Federal Housing Finance Agency
FHFA Requests Input on the Enterprises' Single-Family Pricing Framework

Subject: 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 small to mid-sized institutions, ensuring their ability to originate additional portfolio mortgages is not restricted.

In May 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

In July 2022, FHFA indicated that it would begin purchases of seasoned bulk pools at the end of third quarter of 2022 with a focus on providing a channel for liquidity for smaller sellers. In February 2023, FHFA communicated that it would revert back to its guidance that had become effective May 5, 2020, effectively re-suspending bulk purchases. Due to the significant bulk restrictions placed on potential bulk pools, very few, if any, bulk transactions were completed between late 2022 and early 2023.

As FHFA considers revisions to its Single-Family Pricing Framework, seasoned bulk mortgages should receive strong consideration as an effective way to achieve the goals stated in its Request for Input:

Guarantee Fees that cover administrative costs, expected losses and the cost of capital associated with guaranteeing the securities that contain seasoned mortgages

- Seasoned mortgages have the same credit and underwriting requirements as new originations.
- Unlike new originations, seasoned mortgages have a proven record of payment history prior to their sale to the Enterprises.
- Even though seasoned mortgages have the same credit profile as new originations, guarantee fees were historically higher.

- Excellent credit and higher guarantee fees should produce returns more than enough to cover expenses and meet cost of capital requirements needed by the Enterprises.

Increase support for creditworthy borrowers limited by income or wealth

- Seasoned portfolio mortgages sold to the Enterprises in bulk transactions have very similar borrower profiles to those sold with seasoning less than six months.
- Often these mortgages are held in the portfolio of a financial institution because of a small variance that doesn't impact creditworthiness or performance.
- Selling seasoned mortgages of borrowers with limited wealth to the Enterprises enables financial institutions to re-invest the newly created liquidity into mortgages of additional borrowers that may have limited resources.

Ensure a level playing field between small and large sellers

- The suspension of seasoned bulk transactions has placed small and mid-sized banks and credit unions at a disadvantage to large sellers that have greater options to sell, securitize or finance mortgages.
- These small institutions are an important part of the mortgage industry and making seasoned bulk transactions available through the Enterprises will lead to a healthier lending environment for all participants.

A typical seasoned bulk transaction for most small to mid-sized 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-$100 million and have an average seasoning of 24+ months. This compares to bulk transactions by the largest institutions that were executed multiple times a year with transaction sizes often greater than $200 million. The mortgages originated by large institutions were always intended to be sold, likely in a private label securitization, but the bulk window of the Enterprises would be considered as an option for better execution levels. Large institutions utilized the Enterprise bulk window as an alternative bid, whereas small and mid-size institutions depended on it as a critical source of liquidity.

Immediate reinstatement of seasoned bulk transactions should be prioritized as part of FHFA's Single-Family Pricing Framework. It is a critical source of liquidity for banks and credit unions in addition to being an excellent source of strong credit mortgages for Fannie Mae and Freddie Mac. Opening seasoned bulk will also help ensure a level playing field between small and large sellers.

Respectfully,

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