ACUMA

May 21, 2024

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

RE: 2024-N-5 // Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages

Dear Director Thompson:

On behalf of the American Credit Union Mortgage Association ("ACUMA"),[1] I would like to provide comments regarding Freddie Mac's proposed purchase of single-family closed-end second mortgages.[2] As you are well aware, the past four years have been challenging ones when it comes to affordability issues. While record low mortgage rates made it possible for borrowers to lock in low payments, home prices skyrocketed. The subsequent surge in interest rates was not accompanied by a decline in home prices, but rather the market seizing up.

Homeowners are now faced with the reality that the cost of credit is now higher, and is likely to stay high. The cost of living has increased, and for most the erosion of their purchasing power is going to be permanent.

And when it comes to homeowners extracting equity from their homes to meet their financial needs, the playbook has changed.

With so many borrowers being locked into a low interest rate on their first mortgage, it would be unwise to refinance their first mortgage in order to access their wealth. The solution to this is to utilize second mortgages, either via a home equity line of credit ("HELOC") or a closed-end home equity loan ("HEL").

Given the new realities faced by homeowners, credit unions, and even other lenders, we are supportive of this proposal, and hope that Freddie Mac's offering is not only approved, but iterated upon to provide robust support for liquidity in home equity lending.

---

[1] ACUMA is a non-profit trade association committed to promoting credit union mortgage lending. Our membership consists of credit unions, credit union service organizations ("CUSOs"), and affiliate members who serve the credit union community.

[2] https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Freddie-Mac-Proposed-Purchase-of-Single-Family-Closed-End-Second-Mortgages-Comment-Request.aspx

Ultimately, we believe that:

1. There is strong alignment with Freddie Mac's charter;
2. Increased liquidity leads to reduced borrower costs;
3. The initial offering is conservative in nature; and
4. There are potential enhancements that could deliver even more benefit to the marketplace.

Alignment with Freddie Mac's Charter

As we look at the Federal Home Loan Mortgage Corporation Act,[3] we see that the purpose of Freddie Mac (f/k/a the "Federal Home Loan Mortgage Corporation") is to:

(1) to provide stability in the secondary market for residential mortgages;

(2) to respond appropriately to the private capital market;

(3) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to 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) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and

(4) to promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

As we explore this proposal, the primary consideration should be alignment with Freddie Mac's charter.

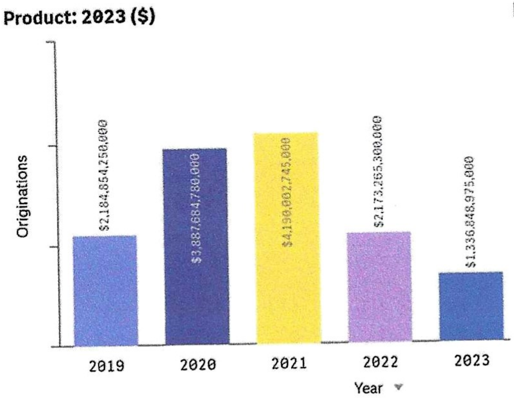
A Freddie Mac offering would clearly be aligned with providing stability in the secondary market. Freddie Mac has been a source of strength and stability in the market, even in times of stress and market disruption. We see no reason why this would be any different with regards to home equity lending.

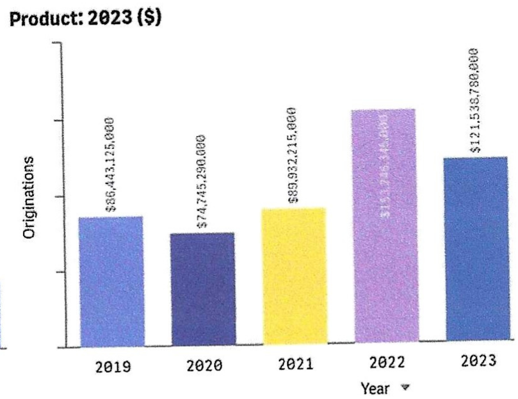
Meanwhile, we can see the continuing strength of second lien originations, even as first lien originations have decreased substantially.

