



February 23, 2022

**CHLA Comments:
FHFA Draft Strategic Plan for FY 2022 - 2026**

The Community Home Lenders Association (CHLA)¹ is pleased to submit these comments in response to FHFA's draft Strategic Plan for 2022-2026.

CHLA is very supportive of the overall priorities in this Strategic Plan. It balances a strong commitment to access to mortgage credit and equity in housing finance with an appropriate degree of focus on safety and soundness. This is reflected in numerous actions FHFA has taken over the last 8 months, including:

- Suspending the PSPA restrictions on certain loans and small lender access to the cash window
- Ending the adverse market fee
- Making permanent the option to use desktop appraisals
- Raising Enterprise housing goals
- Preventing private parties from using the GSE Common Securitization Platform
- Re-opening the Enterprise Capital Requirements

However, CHLA wants to convey our deep concern about the implications of the following excerpt from the draft plan: *"FHFA does not currently possess the power to examine important counterparties of its regulated entities, such as nonbank servicers. This could interfere with FHFA's ability to ensure the safety and soundness of the regulated entities and the resilience of the nation's mortgage markets."*

CHLA is fully committed to the principle that FHFA should be vigilant about the safety and soundness of the Enterprises, and we agree that counterparty risk is an important component of that responsibility. While it does not seem appropriate to comment in depth about a few general sentences in a Strategic Plan, CHLA does have concerns about this excerpt. Therefore, we offer the following comments:

- CHLA fully supports FHFA exercising appropriate oversight over the Enterprises' counterparty risk management, e.g., as it does with PMIERS net worth requirements. However, respectfully, CHLA believes that direct examination authority of servicers is neither necessary nor warranted.
- The Enterprises already: (1) have substantial net worth and capital requirements for seller-servicers, (2) require an annual independent financial audit of all seller-servicers' financials, (3) conduct operational exams, such as Fannie Mae's MORA audit, and (4) require detailed quarterly financial reporting, such as the Mortgage Banker Financial Reporting Form (BFRF).

Therefore, direct FHFA examination authority over servicers would not meaningfully increase the financial oversight tools that already exist with respect to Enterprise servicer counterparty risk. The main impact would simply be to increase compliance burdens for smaller nonbank servicers.

¹ CHLA is the only national trade association that exclusively represents independent mortgage bankers (IMBs). CHLA members are small and mid-sized, community-based IMBs, whose sole business is originating and servicing residential mortgage loans.

- Non-bank seller-servicers are also subject to extensive financial scrutiny from their warehouse lenders, which have significantly greater risk exposure than the Enterprises and are likely to force corrective financial action long before any Enterprise servicer counterparty risk might arise.
- The Enterprises essentially have no counterparty servicing risk of loan loss (in contrast with some [though minimal] counterparty risk related to repurchase requests due to faulty loan origination). Enterprise counterparty servicing exposure is generally limited to a servicer's failure to advance funds in the event of borrower nonpayment – funds which will ultimately be repaid either by the borrower or through the separate underlying Enterprise loan guarantee. Even this limited impact is much lower for smaller non-bank servicers, which commonly service on an actual/actual basis.
- What little Enterprise counterparty servicing risk that does exist arises from the potential costs of having to transfer a servicing portfolio because of servicer financial problems. Here, the risk is generally insignificant for smaller nonbank servicers, since it is relatively easy and commonly loss-free to transfer the servicing portfolio of a smaller servicer if that becomes necessary.
- Therefore, any new examination authority that might be put into place should be limited to large non-bank servicers – which of course pose almost all the mortgage servicing financial and systemic risk. The addition of regulatory compliance burdens on smaller servicers would not serve any real counterparty risk benefit, and would only make it harder for smaller services to service Enterprise loans, thus increasing servicing concentration and reducing consumer choices.
- Finally, we are unclear why nonbank servicers were singled out in this sentence, while banks were not. We understand that banks are subjected to financial examinations by bank regulators. However, that does not involve a detailed scrutiny of their servicing activities. Moreover, the same counterparty servicing risks to the Enterprises exist with banks as with nonbanks. And, ultimately, banks are not backed by the federal government (only their deposits are guaranteed)

We thank you for your consideration of these comments.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION