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Federal Housing Finance Agency

400 Seventh Street SW

Washington, DC 20032

May 21, 2024

Re: Freddie Mac Single Family Closed End Second Mortgage Proposal

The Community Home Lenders of America (CHLA) appreciates the opportunity to submit comments regarding the new product proposal “Freddie Mac Proposed Purchase of Single-Family Closed End Second Mortgages”.

The CHLA is a national non-profit association of small and mid-sized community-based mortgage lenders.  The mission of the CHLA is to promote federal mortgage programs, rules, and regulations that treat community mortgage lenders fairly and reflect the critical importance that community mortgage lenders play in providing broad access to credit for borrowers, in increasing competition in mortgage markets, and in providing borrowers with quality mortgage services and access to loans at a local level.

Overall, CHLA supports the Freddie Mac closed end second mortgage proposal and welcomes the opportunity for our members to offer closed end second mortgage loans. This letter is organized around the relevant questions in the proposal, and while we raise implementation and market related questions, CHLA appreciates this proposed product offering.

**FHFA Question 3**: **To what extent might the proposed new product already be supplied by other market participants?**

**FHFA Question 4**: **To what degree might the proposed new product promote or lessen competition in the marketplace?**

Second lien product offerings are generally available in the market today, although likely at higher costs that an offering that Freddie Mac may be able to offer. Freddie Mac may bring incremental price benefits to consumers because of their government sponsored enterprise (GSE) status which brings implicit government guarantees to their product offerings. To the extent Freddie Mac can offer better terms and pricing, (that would be dependent on specific product terms, level of risk, capital requirements, funding costs and other factors), this could be an attractive product offering.

**FHFA Question 6: To what degree might the proposed new product raise or mitigate risks to the mortgage finance or financial system?**

FHFA and Freddie Mac should consider the representation and warranty (rep and warrant) risk framework for the product offering such that rep and warrant relief is issued up front at the time of the loan sale, if all loan conditions are met. In the absence of rep and warrant relief, the repurchase risk due to any lack of clarity in underwriting or servicing guidelines can cause significant financial harm directly to lenders and indirectly to consumers. The ability for lenders, upon meeting prescribed underwriting and servicing guidelines, to obtain relief from loan representation and warranty liability is critically important to community lenders.

**FHFA Question 8: To what degree might borrowers benefit from or be adversely affected by the proposed new product?**

Benefits would be from the unique offer, beneficial pricing and explicit program standards, including forbearance relief policies. However, the risk of loan repurchases, in the absence of rep and warrant relief, where a repurchase demand is made, could cause a loan re-sale to non GSE investors, which may cause borrower loss of GSE prescribed loan workout options and benefits.

**FHFA Question 9: Are there any other factors that the Director should take into consideration concerning the proposed new product?**

CHLA members would welcome the opportunity to offer a Freddie Mac second mortgage product, assuming the offering would be a competitive alternative for borrowers.

An ongoing concern for members is the risk of a repurchase if a loan fails to meet Freddie Mac guidelines. Since this product is new and undefined in some areas, some form of representation and warranty relief, or conditional relief, including specificity for these conditions, would be important in preventing overly conservative practices that may chill the market offering. This clarity is both for the origination and servicing guidelines (noting that foreclosures on a second mortgage may involve more complexity and, per the rule, will involve Freddie Mac decision making).

Since the first mortgage must be a loan held or guaranteed by Freddie Mac, many times it can be difficult to ascertain this information. CHLA believes a lookup tool to be able to identify a Freddie Mac loan and loan number would be beneficial to all stakeholders, including borrowers, in the process.

Finally, bids in the spot cash market without the option to obtain a forward commitment may pose additional hedging costs and carry risks for lenders, Freddie Mac should consider this as part of the product offering.

Overall, CHLA supports the product offering appreciates this opportunity to provide comments.

Sincerely,

Community Home Lenders of America