



August 14, 2023

**CHLA RFI Comments:
Enterprise Single Family Pricing Framework**

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

Dear Director Thompson:

The Community Home Lenders of America (CHLA) writes to thank FHFA for this opportunity to respond to the Request For Input (RFI) on the Single Family Pricing Framework for Fannie Mae and Freddie Mac.

CHLA writes as the only national association that exclusively represents independent mortgage banks (IMBs) and on behalf of our members, small and mid-sized mortgage lender/servicers.

First, it is important to note that certain LLPA policies with respect to enterprise loan pricing are dictated to some extent by risk factor weighting that was established under the Enterprise capital rule adopted several years ago. Therefore, many complaints that might be made about particular LLPAs are better addressed to that capital rule than to the actual pricing components that reflect those risk weights.

Second, while CHLA supports a key underlying objective of that capital rule - the exit of Fannie Mae and Freddie Mac from conservatorship - given the current political realities, such exit appears to be a remote, if not non-existent, possibility. In an ideal world, we would either roll back excessive fee hikes to raise capital or move forward to exit from conservatorship. Instead, arguably, we have the worst of both worlds.

Third, without going into a detailed discussion about the changes made over the last two years in Enterprise loan pricing in furtherance of the objective of equitable housing, we make two key points:

- (1) CHLA has been publicly supportive of the changes to reduce or eliminate fees for underserved, minority, and first-time homebuyer families, in order to help them achieve homeownership.
- (2) The current pricing framework, as opposed to a strictly risk-based pricing structure, is consistent with the statutory charters of Fannie Mae and Freddie Mac, which require the Enterprises to provide *“access to mortgage credit”* including *“mortgages on housing for low and moderate income families involving a reasonable economic return that may be less than the return earned on other activities.”* This pricing framework is also consistent with Duty to Serve statutory requirements.

Fourth, while CHLA has not always agreed with every single aspect of the pricing changes over the last two years, we greatly appreciate FHFA Director Thompson’s transparency, solicitation of feedback, and mid-course adjustments in response to constructive comments from industry and consumer groups.

There are two good examples of this. First, last year, when FHFA raised fees (albeit fairly minimally) on so-called “high balance loans,” CHLA raised concerns that the line it drew for assessing those fees was too low with respect to income and loan amount.

We pointed out that many truly middle-income families in high cost-areas buying what are basically starter homes would be hit with higher fees, simply because of skyrocketing prices in those expensive markets.

Later last year, in response to these concerns, FHFA re-drew the threshold for these fee hikes, raising the bar for the elimination of upfront fees in high cost areas to 120% of median income.

A second example is the Enterprise fee changes made in January. These changes included a pricing differential based on whether the borrower had a debt to income (DTI) ratio in excess of 40%. While CHLA did not have a particular problem with this policy, CHLA strongly communicated our concerns to FHFA about the operational compliance burdens and regulatory compliance risks arising from the possibility that the DTI threshold could fluctuate above and below this threshold during the underwriting process.

CHLA also expressed concerns that homebuyers could lose confidence in the loan origination process if they were suddenly hit with higher fees in the middle of that loan origination process.

Again, CHLA very much appreciates that FHFA Director Thompson listened to these constructive concerns communicated by CHLA and other mortgage participants - acting quickly to drop the DTI pricing component.

Fifth, while CHLA very much appreciates FHFA's willingness to make mid-course adjustments and appreciates the opportunity to comment in this RFI about Enterprise pricing policies, CHLA recommends that FHFA make no further changes for an extended period of time.

This recommendation is based on the fact that Enterprise pricing changes can create short term transition risk for lenders as they approach dates where prices change and that frequent pricing changes can pose a cost and resource burden on lenders, particularly with respect to necessary IT changes.

Therefore, CHLA would be comfortable if guarantee fees and LLPAs remained at the current levels for a significant period of time - e.g. through the end of 2024.

Sixth, CHLA continues to be extremely critical of the Congressional action at the end of 2021 to renew the non-risk related 10 basis point Fannie/Freddie guarantee fee hike - with the proceeds of such fee collections being used solely to pay for non-housing federal expenditures under the federal budget process.

This is a much broader concern than just Enterprise loans. CHLA has long been a vocal critic of budget and appropriations actions and rules under which federal agency mortgage loan fees are diverted to pay for non-housing spending.

One example: CHLA (and our predecessor CMLA) have been on the front lines of opposing the Rural Housing Service (RHS) Bluewater fee hikes that were used for non-housing purposes. Therefore, CHLA was extremely pleased when Congress allowed these fees to expire this spring.

A second example: under federal appropriations rules, FHA receipts are used to fund other (admittedly worthy) HUD low-income housing programs like public housing and Section 8 vouchers. This budget treatment creates artificial pressures against FHA reducing premiums when a focus on FHA's finances alone would justify premium reductions. For example, this budget treatment arguably delayed this year's eventual annual FHA premium cut (which CHLA greatly appreciates) - and we believe it may be a factor in delaying the long-needed and totally justified end to FHA Life of Loan premiums.

So, in today's fractious budget climate, we do not have much hope that Congress will listen - but CHLA renews our request for Congress to rescind the 10-basis point fee hike on Fannie Mae and Freddie Mac loans - which makes homebuyers pay more for a mortgage loan just to pay for other federal spending.

Finally, with regard to Enterprise pricing policies, CHLA again wants to express our appreciation for the PSPA changes made two years ago that established a policy of G (guarantee) Fee Parity. This is the right policy to ensure a broad competitive market of loan originators, which in the process benefits consumers.

Consistent with both the language and the spirit of that G Fee pricing parity policy, CHLA renews two requests we have previously made:

- (1) G Fee parity should be extended to include Mortgage Insurance (MI) pricing as it applies to different lenders. It is reasonable for FHFA to take such action, since mortgage insurance is required by statute for loans over 80% loan to value (LTV).
- (2) FHFA should direct FICO to scale back their recent 400% increase in credit score pricing to a level more in line with recent inflation - and should direct FICO to eliminate the preferential pricing it arbitrarily gave to a select group of 54 lenders. It is reasonable for FHFA to take such action, since FHFA requires a credit score on all Enterprise loans.

In closing, CHLA appreciates this opportunity to submit these comments and we commend FHFA for the work it is doing to balance the twin - and sometimes conflicting - Enterprise imperatives of access to affordable mortgage credit role and safety and soundness.

Sincerely,

COMMUNITY HOME LENDERS OF AMERICA