

**Federal Housing Finance Agency
Strategic Plan: Fiscal Years 2022-26**

Subject: Immediate Reinstatement of Seasoned Bulk Transactions with Fannie Mae and Freddie Mac

Agency seasoned bulk transactions for prime, conforming balance mortgages have been a critical balance sheet management tool for banks and credit unions since the 1980s. Bulk sales enable these depositories to address strategic issues in a price-efficient manner compared to a private market that's not always open to smaller institutions and deal sizes. Executing a seasoned mortgage sale through Fannie Mae or Freddie Mac creates additional balance sheet liquidity for us, ensuring that our ability to originate additional portfolio mortgages going forward is not restricted.

In April 2020 the FHFA, under the direction of Mark Calabria, issued a directive for Fannie Mae and Freddie Mac to temporarily suspend seasoned bulk transactions. The suspension was due to a number of factors:

- Capital markets participants such as REITs and mega banks were actively trying to sell or securitize relatively new mortgages with large individual transaction sizes, many greater than \$1 billion, because the private securitization markets weren't functioning properly
- An Exceptionally high volume of new flow originations beginning in March 2020
- The relatively small size of the seasoned bulk market versus flow originations
- The uncertainty associated with the credit impact that forbearance requests would have on current and future mortgages

The conditions that caused this temporary suspension receded within a couple of months. Keeping the suspension in place leaves many small and mid-size institutions without a critical source of liquidity and at a funding disadvantage to larger institutions.

Seasoned loans were originated by a lender that intended to hold the loan to term and had a vested interest in its credit quality and performance from the outset. Additionally, seasoned loans have a demonstrated pay history that newly originated loans don't have.

In addition to the high credit quality of seasoned mortgages, these transactions can be a vital source of affordable housing loans for the agencies. Many portfolio lenders originate these types of mortgages and hold them on the balance sheet. An agency seasoned bulk transaction enables these lenders to reinvest the proceeds in additional affordable housing loans with the new liquidity.

A typical seasoned bulk transaction for most institutions is only executed once every couple of years when there is a strategic need that arises. These deals typically range in size from \$5 million up to \$100 million and have an average seasoning of 24+ months. This compares to bulk transactions by the largest banks and capital markets participants that execute bulk deals multiple times a year and often for very large amounts. These mortgages were originated with the intent to sell and the bulk window is the execution method because of more favorable execution levels than a private securitization at that time.

Immediate reinstatement of seasoned bulk transactions should be prioritized in FHFA's strategic plan. It is a critical source of liquidity for many banks and credit unions in addition to being an excellent source of strong credit mortgages for Fannie Mae and Freddie Mac.

Respectfully,

Brian Byrd

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