---

[3] Public Law No. 91-351, 84 Stat. 450. Approved July 24, 1970 – as amended through January 3, 2023. https://www.freddiemac.com/governance/pdf/charter.pdf

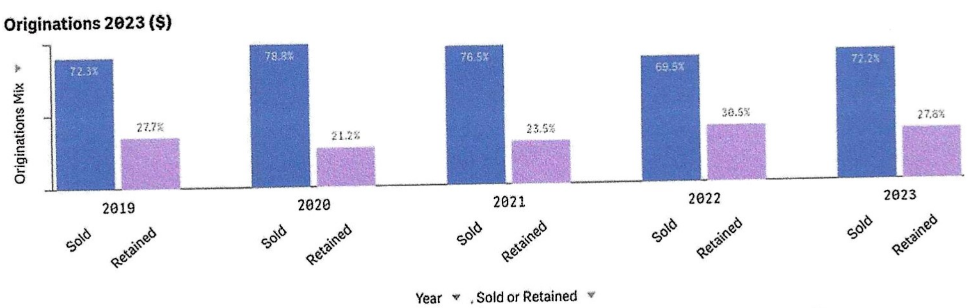
ACUMA



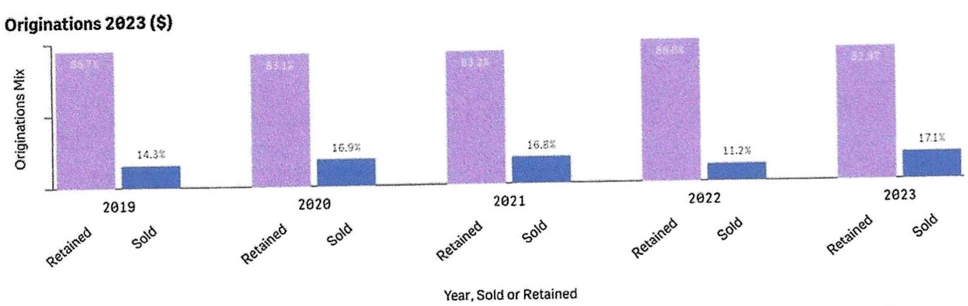


Source: Polygon Research HMDAVision, 1-4 units, not for business purposes, first liens (left) and subordinate liens (right)

When we consider the topic of liquidity, the contrast between first liens and second liens is stark:



Source: Polygon Research HMDAVision, 1-4 units, not for business purposes, closed end, first liens



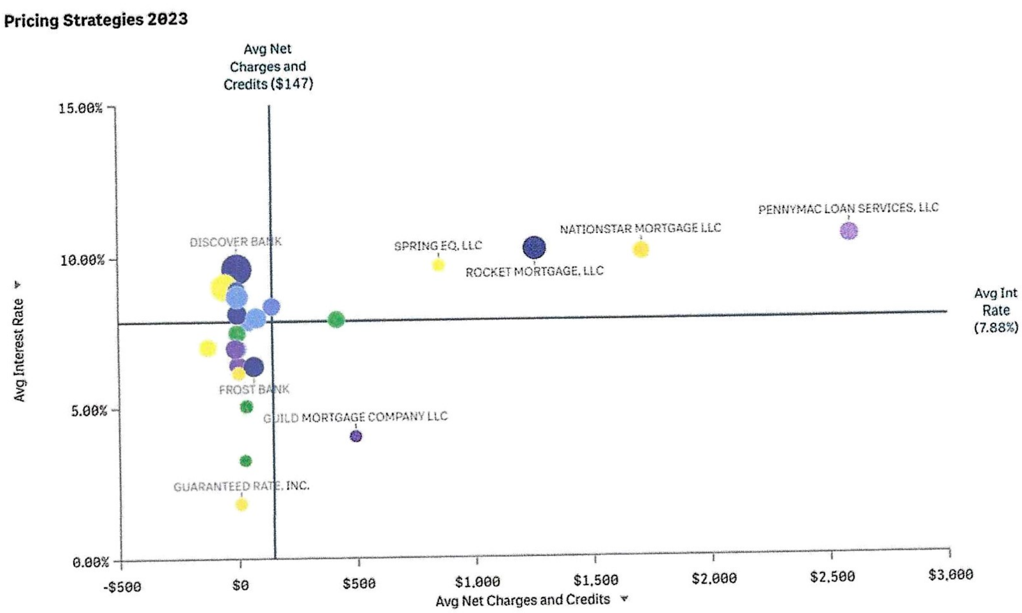
Source: Polygon Research HMDAVision, 1-4 units, not for business purposes, closed end, subordinate liens

Given this shift in the market, and the differing levels of liquidity for first and second liens, there is a clear opportunity for Freddie Mac to provide increased liquidity to Credit Unions and other originators of second liens.

