October 14, 2022

Comment Intake
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Re: Fintech in Housing Finance: Request for Information

Dear Director Thompson:

Thank you for inviting public comment on the Federal Housing Finance Agency (FHFA) Office of Innovation and the Fintech in Housing Finance Request for Input (RFI). The Housing Policy Council ("HPC")[1] appreciates the opportunity to provide feedback. HPC members are critical stakeholders, companies that drive innovation and influence the design, production, and deployment of innovative new technologies and technology upgrades, with the objective to improve customer experience, operational efficiency, and risk management effectiveness. Therefore, the scope and activities of FHFA's new office are of significant interest to HPC.

As acknowledged in the RFI, this is a critical time for innovation in financial services. The world's financial markets are undergoing an evolution from analog to digital, from human to algorithmic analysis and from stand-alone centers to interconnected cloud-based webs. Emerging digital technologies that are designed to enhance borrower engagement and improve the efficiency and transparency of the entire financial landscape have far-ranging implications for the primary and secondary mortgage markets.

Our comments are recommendations on the Office of Innovation itself and observations on areas of particular interest to FHFA. These comments pertain to Fannie Mae and Freddie Mac (the Enterprises) and not to the Federal Home Loan Banks. In terms of the Office of Innovation itself we suggest it not be a stand-alone department reporting to the Director. Instead, it should be placed in a division that already has broad reach throughout the agency. The office should provide fintech talent that can support the skilled teams that carry out the agency's regulatory compliance and examinations work. Finally, we suggest the types of activities the office undertake be focused on identifying barriers to innovation more so than promoting particular types of technology.

The RFI references four areas of interest: primary markets, secondary markets, risks, and regulatory aspects of financial technology. We note that innovation in the primary mortgages markets is the domain of private enterprise and must remain so. Within the secondary markets, HPC believes new

[1] HPC is a trade association comprised of the nation's leading mortgage lenders, servicers, mortgage insurers, and title and data companies. HPC advocates for the mortgage and housing finance interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promoting of lending practices that create sustainable home ownership opportunities leading to long-term wealth-building and community-building for families.

technologies developed at the Enterprises should be as consistent as possible with technologies that support MBS securitized by Ginnie Mae and the PLS market. As for the role of FHFA with fintech risk, we suggest that the office should work closely with the Cybersecurity and Infrastructure Security Agency (CISA) and the Treasury Department, agencies that already provide guidance and best practices to the Enterprises and our members. The area of regtech may hold the most promise for FHFA's interest in financial technology. The potential to improve and reduce the cost of compliance would benefit from a coordinated approach to identifying disparate federal and state compliance requirements and supporting methods to allow for technology solutions to be harmonized.

**FHFA Office of Innovation**

The RFI notes the establishment of an Office of Innovation at the agency. It is not clear to us that the questions raised in the RFI suggest the need for a separate office. Nonetheless, we do agree emerging technologies challenge the underlying precepts of existing regulatory approaches and require fresh thinking as to how the agency can best monitor and foster, as necessary, the responsible development of this sector. As such, FHFA must have talent within the agency to respond to this development.

<u>Structure of Office</u>

The location of the office within in the organizational structure of the agency will largely determine how the office interacts with other FHFA offices and how the office views and executes its responsibilities relative to FHFA's existing offices and divisions. HPC recommends the office reside within an existing division that performs a role related to the activities of the new office. Positioning the office within an existing division will moderate the tendency for a new team to exceed, expand, or supersede the agency's regulatory jurisdiction.

The office is currently operating as a part of the Division of Conservatorship, Oversight and Readiness. The staff and leadership of this division should be commended for shepherding this process and the RFI itself is a well-researched document raising important points. That is one understandable location for this new office.  Yet, we caution that locating the new office within this Division risks an outcome where it directs GSE management in technology choices, since that division often directs strategies and objectives  for the Enterprises on behalf of the Conservator.

One alternative would be the Office of the General Counsel, from which the new office staff could perform regulatory work related to GSE pilots, trial, or temporary programs or practices that deviate from standard guidance and approaches. To be clear, HPC believes that pilots and new technology initiatives for the Enterprises must be managed by the Enterprises, not FHFA. The agency's legal department could serve in a supervisory capacity - possibly reviewing program terms, partnership agreements, or collection of activity and performance data – in coordination with other parts of the agency.

Another alternative location for the new office would be the Division of Enterprise Regulation (DER), where the oversight and examination functions for Fannie Mae and Freddie Mac reside. From this position, the new office could be focused on assessing and reviewing innovations, be they programmatic or technological in nature. Such a team could establish a framework for evaluating the development, execution, and performance measurement for new and innovative approaches under consideration by the Enterprises. The benefit of locating the new office within DER would be that there would be a strict, delineated separation of GSE management and administration of the innovation and the supervisory role of FHFA.

Whether FHFA chooses to leave the office within the Division of Conservatorship or place it elsewhere, our primary concern is that it support not supersede FHFA's existing infrastructure and that it support prudent technological innovation at the Enterprises.

