

ROCKET Mortgage

1050 Woodward Ave.
Detroit, MI 48226

October 21, 2022

The Honorable Sandra Thompson Director
Federal Housing Finance Agency 400 7th Street, SW
Washington, DC 20219

Re: Comprehensive Review of the Federal Home Loan Bank System Request for Input

Dear Director Thompson:

Rocket Mortgage, LLC (“Rocket Mortgage”) appreciates the opportunity to respond to the Federal Housing Finance Agency’s (“FHFA”) Request for Input related to its Comprehensive Review of the Federal Home Loan Bank (“FHLBank”) System announced in August 2022. We applaud FHFA’s commitment to pursuing policies that enable the FHLBank System to provide liquidity to support housing finance and further affordable housing and community development in an equitable way.

Given the systemic changes to the nation’s housing finance markets in the almost 100 years since the FHLBank System was created, we believe FHFA should pursue regulatory changes and work with Congress to expand eligibility to allow high-quality Independent Mortgage Banks (IMBs), like Rocket Mortgage, to seek FHLBank membership. Doing so would appropriately acknowledge IMBs’ current integral role in the housing finance ecosystem, while addressing legitimate public policy considerations including mission alignment and safety and soundness standards such as strong capital, liquidity, and operational competence requirements.

About Rocket Mortgage

Detroit-based Rocket Mortgage, the nation’s largest home mortgage lender and part of Rocket Companies (NYSE: RKT), enables the American Dream of homeownership and financial freedom through its obsession with an industry-leading, digital-driven client experience. In late 2015, Rocket Mortgage introduced the first fully digital, completely online mortgage experience. Rocket Mortgage closed \$351 billion dollars of mortgage volume across all 50 states in 2021. Rocket Mortgage moved its headquarters to downtown Detroit in 2010. The company generates loan production from web centers located in Detroit, Cleveland, and Phoenix. Rocket Companies, Rocket Mortgage’s parent company, ranked #7 on Fortune’s list of the “100 Best Companies to Work For” in 2022 and has placed in the top third of the list for 19 consecutive years.

Response to Request for Input

FHFA posed six areas specific areas of interest for feedback in its release:

1. The FHLBanks’ general mission and purpose in a changing marketplace;
2. FHLBank organization, operational efficiency, and effectiveness;
3. FHLBanks’ role in promoting affordable, sustainable, equitable, and resilient housing and community investment;
4. Addressing the unique needs of rural and financially vulnerable communities;
5. Member products, services, and collateral requirements; and
6. Membership eligibility and requirements.

We will address most, but not necessarily all of these areas of interest, roughly in the order in which they were posed.

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FHLBanks' General Mission and Purpose

We support the general mission and purpose of the FHLBanks and the goals of FHFA's current review, including the potential development of a set of principles and requirements of general applicability to address membership issues on a consistent basis. This policy objective is appropriately set to maintain a safe and sound system that can provide liquidity for housing finance throughout the housing and business cycle, while also ensuring members have an appropriate nexus to the housing finance and community development mission of the FHLBanks.

Well-capitalized, well-managed IMBs that operate in a safe-and-sound manner and demonstrate a commitment to the FHLBanks' mission, can and should be eligible for membership. Membership expansion to certain IMBs would bring the FHLBank System into alignment with today's mortgage marketplace in which IMBs play an increasingly central role. By expanding membership to including financially strong, well-managed IMBs, like Rocket Mortgage, this policy change will increase competition in mortgage lending, enhance the availability of affordable home loans for a diverse set of consumers, and boost the overall stability of the mortgage finance system. This policy change would further FHFA's duty to ensure that operations and activities of the FHLBanks foster liquid, efficient, competitive, and resilient national housing finance markets.