Increased Liquidity Benefits Borrowers

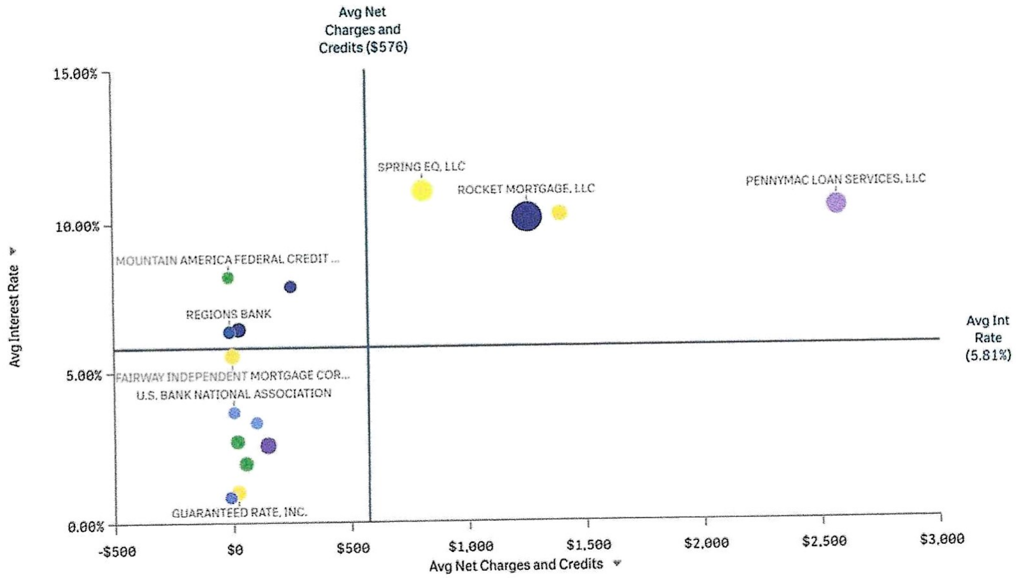
Would increasing the amount of liquidity for second liens result in lower borrower costs?

Absolutely, and this can be demonstrated by comparing the average net charges & credits and average interest rate charged by the top 25 lenders for both retained second liens and those that were sold.



Source: Polygon Research HMDAVision, 1-4 units, not for business purposes, closed end, subordinate liens, top 25 originators, retained loans

Pricing Strategies 2023



Source: Polygon Research HMDAVision, 1-4 units, not for business purposes, closed end, subordinate liens, top 25 originators, sold loans

Here we can see that while the average borrower may have paid $429 more in fees, their average interest rate decreased by 2.07%. Basic math tells us that for a loan of $20k, it would take approximately a year for the borrower whose closed-end second was sold to be better off.

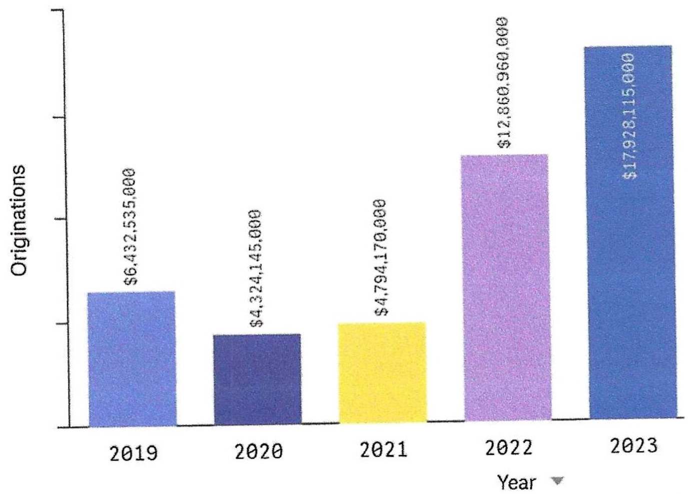
The data clearly shows that second lien originations have become larger relative to the market as a whole while the liquidity of second liens lags behind first liens. The cost of credit can be decreased as a result of increased secondary market activity because it allows for increased capital efficiency and competition. While some may argue that this is an unwelcome intrusion by Freddie Mac into a sector that is served by private capital, this private capital does not appear to be competing for second liens in a material way.

