March 17, 2025

Federal Housing Finance Agency
Office of the Director
400 7th Street, SW, 9th Floor
Washington, DC 20219

Dear Director Pulte,

On behalf of community banks with nearly 45,000 locations nationwide, the Independent Community Bankers of America (ICBA)[1] congratulates you on your recent confirmation as Director of the Federal Housing Finance Agency (FHFA). We look forward to working with you and your staff to ensure the ongoing safety and soundness of the housing finance system while addressing longstanding concerns about housing affordability and the challenges of achieving the American dream of homeownership.

We appreciate your commitment to strengthening capital markets to spur housing development and commend you for bringing your experience and expertise to this critically important role in the Trump Administration. As you are aware, community banks represent 20 percent of the national mortgage origination market and are the primary lenders in many small towns and rural communities.

As you work towards building out the Agency's agenda, we respectfully request that you take under advisement the following ICBA concerns related to the FHLBs, GSE reform, and the role FHFA can take to address regulatory relief for community banks. We look forward to working with you in the coming months on these critically important issues.

<u>The Federal Home Loan Bank System</u>

The Federal Home Loan Bank System (FHLB System) has been an invaluable source of funding and backup liquidity for community banks for over 90 years. Maintaining the safety and soundness of the

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[1] *The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation.*

As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at icba.org.

FHLB System while ensuring it remains ready and willing to provide fully collateralized advances to community banks will further bolster community development and affordable housing throughout our nation.

- In November of 2023, FHFA released a report entitled "FHLBank System at 100: Focusing on the Future."[2] The report outlined around 50 recommendations – regulatory, legislative, and supervisory – to modify or significantly change the System
- As FHFA Director, we strongly urge you to pause or reconsider the implementation of these proposals to focus primarily on the safety and soundness of the System and re-engage with industry stakeholders on how to best ensure the success and longevity of the FHLB System going forward.
- The FHLBs have a long and successful history of providing affordable and consistent liquidity to their member institutions – especially community banks. More than 90 percent of FHLBank members are small, community-based institutions that rely on this liquidity to serve their customers and local economies. This funding also helps lenders maintain adequate balance sheet management.
- The FHLB System is privately funded and provides enormous public benefits. **It is crucial to not fix what isn't broken by implementing additional barriers to funding or by unnecessarily restructuring a system that plays such a key role in making such funding possible.**

Ending the Conservatorship of Fannie and Freddie

- **Fannie and Freddie must begin the process to safely and soundly exit conservatorship.**

  - ICBA agrees with the incoming administration that it is time to finish the job by allowing FHFA and Treasury to end the conservatorship in an efficient, orderly, and transparent manner and with minimal market disruption.
  - The 16-year conservatorship has effectively nationalized the GSEs with the FHFA Director essentially running both companies. A perpetual conservatorship runs counter to the language drafted in HERA. It is ultimately unhealthy for the housing finance system, puts taxpayers at risk, and sets an unfortunate precedent to allow a government takeover of private companies.
  - In conservatorship, the GSEs are subjected to unnecessary political influence and forced to undertake initiatives that divert resources away from their primary mission.
  - FHFA can work with the Treasury secretary to resolve Treasury's ownership based on the Preferred Stock Purchase Agreements (PSPAs), permanently end the net worth sweep, and allow the GSEs to access the capital markets to raise outside equity to help them to fully recapitalize.
  - Maintaining a robust capital framework and strong oversight and supervision are key to

[2] https://www.fhfa.gov/sites/default/files/2024-12/FHLBank-System-at-100-Report.pdf

a successful transition to the private market.

- **Out of conservatorship, Fannie and Freddie must retain their critical roles in the secondary mortgage market.**

    - The GSEs' position in the secondary mortgage market structure has worked well for community banks by providing equitable access, not competing at the retail level, and permitting community banks to retain mortgage servicing rights on the loans they sell. This should be maintained when the GSEs exit conservatorship.
    - ICBA supports regulatory and administrative actions to preserve market liquidity, protect taxpayers, encourage the return of private capital to housing finance, and ensure a stable national mortgage market for all stakeholders.
    - The Enterprises must maintain their specific duty to serve all markets, including small towns and rural areas
    - Community banks and other small lenders must be able to sell loans on a single loan basis for cash.

