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**COMMENTS OF THE FEDERAL HOME LOAN MORTGAGE CORPORATION**

**ON**

**THE FEDERAL HOUSING FINANCE AGENCY'S  
PROPOSED 2009 ENTERPRISE TRANSITION  
AFFORDABLE HOUSING GOALS**

**PROPOSED RULE  
FR DOC. E-9-9994  
RIN 2590-AA25**

**MAY 22, 2009**

## INTRODUCTION

Today, most new home loans are backed by Fannie Mae and Freddie Mac, which guarantee loans and set standards to keep mortgage rates low and to keep mortgage financing available and predictable for middle-class families. Now, this function is profoundly important, especially now as we grapple with a crisis that would only worsen if we were to allow further disruptions in our mortgage markets.

– Remarks by President Barack Obama on the Home Mortgage Crisis  
February 18, 2009

The Federal Home Loan Mortgage Corporation (Freddie Mac) submits these comments to the Federal Housing Finance Agency (FHFA) on its Proposed Rule regarding the 2009 Enterprise Transition Affordable Housing Goals.<sup>1</sup> Section 1128(b) of the Housing and Economic Recovery Act of 2008 (HERA) authorized FHFA to adjust, based on today's market conditions, the housing goal levels that the U.S. Department of Housing and Urban Development established in late 2004 for the 2009 calendar year. FHFA "reviewed the current market conditions and has determined that the 2009 housing goal and home purchase subgoal levels established in 24 CFR part 81 are not feasible unless they are adjusted."<sup>2</sup> FHFA acknowledged that "[a]djusting the 2009 housing goals and home purchase subgoals to levels that reflect market conditions consistent with current projections is necessary to ensure that the Enterprises continue to serve their secondary market purposes at feasible and appropriate levels that reflect their capacity to lead the market."<sup>3</sup> FHFA further noted that "the proposed 2009 goals are generally at the upper end of FHFA's market estimates for 2009."<sup>4</sup>

### I. OVERVIEW

Congress chartered Freddie Mac in 1970 to provide liquidity, stability and affordability to the U.S. mortgage markets. The affordable housing goals are an important component of Freddie Mac's mission. The goals are intended to reflect the percentage of goal-qualifying mortgages that the primary market is likely to originate, and to "stretch" the GSEs to provide additional support, in the form of low-cost mortgage credit, to the affordable goals-qualifying segment of the residential mortgage market.

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<sup>1</sup> 74 Fed. Reg. 20236 (May 1, 2009).

<sup>2</sup> 74 Fed. Reg. at 20237.

<sup>3</sup> 74 Fed. Reg. at 20239.

<sup>4</sup> *Id.*

FHFA has recognized the difficulties in accurately determining primary market origination levels on a prospective basis.<sup>5</sup> Such difficulties are compounded under the severe and extraordinarily volatile conditions that characterize today's mortgage market. FHFA observed that "stricter underwriting standards, the increased standards of private mortgage insurers, and the high rate of unemployment will result in the origination of fewer goals-qualifying loans."<sup>6</sup> FHFA also commented that "the increase in the share of the mortgage market of mortgages insured by the government and the decline in private label securities backed by mortgages are two of several factors that contribute to fewer goals-qualifying mortgages available for purchase by the Enterprises."<sup>7</sup>

We believe that the proposed targets for the three housing goals for 2009 are above expected primary market origination levels. The leading driver of the anticipated gap between FHFA's proposed goal targets and the primary market is the wave of refinancings expected and already seen in 2009. Single-family refinance mortgages are historically less likely to qualify under the affordable housing goals. In addition, contraction in the multifamily sector — which largely serves low- and moderate-income families — will further reduce the percentage of goal-qualifying units financed by the market.

Our comments are organized as follows:

Part II discusses our most recent range of market forecasts under current market conditions.

Part III expresses support for FHFA's proposed counting rules for jumbo conforming mortgages and for Home Affordable Modification Program loan modifications.

Part IV describes Freddie Mac's broad public mission in light of the current economic environment and highlights the significant efforts Freddie Mac has made to support the President's housing recovery plan. Current market conditions have led to public policy interventions designed to stabilize the U.S. housing market and the capital markets as a whole. Freddie Mac is playing a crucial stabilizing role by providing essential liquidity through our mortgage purchase activities and by executing the President's Making Home Affordable program. By reducing foreclosures, stabilizing communities and encouraging sustainable homeownership, Freddie Mac's work advances the Administration's recovery efforts while furthering our core mission: to support the affordability and stability of the housing market.

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<sup>5</sup> See "Estimating the Size of the Conventional Conforming Market for Each Housing Goal in 2009" (Technical Appendix) at 1.

<sup>6</sup> 74 Fed. Reg. at 20237.

<sup>7</sup> 74 Fed. Reg. at 20237-38.

## II. CURRENT MARKET ESTIMATES

Freddie Mac agrees with FHFA that, under current market and economic conditions, the existing 2009 housing goal and home purchase subgoal levels are infeasible unless they are adjusted. Our most recent analysis of current market conditions, however, suggests that FHFA's proposed targets for the three main housing goals remain above expected primary market origination levels.

