

May 13, 2024

Dinah Knight, Assistant General Counsel,
Attention: Comments/ No. 2024-N-5,
Federal Housing Finance Agency, 400
Seventh Street SW, Washington, DC 20219.

Re: Proposed Enterprise New Product; Comment Request 'Freddie Mac Single-Family Closed-End Second Mortgages,' (No. 2024-N-5)

Dear Miss Knight:

My name is Norbert Michel, and I am Vice President and the Director of the Cato Institute's Center for Monetary and Financial Alternatives. I appreciate the opportunity to submit comments to the Federal Housing Finance Agency. The Cato Institute is a public policy research organization dedicated to the principles of individual liberty, limited government, free markets, and peace, and the Center for Monetary and Financial Alternatives today's centralized, bureaucratic, and discretionary monetary and financial-regulatory systems and to identifying, studying, and promoting alternatives more conducive to a stable, flourishing, and free society. The opinions I express here are my own.

In its recent request for comments on a Notice of proposed Enterprise new product (the proposal), the Federal Housing Finance Agency (FHFA) asked for comments on a proposal by "the Federal Home Loan Mortgage Corporation (Freddie Mac) to purchase certain single-family closed-end second mortgages as a new product (proposed new product)."¹

The proposal does not meet the statutory requirements for the FHFA to approve the proposed new product. For prior approval of new products for Freddie Mac, the Housing and Economic

¹ Federal Housing Finance Agency, "Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages Comment Request," Notice of proposed Enterprise new product; request for comment, *Federal Register*, Vol. 89, no. 78, April 22, 2024, <https://www.govinfo.gov/content/pkg/FR-2024-04-22/pdf/2024-08479.pdf>.

Recovery Act of 2008 requires the Director of the FHFA to determine that the new product is in the public interest *and* that it is “consistent with the safety and soundness of the enterprise or the mortgage finance system.”² The proposal contains no analysis of the effect the proposed new product would have on the safety and soundness of the enterprises or the mortgage finance system.

Given the role that second mortgages had in the 2008 financial crisis³ and given that Freddie Mac remains in government conservatorship with insufficient capital on its balance sheet to absorb losses, it is difficult to see how the proposed new product would have no effect on the safety and soundness of Freddie Mac (one of the enterprises) or the mortgage finance system. The FHFA should withdraw the proposal and the FHFA should not approve the proposed new product.

I appreciate the opportunity to submit comments to the Federal Housing Finance Agency.

Sincerely,

Norbert J. Michel
Vice President and Director,
Center for Monetary and Financial Alternatives
Cato Institute

² Public Law 110-289, Section 1321(b)(4); 12 U.S. Code § 4541(b)(4).

³ Federal Deposit Insurance Corporation, *Crisis and Response: An FDIC History, 2008–2013*, November 2017, pp. 11-12, <https://www.fdic.gov/resources/publications/crisis-response/book/crisis-response.pdf>.