AmeriHome mortgage
A Western Alliance Bank Company

August 14, 2023

Federal Housing Finance Agency
Office of Capital Policy
400 7th Street SW
9th Floor
Washington, DC 20219

Submitted Electronically to Enterprises' Single-Family Mortgage Pricing Framework at:
https://www.fhfa.gov/AboutUs/Contact/Pages/Request-for-Information-Form.aspx

Re: May 2023 Fannie Mae and Freddie Mac Single-Family Mortgage Pricing Framework Request for Input

Greetings,

AmeriHome Mortgage Company, LLC, a Western Alliance Bank company, (AmeriHome) welcomes the opportunity to submit comments regarding the Federal Housing Finance Agency (FHFA) May 2023 Fannie Mae and Freddie Mac Single-Family Mortgage Pricing Framework Request for Input.

AmeriHome is based in Thousand Oaks, California and is a leading U.S. producer and servicer of residential mortgage loans. Since 2014 we have helped well over 1.4 million Americans achieve the dream of sustainable homeownership with responsibly underwritten loans across the United States. AmeriHome is currently licensed to originate loans in 47 states and able to purchase and service loans in 49 states (all but NY). AmeriHome is a leading seller/servicer of residential mortgage loans for Fannie Mae and Freddie Mac. While AmeriHome has a direct lending channel, AmeriHome primarily fills an important market niche, providing needed liquidity by purchasing mortgage loans from a network of correspondent sellers including small banks, credit unions, independent mortgage bankers, and other market participants. In 2023 Inside Mortgage Finance ranked AmeriHome as the second largest correspondent producer.

AmeriHome is a wholly owned subsidiary of Western Alliance Bank. Western Alliance is one of the top banking companies in the United States with more than $70 billion in assets, 57 banking offices across the country and over 3,300 employees. Western Alliance and its subsidiaries are deeply committed to their clients and to offering a full spectrum of tailored solutions and outstanding service to their customers. Western Alliance Bank has five regional banking divisions in Arizona, California and Nevada and serves clients nationwide, wherever business occurs, through specialized groups built to respond to the needs of specific industries, including the commercial and residential mortgage sectors.

AmeriHome sells many of the loans that it purchases from correspondents to Fannie Mae and Freddie Mac. As a result, AmeriHome is concerned with the December 2020 final enterprise capital rule's unsupported inclusion of correspondent loans in the TPO category, providing for an origination channel risk weight of 1.1 instead of the risk weight of 1.0 assigned to non-TPO loans. AmeriHome also is concerned with the impact of the risk weighting on guarantee fees.

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While the FHFA Included Correspondent Loans in the TPO Origination Channel for Risk Weighting Purposes in the December 2020 Final Enterprise Capital Rule, it Never Justified the Approach

AmeriHome Comment

In the preambles to the July 2018 and June 2020 proposed enterprise capital rules, and the preamble to the December 2020 final enterprise capital rule, the FHFA did not set forth any justification for including correspondent loans in the TPO category, resulting in an origination channel risk weight of 1.1 instead of the 1.0 risk weight that applies to non-TPO loans. The FHFA must provide data supporting why the inclusion of correspondent loans in the TPO category is justified. In particular, AmeriHome has data indicating that the performance of its correspondent loans does not justify a regulatory risk weighting element (origination channel), and a guarantee fee adjustment (increase), applicable to TPO loans. Moreover, AmeriHome conducts a thorough review of every purchased loan for compliance with regulatory, investor and agency requirements, and will not sell a loan to Fannie Mae or Freddie Mac that has an unacceptable compliance failure unless the failure can be, and is, remediated prior to the sale. In short, loans that AmeriHome purchases and sells to Fannie Mae and Freddie Mac present less risk to the GSEs than if the loans were sold directly to the GSEs by the originating lender.