A Changed/Changing Marketplace

In launching its comprehensive review, FHFA rightly acknowledges how the marketplace has changed in recent years and since the FHLBanks were created nearly 100 years ago. We support FHFA's aim to ensure the FHLBanks remain positioned to meet the needs of today and tomorrow, recognizing how the housing finance market has changed and continues to evolve. According to Home Mortgage Disclosure Act data from 2008 to 2017, IMB market share of single-family origination increased from 25 percent to 54 percent.¹ The Urban Institute reports that as of August 2022, that share was up to 73.8 percent.² In 2018, more than 64 percent of minority homebuyers got their mortgage financing from IMBs and IMBs originated more than 60 percent of all home purchase loans for low-and moderate-income borrowers.³ There can be little doubt that the reach of IMBs across a diverse range of creditworthy borrowers in each of the FHLBank System's regions could directly and immediately enhance the ability of the FHLBanks to fulfill the affordable housing goals set for them by FHFA.

Expanding Membership of the FHLBank System Can Help Enhance Competition & Improve Resiliency of the Housing Finance System.

During the COVID-19 pandemic, the FHLBank System played a significant role in executing its mission. It provided its membership with critical liquidity at a time of elevated unemployment applications and

¹ Mortgage Bankers Association, "The Rising Role of the Independent Mortgage Bank – Benefits and Policy Implications," *MBA*, February 2019, <http://mba-pa.informz.net/mba-pa/data/images/IMB22219.pdf>

² Urban Institute, "Housing Finance Glance: A Monthly Chartbook," *Urban*, September 2022, <https://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-september-2022>

³ Mortgage Bankers Association, "The Rising Role of the Independent Mortgage Bank – Benefits and Policy Implications," *MBA*, February 2019, <http://mba-pa.informz.net/mba-pa/data/images/IMB22219.pdf>

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mortgage forbearance demand. The FHLBanks have proven that during times of stability and crisis, they remain durable, flexible, and scalable to support the housing finance system. Expanding membership to include strong credit quality IMBs would extend these systemic benefits. It would also level the playing field among mortgage market participants in ways that strengthen market liquidity, enhance the availability of affordable credit for residential mortgage lending, and further the FHLBank System's affordable housing and community development missions in each of its 11 regions.

This recent history also highlights how access to the FHLBanks for IMBs that meet stringent capital and liquidity standards can improve the overall stability and resiliency of the housing finance system, and in particular mortgage servicing operations. Reliable access to the liquidity that FHLBank advances represent will bolster the ability of mortgage servicers to manage liquidity demands and provide better home retention options to consumers facing the risk of default and foreclosure in an extraordinary market stress environment. The COVID-19 pandemic saw a dramatic uptick in the use of forbearance and other temporary home retention options for consumers due to the unprecedented shutdown of the economy to combat the pandemic. Broadened access to FHLBank advances could further help ensure there are adequate liquidity backstops in the housing finance system in the event fiscal or other monetary support were less available to aid the economy during some future crisis.

Rocket Mortgage uses best-in-class underwriting practices and quickly sells its loans into a deeply liquid secondary mortgage market. As such, Rocket Mortgage would most likely use FHLBank advances in a similar manner to a warehouse line. This practice comes with limited credit risk to the FHLBank system. Not only are the underlying loans backed by the GSEs, FHA, VA, and USDA, but the high-quality collateral Rocket Mortgage would pledge would typically only be advanced on for a short period of roughly two to four weeks.

Moreover, Rocket Mortgage has industry leading credit quality across its portfolio as demonstrated by our two-year FHA compare ratio with an average of 59 as of September 2022. The quality of the manufacturing process today depends increasingly on technology and scalability, especially considering the consistency of the agency collateral being originated. For the six months ended June 30, 2022, over 95 percent of Rocket Mortgage's loan originations were agency conforming, the median credit score was 735, and the average LTV was 71. Since FHFA and Congress last evaluated FHLBank membership, origination quality in the market has risen and serious delinquencies have declined. As of June 30, 2022, Rocket Mortgage had a total serviced delinquency rate (loans more than 60 days past due) of 1.25%. If loans in forbearance are excluded, our delinquency rate was 0.74%.

High-quality IMBs are Well Positioned to Directly Support the FHLBanks In Promoting Affordable, Sustainable, Equitable, and Resilient Housing and Community Investment.