<u>Scope and Talent</u>

The office should hire staff with experience and skills that will enhance the agency staff's knowledge of emerging technologies. Given the extensive work across the mortgage industry to investigate and invest in new technologies it would be useful for the agency to have staff with knowledge and/or experience with financial innovation. The office should seek fintech talent that can support the agency's existing regulatory, compliance, and examinations skills.

The agency must avoid overreach, permitting the GSEs to continue to serve as the decisionmakers to manage their business operations, which include basic responsibility to design and oversee any pilot initiatives, including the selection and engagement with vendors. Fannie Mae and Freddie Mac have innovation centers that must remain the primary vehicles for adopting innovative technologies. Further, pilot programs and / or tech sprints should be focused on operational solutions and not inadvertently favor one vendor over others.

<u>Activities</u>

*Data Sharing*

The office should enable and support the distribution or "democratization" of industry data delivered to the GSEs with each transaction and now held in GSE databases. HPC has previously met with FHFA staff regarding the extensive Enterprise data set[2].

HPC recommends the office expand enhancements to the current publication of data by Fannie Mae and Freddie Mac. This sharing of Enterprise data would enable private stakeholders to build models and perform analytics to enhance and expand credit and operational risk capabilities. These, will in turn, reduce risks across the marketplace, lower the cost of capital, and provide lower costs to consumers. Further, the release of the applicable UMDP data sets would enable a variety of market innovations, including credit analytics, operational risk analytics, transactional data exchanges, public policy analysis and industry benchmarking.

*Pilots*

The RFI asks whether the new office should sponsor "regulatory sandboxes" to support proofs of concept for novel technologies. A sandbox implies that FHFA would need to waive regulations to permit the types of innovation under consideration. However, it is not clear what regulations need waiving nor why the current pilot programs led by the Enterprises would benefit from a sandbox. Instead, the office could commit resources to the distribution of activity and performance information collected during pilot or trial programs. Further, efforts should be made to prevent GSE innovation from creating the

[2] HPC noted in a previous meeting that we support creating a private, multi-stakeholder utility model data repository.

need for disparate primary market processes for seller/servicers that deliver to both companies. The Enterprises should harmonize (post-pilot) the impact of any unique, newly developed methodologies/verifications/automation, to realign and eliminate operational discrepancies in a way that preserves competition and allows lending institutions to produce loans that don't require distinct processing for each Enterprise. For example, if one Enterprise builds a proprietary tool to verify a component of the underwriting process, the other should have the ability to understand and accept those same inputs and processes for its own tool.

*Identify Obstacles*

Technology innovation in the mortgage markets is hampered by conflicting rules and requirements at the state and the federal level. While FHFA has no authority to address these conflicts, we hope this office will highlight these barriers to fintech adoption to agency leadership.

In addition to conflicting rule sets, the Enterprises themselves should not unnecessarily impede new technologies. HPC recommends the office monitor, and when appropriate support the staff at the agency to prevent, the development by the Enterprises of bespoke and conflicting technologies for the seller / servicer communities.

**Fintech in Housing Finance**

The RFI references four areas of particular interest to FHFA: the role of fintech in the ecosystem in which residential mortgages are originated; the role of fintech in the secondary mortgage market; the associated risks with the use of fintech; and the application of fintech to compliance and regulatory activities. We provide responses to each below.

<u>Primary Mortgage Markets</u>

Innovation in the primary mortgages markets is the domain of private enterprise. The RFI raises important questions about the cost and time of mortgage originations. As important as this issue is, the Enterprises should not expand their responsibilities beyond the secondary market for mortgages. Rather, the Enterprises should monitor and promote private investment in and financial institution adoption of primary market innovations that improve risk management and production efficiencies to reduce costs.

<u>Secondary Mortgage Markets</u>

New technology in the secondary markets offers a significant marketplace opportunity to improve data integrity and data transparency for all parties: originators, servicers, investors, analysts, and regulators.

We support technology improvements that would enable parties to access single source data, creating integrity, certainty, and traceability.

The office should also coordinate with technology specialists in other sectors of the mortgage markets. HPC believes new technologies developed at the Enterprises should be as consistent as possible with technologies that support MBS securitized by Ginnie Mae and the PLS market.

Fintech Risks

Our members continue to prioritize innovative technologies that protect customer data. However, bad actors are highly motivated and constantly evolving their methods. As a part of the stakeholder outreach, the office should monitor and track the work of CISA and the Treasury Department who already provide guidance and best practices for our members and the Enterprises.

Regtech

FHFA referenced "tech sprints" and stakeholder engagement as key functions of the office in the RFI. While HPC disagrees that FHFA should be engaging in "tech sprints," we do think that dialogue with stakeholders is critical and that some topics the agency should consider include:

- Leveraging sources of market data
- Standards development
- Practical steps towards digitization of the mortgage process
- Identifying technologies that are inhibited by conflicts among state and federal rules

We welcome the opportunity to engage further with FHFA on any of the matters addressed in this letter. Please let us know if we can provide any additional feedback or analysis that may be useful in your analysis.

Yours truly,

Edward J. DeMarco

Edward J. DeMarco
President
Housing Policy Council