

May 20, 2024

**Re: FEDERAL HOUSING FINANCE AGENCY [No. 2024-N-5]
Proposed Enterprise New Product; Comment Request “Freddie Mac
Single-Family Closed-End Second Mortgages”**

As a data provider supporting the home equity lending space, CAPE Analytics appreciates the opportunity to provide comments to the Federal Housing Finance Agency regarding Freddie Mac’s proposal to purchase certain single-family closed-end second mortgages as a new product in specific response to question #9, “Are there any other factors that the Director should take into consideration concerning the proposed new product?”

Access to Home Equity Is Critical

With the growth in house prices, homeowners have built up large amounts of equity in their homes. Ensuring fast and convenient access to this equity gives families more options to achieve their financial goals. Second liens are an important option in accessing this equity, allowing homeowners to make important investments in the future ranging from critical home improvements to their children’s college tuition.

The private mortgage markets have responded to this need. In addition to the home equity market served by credit unions and banks, the securitization market has offered borrowers additional options to access their equity. This competitive private market has spurred innovation across many facets of the lending process, including collateral evaluation.

Freddie Mac’s interest in bringing lower borrowing costs to homeowners is laudable and a goal that CAPE Analytics fully supports. While Freddie Mac’s participation in the market for closed-end seconds could be constructive, it is critical that we are careful not to lose the innovative benefits delivered to homeowners by the private markets.

Private Markets Have Delivered Thoughtful Innovation

The current second-lien mortgage market has focused on serving borrowers with innovation beyond what we have seen in the traditional first-lien mortgage markets. Specifically, current market participants have developed an innovative new solution that replaces a human inspection that typically takes two days to two weeks with an aerial inspection driven by computer vision that is fulfilled in seconds. This offers a huge convenience to borrowers, who are able to obtain approvals in minutes. As a true market innovation, typical trade-offs are not in play, and borrowers are able to access this convenience at a lower cost. Additionally, this aerial inspection product offers lenders the ability to see the entirety of the parcel and thus have a more complete understanding of the property value and collateral risk. This process enhancement offers homeowners certainty early in the borrowing process, something extremely valuable to borrowers in uncertain circumstances.

There are benefits for all borrowers:

Borrower Benefits

- Faster access to the equity in their homes
- More convenient and less intrusive collateral valuation process
- More certainty regarding collateral values for themselves and their lenders
- Lower fees associated with collateral valuation

This is true technological innovation made possible by expanding access to novel imagery sources (such as those from airplanes and satellites), advances in data storage, and enhancements in computer vision. Like most innovations, it has changed what is possible, allowing lenders and borrowers access to a better risk assessment that is available more quickly at a more reasonable cost. We should be careful to preserve these benefits.

CAPE's Recommendation

Freddie Mac's proposed entry into the close-end second-lien mortgage market promises to offer benefits to borrowers. As a market, we should all be focused on ensuring that borrowers do not lose the beneficial innovations the private markets have provided.

Done thoughtfully, Freddie Mac's participation could offer additional benefits to borrowers while continuing to allow borrowers fast, convenient access to the money they have stored in their largest assets.

CAPE welcomes any comments or questions the FHFA may have regarding these technological enhancements and the benefits delivered to lenders and borrowers.

Sincerely,

Sean Begley

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CAPE Analytics