Rocket Mortgage's business model is built to responsibly promote access to sustainable homeownership for millions of families. As the nation's largest home mortgage lender doing business in all 50 states and Washington, D.C., our mission to provide affordable access to home loan financing to all eligible borrowers directly compliments the FHLBank System's mission to keep the housing finance market liquid and promote affordable housing and community development across the United States.

While this alignment of the FHLBank System's mission and FHFA's attendant goals with the mortgage production of IMBs has only strengthened since the 2008 financial crisis, the current membership criteria

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precludes IMBs from leveraging critical FHLBank member mortgage products. Moreover, as IMBs' market share has increased, the FHLBank products have had less opportunity in today's market. The FHLBank's Mortgage Partnership Finance and Mortgage Purchase Program would provide IMBs the ability to expand credit solutions available to clients in underserved communities that are currently not offered by non-portfolio lenders, like typical IMBs. The addition of IMB participation would provide much needed liquidity within this area of the market and deliver on FHLBank's mission to promote affordable housing solutions. The reach of the FHLBank's programs is limited based on current membership. Providing opportunity for IMB membership would strengthen FHLBank's position in the market and allow for expansion of these programs to reach populations in need.

Rocket Mortgage recognizes the need to help previously underserved communities by unlocking economic growth and prosperity through homeownership. Recognizing the need to do more, Rocket Mortgage partnered with the Rocket Community Fund, the philanthropic arm of Rocket Companies, to create and support programs designed to promote sustainable homeownership and affordable housing through thoughtful community engagement, strategic partnerships, and innovative mortgage products. This commitment to stable housing provides more opportunity for all. An example is a program launched in our home city of Detroit. In 2021, Rocket Mortgage partnered with Rocket Community Fund to launch the Detroit Home Loan + program which provides a \$2,500 lender credit towards closing costs on primary residence purchase mortgages in Detroit along with banking resources and home buyer education or credit counselling. Additionally, Rocket Community Fund has committed \$500 million in investments over the next ten years, to be accomplished through strategic contributions to community organizations that will build economic opportunity in Detroit neighborhoods.

Membership Eligibility and Requirements

Many IMBs already meet the underlying statutory requirements for FHLBank membership pursuant to Section 4(a)(1) and 4(a)(2) of the FHLBank Act.⁴ The company is organized under U.S. law and subject to inspection and regulation under U.S. and state laws, operates in the single-family residential mortgage market, has financial conditions that would allow a FHLB to extend advances safely, and the character of its management and home-financing policies are consistent with sound and economic home financing.

Additionally, IMBs can demonstrate compliance with the six parallel regulatory membership eligibility requirements prescribed by FHFA in 12 CFR part 1263 that all current FHLB members must meet, whether they are thrift institutions, commercial banks, credit unions, insurance companies, or non-depository Community Development Financial Institutions (CDFI).⁵

It is also important for FHFA to better define safety and soundness and how such metrics are evaluated when regulations around membership criteria are crafted. Policies that minimize the risk of loss on advances, for instance, must be approached through a counterparty-specific lens based of an accurate analysis of true credit risk. This is especially true with respect to IMBs. No two IMBs are alike – each may leverage a variety of capital and liquidity channels and have different organizational/business continuity structures. Any regulatory changes governing FHLBank membership must also be cognizant of the significant changes to the regulatory and supervisory landscape IMBs are subject to. In today's regulatory

⁴ See 12 U.S.C. § 1424.

⁵ See 12 CFR 1263.6(a)

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environment, IMBs must meet specific financial requirements and liquidity coverage ratios set forth by FHFA and Ginnie Mae. These standards are meant to promote safety and soundness of issuers and ensure IMBs can operate throughout economic cycles. Additionally, IMBs are now subject to an increasing number of state-level prudential standards based on model regulations created by the Conference of State Bank Supervisors (CSBS) in 2021. We expect more states to act on CSBS's model standards in the coming years and believe these efforts will further solidify the safety and soundness of IMBs.

