CHLA Opposes Designation of Any IMBs as Systemically Important Financial Institutions

Trade association argues it would be inappropriate to designate any mortgage servicer as a SIFI

July 25, Washington, D.C. - The Community Home Lenders of America (CHLA) submitted comments today in response to the Financial Stability Oversight Council (FSOC) designating non-bank financial companies as systemically important financial institutions (SIFI). In their comments, CHLA emphasized that labeling any small to mid-sized servicers as SIFI would be inappropriate as they clearly do not pose any systemic risk as mortgage loan originators.

"The demise of a small or mid-sized IMB poses zero taxpayer or financial risk," said Scott Olson, Executive Director of CHLA. "Non-bank servicers (IMBs) are already subject to a robust set of rules and regulations that make it very unlikely to trigger negative financial chain reactions and is therefore entirely inappropriate to label them as SIFIs."

In their comments, CHLA also referenced a report they released in March, "CHLA Report on Regulatory Creep" which rebuffed the myth that IMBs are risky and unregulated and explained why small and mid-sized IMBs pose zero taxpayer or financial risk.

CHLA's comments clearly outline the inappropriateness of deeming **ANY** non-banks as SIFI's, stating:

- Ginnie Mae and Fannie Mae and Freddie Mac (through FHFA regulation) already have both significant financial requirements for issuance/servicing of these loans and ongoing robust supervision of these entities with the objective of maintaining them as an ongoing entity.

- Large servicers are subject to a wide range of additional financial and consumer rules and supervision and market discipline - including: (1) state licensing in every state a servicer does business, (2) ongoing examinations by the CFPB, (3) ongoing examinations by states in which they are licensed, (4) stringent counterparty risk requirements by warehouse lenders, (5) Dodd-Frank consumer protection laws regarding servicing practices, and (6) strict loss mitigation requirements regarding loan defaults on FHA, RHS, VA, Fannie Mae, and Freddie Mac loans.

- To the extent that mortgage-backed securities (MBS) markets could be affected by the demise of a large servicer that is temporarily unable to make advances, there are other mechanisms available to fulfill this function.

- Disruptions in mortgage servicing as a result of the demise of a large servicer could cause dislocations and inconveniences for borrowers - but ultimately are very unlikely to result in a significant widespread financial disruptions or other negative financial chain reactions.

Link to the Letter: https://www.communitylender.org/chla-opposes-designation-of-any-imbs-as-systemically-important-financial-institutions/