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October 8, 2014

Federal Housing Finance Agency
Office of Strategic Initiatives
400 7th Street S.W.
Washington, D.C. 20024

RE: Request for Input: Proposed Single Security Structure

Dear Sir or Madam:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment and provide input on FHFA's request for input on the proposal referenced above. In particular the FHFA is seeking input from the mortgage industry and other stakeholders regarding its proposal to create a single "agency security" or MBS that would be utilized and issued by both Fannie Mae and Freddie Mac. This new single agency security would replace the current mortgage backed securities that have been issued by the GSEs. The FHFA's stated goal is to enhance the liquidity of both GSEs securities, in particular the Freddie Mac PC as it trades in the To-Be- Announced or TBA markets. The FHFA proposal to develop a single agency security is part of the FHFA's 2014 Strategic Plan for the GSEs and is considered part of its efforts to build the Common Securitization Platform (CSP); a project that is currently underway.

Since the RFI was issued in August of this year, several industry groups and stakeholders urged the FHFA to move forward with this proposal and to even accelerate the development schedule, arguing that the trading difference between the Fannie Mae MBS and the Freddie Mac PC² requires Freddie Mac to "subsidize" this trading difference by charging lower guaranty fees (gfees). These parties also claim this subsidy is a cost to taxpayers, and puts Freddie Mac at financial risk.

¹ The Independent Community Bankers of America® (ICBA), the nation's voice for more than 6,500 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

ICBA members operate 24,000 locations nationwide, employ 300,000 Americans and hold \$1.3 trillion in assets, \$1 trillion in deposits and \$800 billion in loans to consumers, small businesses and the agricultural community. For more information, visit www.icba.org.

² Freddie Mac mortgage backed securities are called Participation Certificates; or GOLDs hence "PC" or GOLD PCs"

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ICBA strongly disagrees with the above assertion, and would urge the FHFA to abandon its proposal to develop a single agency security. Our reasons for this position are listed below.

- This project is a diversion of GSE resources that are better deployed in other ways such as completion of the CSP, and building reserves to protect the GSEs and taxpayers against credit losses.
- Both GSEs securities are liquid and trade with ease globally. Therefore, creating a new security structure for the GSEs risks orphaning one or both of the legacy securities. This could negatively impact the origination market, as well as investors that hold these securities in their portfolios, including community banks.
- This is primarily a large originator price execution issue, or at the very least an issue for those GSE sellers who securitize their production with one or both of the GSEs. The urgency to act now on this project is likely driven by the GSEs reluctance to negotiate pricing for market share. Most small lenders sell loans to the GSEs on a cash basis and many small lenders only sell to one GSE and therefore not impacted by the trading difference between the securities.
- There is no guaranty that creating a single agency MBS will solve the trading problem and that the new agency securities issued by Fannie Mae and Freddie Mac would trade at similar price levels. Given that both companies still maintain and control its individual credit policy and the risk profile of the loans they securitize, MBS pricing is still likely to be different due to the market(investors) placing a different “premium” for one GSEs “guaranty” over the other. The primary reason that GNMA securities can trade at the same levels regardless of the guarantor of the loans backing that security (FHA, VA, RD) is that the market understands that the ultimate guarantor on those loans is the U.S. Government. The GSEs currently enjoy that guaranty only while they are under conservatorship.
- If FHFA is so concerned about Freddie Mac’s financial stability that it must set its gfees at lower levels to compensate for the poor valuation of the GOLD PC, then FHFA could (and should) require Freddie Mac to retain more of its earnings to shore up its financial position.

As stated above ICBA believes there are more urgent matters that the FHFA should address with the GSEs rather than creating, launching and supporting a new MBS structure.

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ICBA appreciates the opportunity to provide input on this RFI, and looks forward to working with the FHFA and policymakers as housing finance reform progresses. If you have any questions regarding this letter please contact the undersigned at ron.haynie@icba.org.

Sincerely,

Ron Haynie
Senior Vice President- Mortgage Finance Policy
Independent Community Bankers of America

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