Background

The initial enterprise capital rule proposed in July 2018 assigned a risk weight for non-TPO loans of 1.0 and a risk weight for TPO loans of 1.1, and also included correspondent loans in the TPO category. Table 1 to Part 1240, Table 11 to Part 1240. The risk weighting approach is addressed in the preamble to the proposal:

> "The proposed risk multiplier values were determined using FHFA staff analysis and expertise, and in consideration of the Enterprises' contribution of model results and business expertise. To derive the proposed risk multiplier values, the Enterprises were asked to run their single-family credit models using comparable stressed economic conditions, as discussed above, and synthetic loans with a baseline risk profile with respect to risk factors other than those represented in the dimensions of each segment's credit risk capital grid. The segment-specific secondary risk factors, and their segment-specific baseline risk values, are discussed in detail in the prior section. The Enterprises then varied the secondary risk factors, by loan segment, to estimate each risk factor's multiplicative effects on the Enterprises' base credit risk capital projections (stress losses minus expected losses) for baseline whole loans and guarantees in each loan segment. FHFA then considered the multiplier values estimated by the Enterprises, which were generally consistent in magnitude and direction, in conjunction with its own estimated values before combining values to determine the proposed single-family risk multipliers. The proposed single-family risk multipliers are presented in Table 14.

TABLE 14—SINGLE-FAMILY RISK MULTIPLIERS

Risk factor	Value or range	Risk multipliers by single-family loan segment				
		New originations	Performing seasoned	Non-modified RPL	Modified RPL	NPL
. . .	. . .	. . .	. . .	. . .	. . .	. . .
Third-Party Origination Channel	Non-TPO TPO	1.0 1.1	1.0 1.1	1.0 1.1	1.0 1.1	1.0 1.0
. . .	. . .	. . .	. . .	. . .	. . .	. . .

Table 14 is structured in the following way: The first column represents secondary risk factors, the second column represents the values or ranges each secondary risk factor can take, and the third through seventh columns contain proposed risk multipliers, with each column containing proposed risk multipliers pertaining only to the single- family loan segment designated at the top of the column. There would be a different set of risk multipliers for each of the five single-family loan segments."

July 2018 Proposed Rule, 83 Federal Register 33312, 33345-33347 (2018).

The inclusion of correspondent loans in TPO also is addressed in the preamble to the proposed rule:

"Risk factors determined at origination include common characteristics such as loan purpose, occupancy type, and property type. The impacts of this type of risk factor on single-family mortgage performance and credit losses are well understood and commonly used in mortgage pricing and underwriting. Many of these risk factors can be quantified and applied in a straightforward manner using risk multipliers as indicated in Table 14. The full set of single-family risk factors determined at origination for which the proposed rule requires risk multipliers is:

. . .

• Third party origination channel. Third party origination channel reflects the source of the loan, and whether or not it originated from a third party, including a broker or correspondent. Loans that did not originate from a third party represent a baseline level of risk (a multiplier of 1.0).
. . ."

July 2018 Proposed Rule, 83 Federal Register 33312, 33347-33348 (2018).

The preamble to the proposed rule includes the following on how the FHFA determined the risk weights:

"The credit risk capital grid for each single-family loan segment would determine the base credit risk capital requirement for any single-family whole loan or guarantee in that loan segment (where the base credit risk capital requirement refers to a capital calculation that does not yet recognize either the full impact of risk factors that are not one of the base grid's two dimensions or loan-level credit enhancements). The proposed grids were populated after carefully considering a combination of estimates of credit risk capital from the Enterprises' internal models and FHFA's models. To derive the underlying estimates for each loan segment's credit risk capital grid, the Enterprises were asked to run their single-family credit models using comparable stressed economic conditions, as discussed above, and synthetic loans with a baseline risk profile with respect to risk factors other than those represented in the dimensions of the segment's credit risk capital grid. In the proposed rule, each single-family loan segment has its own baseline risk profile, which is discussed segment by-segment below. Consequently, each cell of the single-family credit risk capital grids represents an estimated difference, in basis points, between estimated stress losses and expected losses for a segment-specific, baseline synthetic loan with a particular combination of primary risk factors as described in the grid's dimensions. In the proposed rule, this capital requirement, in basis points, would be applied to the unpaid principal balance (UPB) of each conventional single-family whole loan and guarantee held by the Enterprises with exposure to credit risk.