The Proposal is Conservative in Nature

The guidelines as proposed contemplate a rather specific segment of the market for second liens, one that is substantially smaller than the overall universe of second liens.

ACUMA

Product: 2023 ($)

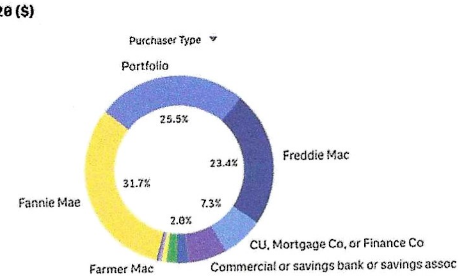


Source: Polygon Research HMDAVision, 1-4 units, not for business purposes, closed end, subordinate liens, primary residence, loan term <= 20 years, CLTV <= 80%, site built.

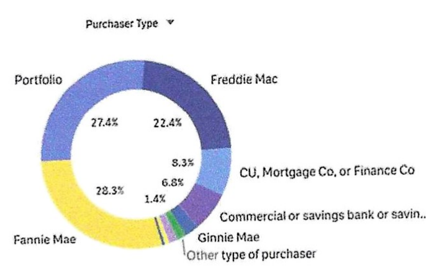
As you can see, 2023 originations meeting the product guidelines for site-built homes were $17.9B compared to $121.5B for second liens across the entire market – and this is before taking into account that the first lien must have been sold to Freddie Mac.

Thinking about the first lien side of the equation, if we look at originations over the past several years in the sub-80% LTV space – the most likely candidates to have second liens that would meet the program parameters – Freddie Mac does not dominate the market based upon reported loan sales in HMDA.

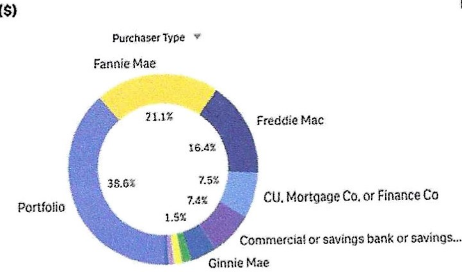
Loan Strategy: 2020 ($)



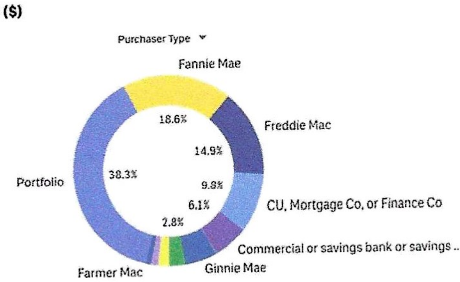
Loan Strategy: 2021 ($)



Loan Strategy: 2022 ($)



Loan Strategy: 2023 ($)



American Credit Union Mortgage Association
6907 University Avenue, #331
Middleton, WI 53562

Source: Polygon Research HMDAVision, 1-4 units, not for business purposes, closed end, subordinate liens, primary residence, loan term <= 20 years, CLTV <= 80%, site built.

With a market share ranging from 14.9% to 23.4% with regards to potentially qualifying first liens, it is reasonable to assume that the potential eligible market share amongst the second liens that meet the qualifying criteria could be around 20%.

As the second liens in question are less than 15% of the market based on 2023 originations, what we're ultimately looking at appears to be a program that impacts 3% of the second lien origination market.

While 3% is greater than zero, it certainly doesn't appear to be a large enough segment of the market to cause substantial disruption nor danger to the safety and soundness of Freddie Mac.

Potential Enhancements

While we applaud Freddie Mac's initiative and the fact that they are moving in a careful and measured manner, we believe that other enhancements should be considered.

For starters, Freddie Mac's penetration into the credit union market significantly lags that of Fannie Mae. Given the importance of credit unions when it comes to second liens, Freddie Mac should be encouraged to increase their presence in the credit union market, and ACUMA is ready to help them understand the market as the only trade association dedicated to focusing on credit unions.

How big of a lag is there? When looking at the filters used above to size the potential first lien market, Freddie Mac's market share in 2023 was 2.9% compared to 10.1% for Fannie Mae.