It is critical to note that Rocket Mortgage (an indirect subsidiary of Rocket Companies Inc.) is one of the strongest IMBs in the market. As of June 30, 2022, Rocket Companies remained in a strong liquidity position totaling \$7.3 billion, which includes available cash (cash on-hand and self-funded loan originations), undrawn lines of credit from non-funding facilities, and undrawn MSR lines. Rocket Mortgage also maintains a low net leverage and strong capital levels. This prudent balance sheet management ensures we are well positioned and able to withstand challenging market cycles. Rocket Mortgage also has access to diverse funding sources including, but not limited to, early funding facilities, repurchase agreement facilities, mortgage servicing rights financing, unsecured lines of credit, and strong access to the bond markets given our credit and brand profiles. Additionally, Rocket Mortgage is a highly rated company whose sustained success has been recognized by Moody's (Ba1, positive outlook), Fitch (BB+, positive outlook), and Standard & Poor's (BB+). The positive outlook reflects our strong creditworthiness and trajectory toward becoming an investment-grade company.

In today's market, the IMBs embody the mission of the FHLBanks in their focused commitment to mortgage finance. As part of membership, the character of any potential new member needs to be evaluated. In this evaluation, FHFA should require no less than three years of publicly available financial statements to ensure management is consistent with sound financial practices that can be relied on to support the long-term stability of the FHLBank System and the broader home financing ecosystem.

Ongoing Oversight

The FHLBank System already has members not subject to a single direct federal safety and soundness regulator. IMBs are subject to indirect prudential regulation as well as a web of ongoing supervision across federal, state, and local jurisdictions. IMBs are regulated in all 50 states, and by several federal agencies (or quasi-agencies) including CFPB, FHA, VA, Ginnie Mae, Fannie Mae, Freddie Mac, FCC, FTC, USDA, and HUD. In addition, IMBs are subject to robust, recently updated liquidity and stress testing requirements as a GSE Seller/Servicer and Ginnie Mae Issuer. IMBs should be expected to match any current FHLBank membership requirements, including liquidity coverage ratios. In considering potential membership for IMBs, the servicer eligibility standards set by Fannie Mae and Freddie Mac in conjunction with issuer eligibility standards set by Ginnie Mae should be considered. The current liquidity and stress tests set by Fannie Mae, Freddie Mac, and Ginnie Mae constitute a very high standard and require annual stress testing and examination.

To fully consider the risk to the FHLBank System of membership expansion to IMBs, it is important to consider the hypothetical situation where a member IMB would face bankruptcy. Using the IMB business model, the FHLBank System's risk of recovering on collateral pledged by an IMB is lessened because such collateral will typically only be pledged between two and four weeks before such loans are sold to third party investors and the resultant net proceeds are paid to the FHLBank system. Moreover, in the event of a bankruptcy, the underlying collateral is of high quality due to its newly originated status and therefore

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is more easily able to be sold into an extremely liquid market. Additionally, because of the FHLBank system's fully collateralized lending model and the protection provided by the "Super Lien", the 1:1 relationship of the collateral to the FHLBanks' security interest in member assets guarantees priority status. With respect to IMBs that do not typically portfolio loans, this means FHLBank lien priority supersedes that of any other creditor and the pledged collateral could not be used for general creditors. Lastly, it is critical to note that there are already material haircuts on the FHLBank advances that are significantly higher than that of warehouse lines. According to the 2021 FHFA report on collateral pledged to the FHLBs, single-family first lien mortgages receive an average haircut of 20.5 percent across the System.⁶

We are confident the aforementioned structure and policy considerations would continue to preserve the FHLBank System's outstanding record of never realizing credit losses on advances in the System's history.

Conclusion

Thank you for the opportunity to submit our response on this critical topic. We look forward to continuing to work with FHFA to identify the best policies around FHLBank membership to ensure the System is able to provide liquidity to support housing finance and further affordable housing and community development. Please reach out to Hilary Halpern, Senior Director of Public Policy, at HilaryHalpern@RocketCompanies.com or (313) 782-9370 with any questions, concerns, or requests for more information.



Bob Walters
Chief Executive Officer
Rocket Mortgage, LLC

⁶ FHFA, "Report on Collateral Pledged to Federal Home Loan Banks," July 2021
<https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2021-Annual-Collateral-Report-to-Congress.pdf>