FHFA believes that constructing the proposed base credit risk capital grids in this manner provides for sufficient levels of granularity, accuracy, and transparency in the credit risk capital calculations. Each single-family whole loan and guarantee is segmented first by age and payment performance, then broken down further by its two primary risk drivers while simultaneously considering ''typical'' values for secondary risk drivers (which are further accounted for in the calculation of gross credit risk capital requirements using risk multipliers). FHFA carefully evaluated its own model estimations using these categorizations, as well as estimations provided by the Enterprises. The credit risk capital requirements in the five proposed grids do not take into account the effect of credit enhancements such as mortgage insurance and generally represent averages of the individual estimations, although in certain cases adjustments were made to ensure the capital requirements were reasonable. In addition, the risk factor breakpoints and ranges represented in the grids' dimensions were chosen in light of FHFA analysis and internal discussions, as well as discussions with the Enterprises. FHFA concluded that the proposed breakpoints and ranges would combine to form sufficiently granular pairwise buckets without imposing an undue compliance burden on the Enterprises. The proposed process for calculating credit risk capital requirements is therefore straightforward, and does not rely on quarterly calculations of complicated, opaque economic models or econometric equations."

July 2018 Proposed Rule, 83 Federal Register 33312, 33336-33337 (2018).

The FHFA did not provide the data that it used to determine the risk weights, or the data demonstrating why the inclusion of correspondent loans in the TPO origination channel category was justified. (While the proposed rule did not actually propose guarantee fees, it appears the intent was that the risk weights would factor into the setting of guarantee fee amounts.)

The June 2020 proposed enterprise capital rule, which led to the December 2020 final rule, simply took the same approach of the July 2018 proposed rule with regard to TPO. The proposed rule assigned a risk weight for non-TPO loans of 1.0 and a risk weight for TPO loans of 1.1, and also included correspondent loans in the TPO category. Table 1 to section 1240.33(a), Table 6 to section 1240.33(d). As was the case with the July 2018 proposed rule, the FHFA did not provide the data that it used to determine the risk weights, or the data demonstrating why the inclusion of correspondent loans in the TPO origination channel category was justified.

The December 2020 final enterprise capital rule also took the same approach of the July 2018 and June 2020 proposed rules with regard to TPO. The final rule assigned a risk weight for non-TPO loans of 1.0 and a risk weight for TPO loans of 1.1, and also included correspondent loans in the TPO category. Table 1 to section 1240.33(a), Table 6 to section 1240.33(d)(2). As was the case with the July 2018 and June 2020 proposed rules, the FHFA did not provide the data that it used to determine the risk weights, or the data demonstrating why the inclusion of correspondent loans in the TPO origination channel category is justified. The FHFA must provide data supporting why the inclusion of correspondent loans in the TPO category is justified, particularly given that (1) AmeriHome has data indicating that the performance of its correspondent loans does not justify a regulatory risk weighting element (origination channel), and a guarantee fee adjustment (increase), applicable to TPO loans, and (2) AmeriHome conducts a thorough review of every purchased loan for compliance with regulatory, investor and agency requirements, and will not sell a loan to Fannie Mae or Freddie Mac that has an unacceptable compliance failure unless the failure can be, and is, remediated prior to the sale. **In short, loans that AmeriHome purchases and sells to Fannie Mae and Freddie Mac present less risk to the GSEs than if the loans were sold directly to the GSEs by the originating lender.**

While the December 2020 Final Enterprise Capital Rule Established an Origination Channel Risk Weight for Non-TPO Loans of 1.0 and a Risk Weight for TPO Loans (Including Correspondent Loans) of 1.1, it Did Not Actually Establish Guarantee Fees

AmeriHome Comment

In the preamble to the final rule, the FHFA states that guarantee fees were a consideration with regard to the stress capital buffer, and indicates that it addresses this in Section VIII.A.2. of the preamble. December 2020 Final Rule Preamble, page 82159. However, in Section VIII.A.2. of the preamble (which is set forth on page 82164), the FHFA does not expressly do so. While the December 2020 final enterprise capital rule established a risk weight based on origination channel, with a risk weight for non-TPO loans of 1.0 and a risk weight for TPO loans (including correspondent loans) of 1.1, it did not actually establish guarantee fees. The guarantee fees are established through a separate process, with key elements summarized by Fannie Mae in the Loan-Level Price Adjustment Matrix and by Freddie Mac in Exhibit 19/Credit Fees to the Seller/Servicer Guide. Thus, guarantee fees may be established or adjusted without the need to amend the enterprise capital rule.