Freddie Mac's market forecast models provide the range of predictions shown in Table 1. The range of results from these forecasting methodologies indicates that the proposed target goals are 5 percentage points or more above the highest level of expected market performance.

**Table 1. Comparison of Market Forecasts for 2009**

	<b>Range of Market Forecasts (%)</b>	<b>Proposed Targets (%)</b>
<b>Housing Goals</b>		
Low-Mod	43 – 45	51.0
Underserved Areas	29 – 32	37.0
Special Affordable	17 – 18	23.0

The gaps between Freddie Mac's range of market forecasts and FHFA's proposed goal targets are largely attributable to two factors: (i) differing estimates of the magnitude of the anticipated wave of single-family refinancings in 2009, and (ii) the continuing contraction in the multifamily segment of the mortgage market. Both classes of mortgage purchases affect the three main housing goals, but not the home purchase subgoals.

Refinance activity is likely to be very high in 2009. Based on our review of the Proposed Rule, FHFA appears to expect an average refinance share for the year of about 50 percent. The Administration and the Federal Reserve's policy initiatives have driven long term mortgage rates down to levels not seen in the last 40 years. The Administration's recently implemented Home Affordable Refinance initiative also has removed obstacles that would have otherwise prevented refinancing for up to an additional four to five million borrowers whose mortgages are owned or guaranteed by the GSEs. The combination of these two recent developments suggests to us that the refinance share will remain above 70 percent throughout most of the year. Historically, refinance booms are characterized by lower goal-qualifying rates because relatively affluent borrowers with larger mortgages have the greatest incentive to take advantage of lower rates.

Freddie Mac appreciates FHFA's recognition that "[r]efinances may be a very large part of the market in 2009, with the likely effect of a lower percentage of goals-qualifying loans available for purchase by the Enterprises, thus making it more difficult to achieve the goals proposed in this rule."<sup>8</sup> It is also appropriate that "FHFA will consider the size of the refinance market in any determination as to the feasibility of any goal an Enterprise fails to achieve in 2009."<sup>9</sup>

Freddie Mac's Relief Refinance Mortgages<sup>SM</sup> under the Administration's Home Affordable Refinance program create additional uncertainty, not only because of their unknown volume but also with respect to their qualifying shares. Relief Refinance mortgages may have higher qualifying shares than typical refinancings; we nonetheless believe that qualifying shares of Relief Refinance mortgages will remain below the proposed goal targets and the low qualifying share of regular refinances will drop the average further.

With regard to the projected multifamily share of the market, we expect that the multifamily portion of the goals-eligible market will be about \$45 billion. Developments in the last few months are further shrinking the multifamily market for 2009. High default rates among multifamily properties have caused lenders to tighten their underwriting requirements and reduce their exposure to multifamily refinancing. Rising vacancy rates along with tighter credit have reduced demand among potential investors, and lowered property values. These factors will all combine to push market goal-qualifying shares below FHFA's proposed target levels.

Finally, consistent with FHFA's observations,<sup>10</sup> we highlight the increasingly important role of the Federal Housing Administration (FHA) in the low- and moderate-income segment of the market. The Proposed Rule assumes FHA's share of the conforming home purchase market will grow from 16 percent in 2008 to 36 percent in 2009.<sup>11</sup> It is possible that the share may rise higher. Most of these loans are high-LTV and for first-time homebuyers; it is therefore likely that a higher than average proportion would otherwise be goal-qualifying purchases. Continued FHA expansion will affect the number of goal and subgoal qualifying loans available for purchase by the GSEs.

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<sup>8</sup> 74 Fed. Reg. at 20239.

<sup>9</sup> *Id.*

<sup>10</sup> See 74 Fed. Reg. at 20239-40.

<sup>11</sup> Technical Appendix at 56.

### III. JUMBO CONFORMING LOANS AND LOAN MODIFICATIONS

Freddie Mac supports FHFA's decision to exclude jumbo conforming loans from goals eligibility for 2009.<sup>12</sup> This treatment is consistent with FHFA's broad statutory authority to "assign full credit, partial credit, or no credit toward achievement of the housing goals to different categories of mortgage purchase activities of the enterprises, based on such criteria as the Director deems appropriate."<sup>13</sup> Excluding jumbo conforming mortgages from goals eligibility for 2009 will provide continuity, given that, as FHFA notes, jumbo conforming loans were not counted toward the goals in 2008.<sup>14</sup>

Freddie Mac likewise supports FHFA's treatment of loan modifications under the Home Affordable Modification program as mortgage purchases.<sup>15</sup> FHFA's treatment of a modification under this program as "substantially equivalent to a mortgage purchase," and therefore counting toward the goals,<sup>16</sup> is justified by FHFA's finding that the greatest current threat to home ownership is the risk of default and foreclosure.<sup>17</sup> By avoiding foreclosure, a modification extends the life of a mortgage and thus has the potential to avoid the dislocation, financial distress, and community destabilization that often occur in the wake of foreclosure.