Easing Regulatory Burden and Maintaining Community Bank Access to the Secondary Mortgage Market

- **We encourage FHFA to work with the GSEs and stakeholders to remove or streamline burdensome policies and requirements that increase costs to underwrite and service loans sold to the Enterprises.**

    For example, the following requirements should be removed or streamlined to reduce burden and expedite processes:

    - Mandatory Reconsideration of Value processes for all GSE sellers add additional operational burdens and increase the cost to originate a loan.
    - Mortgage servicing requirements from the GSEs should be tailored to better fit the community bank cost structure and business model.
    - Overly complex quality control standards and loan repurchase policies and requirements add considerable costs to the process, making it harder for smaller lenders to sell directly to the GSEs.
    - Mandatory capture and reporting of language preference data on all GSE loans adds additional cost and complexity to mortgage originations and could create legal liability concerns for community banks to provide translation services for all borrowers.
    - The creation of GSE "social/ green MBS" products effectively bifurcates the UMBS market and creates additional expenses for both GSEs with little or no resulting benefit to the GSEs or borrowers.

- **ICBA urges FHFA to reconsider and pause the implementation of recent policies, projects, and initiatives that could be harmful for the housing finance industry.**

  Recent examples include:

  - **FHFA's Credit Score Models and Reports Initiative**[3]: ICBA and other financial trade associations continue to raise concerns that this initiative is overly complex and burdensome to implement, has lacked meaningful industry outreach and transparency, and likely to increase costs to consumers.

    FHFA's directive mandates the use of two new credit score models, FICO 10T and VantageScore 4.0, instead of one model. Without meaningful changes to the existing proposal, this transition will likely increase costs, operational burdens, and regulatory uncertainty. The GSEs also raised operational concerns to FHFA about this proposal. And despite virtually no industry support for this decision, FHFA nevertheless directed the GSEs to move forward with the two-score model.

    We urge FHFA to reconsider and re-evaluate the rationale for a two-score approach. Through a transparent and rigorous process, FHFA can effectively determine and eventually select the most suitable and reliably predictive model for the GSEs going forward.

    This initiative should be paused until the following occurs:
    - The release of a cost/benefit analysis and operational impact assessment to provide transparency and a better understanding how the proposed changes will impact the entire housing finance ecosystem
    - The release of historical credit data alongside FHFA's analysis that resulted in the approval of the two new models
    - Successful coordination and consensus among FHFA and the prudential regulators to mitigate lender uncertainty and risk
    - A delay and reevaluation of the bi-merge option allowing a lender to select two credit reporting agencies instead of the three required today
    - Adoption alignment with the government lending programs – FHA/VA/USDA

  - **Freddie Mac's Second Mortgage Program**[4]: In June 2024, FHFA approved a pilot to allow Freddie Mac to purchase certain single-family closed-end second mortgages. This decision was controversial among industry participants given the potential risks to Freddie's portfolio and overall lack of market demand.

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[3] https://www.fhfa.gov/policy/credit-scores
[4] https://www.federalregister.gov/documents/2024/04/22/2024-08479/freddie-mac-proposed-purchase-of-single-family-closed-end-second-mortgages-comment-request

> ICBA and other financial trade associations argued that Freddie Mac failed to demonstrate that there was a market need for their proposed product or justify how it fit within their charter by expanding the housing supply. Moreover, we suggest that this program is a clear example of the GSEs moving beyond their charter and devoting resources away from retaining capital and eventually exiting conservatorship.

In the weeks and months to come, we welcome the opportunity to discuss and expound on these issues with you and your staff. We look forward to working with you.

Sincerely,

/s/

Rebeca Romero Rainey
President and CEO