Loans That AmeriHome Purchases and Sells to Fannie Mae and Freddie Mac Present Less Risk Than if the Loans Were Sold to the GSEs by the Originating Lender, and the Guarantee Fees Should Reflect This

AmeriHome Comment

As guarantee fees are not a component of the capital requirement, the main purpose of the amount of a guarantee fee is to address the risk presented by the particular elements of a given loan. As noted above, (1) AmeriHome has data indicating that the performance of its correspondent loans does not justify a regulatory risk weighting element (origination channel), and a guarantee fee adjustment (increase), applicable to TPO loans[1] and (2) AmeriHome conducts a thorough review of every purchased loan for compliance with regulatory, investor and agency requirements, and will not sell a loan to Fannie Mae or Freddie Mac that has an unacceptable compliance failure unless the failure can be, and is, remediated prior to the sale. **In short, loans that AmeriHome purchases and sells to Fannie Mae and Freddie Mac present less risk to the GSEs than if the loans were sold directly to the GSEs by the originating lender.** The guarantee fees charged on the loans sold by AmeriHome to Fannie Mae and Freddie Mac should reflect the lower risk presented by the loans.

Background

Various parties commenting on the June 2020 proposed rule argued that guarantee fees and other future revenue should be considered in establishing the capital requirements.[2] The FHFA decided not to include guarantee fees or other future revenue as a component of the capital requirement. In the preamble to the final rule, the FHFA states that guarantee fees were a consideration with regard to the stress capital buffer, and indicates that it addresses this in Section VIII.A.2. of the preamble.[3] However, in Section VIII.A.2. of the preamble (which is set forth on page 82164), the FHFA does not expressly do so. Given that guarantee fees are not a component of the capital requirement, the main purpose of the amount of a guarantee fee is to address the risk presented by the particular elements of a given loan. As noted above, (1) AmeriHome has data indicating that the performance of its correspondent loans does not justify a regulatory risk weighting element (origination channel), and a guarantee fee adjustment (increase), applicable to TPO loans, and (2) AmeriHome conducts a thorough review of every purchased loan for compliance with regulatory, investor and agency requirements, and will not sell a loan to Fannie Mae or Freddie Mac that has an unacceptable compliance failure unless the failure can be, and is, remediated prior to the sale. In short, loans that AmeriHome purchases and sells to Fannie Mae and Freddie Mac present less risk to the GSEs than if the loans were sold directly to the GSEs by the originating lender. The guarantee fees charged on the loans sold by AmeriHome to Fannie Mae and Freddie Mac should reflect the lower risk presented by the loans.

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[1] AmeriHome leaders have met with FHFA senior staff to review AmeriHome and Fannie Mae data that supports this assertion. We would be happy to meet again to review recent data.

[2] Comment by 14 groups, including the Center for Responsible Lending, Consumer Federation of America, NAACP, National Community Reinvestment Coalition, National Fair Housing Alliance, and National Urban League, pages 16-17; Comment by Independent Community Bankers of America, page 4; Comment by National Association of Realtors, page 4; Comment by U.S. Mortgage Insurers, page 7.

[3] December 2020 Final Rule Preamble, 85 Federal Register 82150, 82159 (2020).

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Companies like AmeriHome in the correspondent market are essential to supporting a diversity of origination channels which allows for consumer choice and broader access to credit. We furthermore improve the quality of loans ultimately delivered to the enterprises through our quality control process. The correspondent channel, therefore, should not penalized in price due to potential risks present in other channels that are not present in the correspondent channel. FHFA should instruct the enterprises not to discriminate in their pricing against correspondent loans, with or without any change to the capital rule. We furthermore urge a revision of the enterprise capital rule to exclude correspondent loans from the TPO category.

AmeriHome thanks the FHFA for the opportunity to submit comments on the Fannie Mae and Freddie Mac Single-Family Mortgage Pricing Framework.

Sincerely,

John Hedlund

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