This leads to the next consideration: Freddie Mac should expand eligibility to those borrowers whose first liens were securitized by Fannie Mae. While this may prove to introduce operational complexity, it will ensure the maximum impact should Fannie Mae not seek to follow in Freddie Mac's footsteps.

Finally, as portfolio lending for first liens can easily run to 75%-80% of the market for credit unions, perhaps it is time for Freddie Mac and Fannie Mae to resume purchases of seasoned loans. This would inject significant amounts of liquidity into the portfolio lending space, and give lenders the ability to offer the best possible terms on a second lien to the largest number of borrowers. In order to avoid some of the abuses of prior seasoned loan purchases in times of market turmoil, a resumption of seasoned loan purchases could be limited to credit unions, community banks, and other lenders who have a strong community focus.

ACUMA

Conclusion

ACUMA would like to applaud Freddie Mac for reading the market and coming up with an innovative solution to meet the needs of today. We strongly support the approval of this offering by the FHFA, and would welcome engagement by Freddie Mac to help them strengthen their ties to the credit union market.

Attached, please find an appendix where we directly respond to the questions posed in the request for comment.

Sincerely,

Peter Benjamin, CMB
President
American Credit Union Mortgage Association

ACUMA

APPENDIX

1. To what degree might the proposed new product advance any of the purposes set forth in Freddie Mac's charter act?

We feel this proposal is strongly aligned with Freddie Mac's charter act. It increases the amount of secondary market participation (with Freddie Mac able to provide counter-cyclical support), it fosters competition and will result in a lower cost of credit, and it is responsive to the shift in the market with regards to how people access the equity in their homes in the current interest rate environment.

2. To what degree might the proposed new product advance Freddie Mac's Duty to Serve Underserved Markets activities and support Freddie Mac in meeting its housing goals?

It's been well established that Freddie Mac has expanded access to credit as a result of having a responsible risk appetite combined with the diversification benefits of a national footprint. By providing additional support to the second lien market, it would potentially create a greater access to credit for minority borrowers who have historically been less likely to be in a position to access the equity in their homes.

3. To what degree might the proposed new product already be supplied by other market participants?

While there is a securitization market for second liens, it represents a small fragment of what actually gets originated. It is unclear that there is sufficient market depth or appetite to provide meaningfully more liquidity support absent Freddie Mac's offering.

4. To what degree might the proposed new product promote or lessen competition in the marketplace?

You will undoubtedly receive negative responses to this proposal from those who seek to avoid competing directly with Freddie Mac. That is clear evidence that there would be an increase in competition.

5. To what degree might the proposed new product overcome natural market barriers or inefficiencies?

It is important to remember that the securitization market for second liens is a fraction of what it once was, and that it doesn't necessarily serve lenders of all sizes. This proposal from Freddie

Mac would help small and medium sized lenders, and could also jumpstart a market for standardized second lien credit risk via its STACR program.

ACUMA

6. To what degree might the proposed new product raise or mitigate risks to the mortgage finance or financial system?

Because of Freddie Mac's sophistication and their ability to distribute risk, this could help move mortgage risk off the balance sheets of depositories while simultaneously reducing liquidity risk.

7. To what degree might the proposed new product further fair housing and fair lending?

Freddie Mac, because of its size, sophistication, and resources, has a demonstrated ability to offer a credit box that is wider with regards to first liens than what portfolio lenders are often able to do. We anticipate something similar on the second lien side, and would note that even if someone does not sell second liens to Freddie Mac, they are likely to adopt Freddie Mac's credit box as their own. The result is that there will be a broader access to credit which translates into more underserved borrowers being able to access credit.

8. To what degree might borrowers benefit from or be adversely affected by the proposed new product?

Borrowers will be more likely to obtain credit, and that credit will be at more favorable terms. This is a strong positive for borrowers as a class.

9. Are there any other factors that the Director should take into consideration concerning the proposed new product?

This is a great first step, but we'd also like to see efforts made to broaden the scope. Opening it up to loans where Fannie Mae owns the first lien, or allowing seasoned first liens to be sold to Freddie Mac in conjunction with the new second lien could substantially increase the number of borrowers who can be helped.

American Credit Union Mortgage Association
6907 University Avenue, #331
Middleton, WI 53562