for mortgage originations has moderated for the TBTF banks, small lenders remain under intense cost pressure due to new regulations and oversight by a host of parties. Many small mortgage bankers wonder if they can survive in a marketplace requiring greater and greater fixed costs to operate, regardless of lender's past financial and consumer care performance. Giving the largest banks greater pricing power in the US secondary mortgage market would exacerbate these cost pressures.

In essence, providing access to the CSP for private lenders would hand a huge competitive advantage to the largest lenders in the country, and such advantage would be a direct result of Federal government policy. Our members compete in the mortgage marketplace every day with the largest bank lenders in the country. None of our members have the name recognition or financial resources enjoyed by the big banks. What they do have is ingenuity, careful attention to superior customer service and a willingness to do whatever it takes to ensure that the consumer's home finance needs are met. This hard earned, and consumer-beneficial, more level playing field would be wiped out by deliberate government policy.

By extension, we do not want to see a market dominated by the large banks, which could potentially dominate both the primary secondary mortgage markets. This would result in the provisioning of excess liquidity in good times and a complete withdrawal of liquidity in bad times. Such actions would only serve to undermine the bipartisan goal of reducing the interconnectedness and systemic risks posed by our largest financial institutions. If, in a future crisis, a SIFI bank failed, even for reasons unrelated to the mortgage markets, there would be no way or will for the government to resolve that institution because of the negative consequences for consumer mortgage financing.

CHLA and CMLA welcome your views on these topics and we look forward to a continued, and detailed, dialogue on how to keep small lenders competitive and our mortgage markets safe.

Sincerely,

Scott Olson
Executive Director
Community Home Lenders Association

Glen Corso
Executive Director
Community Mortgage Lenders of America