### IV. FREDDIE MAC'S BROAD PUBLIC MISSION IN THE PRESENT ECONOMIC ENVIRONMENT

The affordable housing goals are an important aspect of Freddie Mac's broad public mission, but they are not the sole measure of how we fulfill our mission. Congress established a three-part purpose for Freddie Mac: providing liquidity, stability and affordability to the residential mortgage market throughout the nation.<sup>18</sup> When Congress enacted the housing goals in 1992, it expressly found that the GSEs' obligation to facilitate housing for low- and moderate-income families should be achieved "in a manner consistent with their overall public purposes . . . ."<sup>19</sup>

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<sup>12</sup> See 74 Fed. Reg. at 20242.

<sup>13</sup> Section 1336(a)(2) of Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA), 12 U.S.C. § 4566(a)(2).

<sup>14</sup> 74 Fed. Reg. at 20242.

<sup>15</sup> See 74 Fed. Reg. 20251. The Federal Register notice refers to HASP, the Home Affordability and Stabilization Plan, but the overall program was recently renamed Making Home Affordable. The modification component was renamed the Home Affordable Modification program and the refinancing component is called Home Affordable Refinance. Freddie Mac's business implementation of Home Affordable Refinance is Freddie Mac Relief Refinance Mortgage.<sup>SM</sup>

<sup>16</sup> 24 CFR § 81.16(a).

<sup>17</sup> 74 Fed. Reg. at 20251.

<sup>18</sup> Section 301(b) of the Federal Home Loan Mortgage Corporation Act, 12 U.S.C. §1451 (Note).

<sup>19</sup> Section 1302(7) of FHEFSSA, 12 U.S.C. § 1302(7).

The stability and liquidity aspects of Freddie Mac's mission have never been more important. As the President indicated in February of this year, "the American Dream is being tested by a home mortgage crisis that not only threatens the stability of our economy, but also the stability of families and neighborhoods."<sup>20</sup> In today's economic environment, mortgage market stability and liquidity are widely regarded as essential to macro-economic stability as the United States confronts the most difficult housing market conditions in 80 years. Establishing and maintaining mortgage and housing market stability are essential to affordability. FHFA aptly expressed this point: "In today's unique market conditions, the largest threat to home ownership, including for the low- and moderate-income borrowers and communities at whom the housing goals are targeted, is the risk of default and foreclosure."<sup>21</sup> Freddie Mac's Interim Chief Executive Officer John Koskinen indicated that Freddie Mac has aligned its resources "to support the Administration's Making Home Affordable Program, which will help us keep millions more borrowers in their homes. We are committed to continuing to help borrowers lower their payments through refinancing and to employ innovative loss mitigation strategies whenever possible to prevent foreclosures."<sup>22</sup>

Freddie Mac is working closely with FHFA, and under its direction as our Conservator, to advance these objectives. Through our ongoing mortgage purchase activities, Freddie Mac is providing essential liquidity to the mortgage markets, having purchased or guaranteed \$148 billion in mortgage loans and mortgage-related securities in the first quarter of 2009 alone. These activities financed more than 500,000 single-family homes and over 70,000 units of rental housing. Our single-family refinancing-loan purchase volume during the first quarter of 2009 (prior to the implementation of our Relief Refinance initiative) increased to approximately \$95 billion, nearly four times the refinancing volume the company experienced during the fourth quarter of 2008. Freddie Mac's first-quarter foreclosure prevention efforts helped approximately 40,000 borrowers stay in their homes or sell their properties.

Currently, Freddie Mac's mission-related efforts are heavily focused on initiatives that support two components of the Administration's MHA Program. The Relief Refinance Mortgage initiative gives eligible homeowners with loans owned or guaranteed by Freddie Mac an opportunity to refinance into more affordable monthly payments. Freddie Mac and Fannie Mae together will, it is hoped, refinance up to four to five million borrowers with current loan-to-value ratios of up to 105% into more affordable mortgages. The Home Affordable Modification Program commits U.S. government and Freddie Mac and Fannie Mae funds to keep eligible homeowners in their homes by preventing avoidable foreclosures. The Home Affordable Modification Program seeks

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<sup>20</sup> Remarks by President Barack Obama on the Home Mortgage Crisis, February 18, 2009.

<sup>21</sup> 74 Fed. Reg. at 20251.

<sup>22</sup> Freddie Mac Press Release, "Freddie Mac Releases First Quarter 2009 Financial Results" at 2 (May 12, 2009).

to modify the mortgages of up to three to four million more families who are struggling to remain current on their mortgage payments.

## **CONCLUSION**

Freddie Mac appreciates the opportunity to comment on this important matter. We agree with FHFA's determination that the 2008 goals levels are infeasible for 2009 and believe that the proposed goals levels are higher than what the market is likely to originate. We look forward to continuing our role in ensuring the continuing liquidity, stability and affordability of the U.S. mortgage market.