PUBLIC INTEREST COMMENT

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Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages
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Thank you for the opportunity to comment on the Federal Home Loan Mortgage Corporation's proposed product to purchase single-family closed-end second mortgages. Employ America is a research and advocacy organization dedicated to macroeconomic policies that sustain a full-employment economy. This comment solely represents the views of our organization.

Overview

In an attempt to benefit homeowners, the Federal Home Loan Mortgage Corporation ("Freddie Mac") is proposing to purchase closed-end second mortgage ("CES") loans from eligible lenders. The goal of the proposal is characterized as providing homeowners with a cost-effective alternative to traditional cash-out refinancing. Freddie Mac believes purchasing CES loans can provide liquidity and stability to the secondary mortgage market while offering homeowners potential cost savings in high-interest rate environments. We believe that the proposed product is not in the public interest, at least at this time, and would actively undermine Freddie Mac's goals to support housing supply and affordability.

Our comment below addresses the following questions the FHFA posed to commenters: (1) to what degree might the proposed new product advance any of the purposes set forth in Freddie Mac's charter?; (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?; (4) to what degree might the proposed new product raise or mitigate risks to the mortgage finance or financial system? (7) to what degree might the proposed new product further fair housing and fair lending?; (8) to what degree might borrowers benefit from or be adversely affected by the proposed new product?; and (9) are there any other factors that the Director should take into consideration concerning the proposed new product?

The Proposed Product Does Not Serve the Public Interest At A Time Of High Interest Rates and High Inflation

Under 12 U.S Code § 4541 (b)(3), the FHFA is statutorily obligated to determine whether new products issued by Freddie Mac are "in the public interest." We hold the view that Freddie Mac's purchase of CES loans would not be in the public interest as it would indirectly prolong a period of elevated interest rates, thereby shutting out prospective first-time homebuyers from financing and discouraging the construction of new housing stock. Ultimately, these outcomes would undermine both Freddie Mac's and the FHFA's goals of promoting first-time homeownership and affordable housing supply. Furthermore, in the broader macroeconomic context, this product would counteract the Federal Reserve's efforts at macroeconomic stabilization and reducing inflation.

One of Freddie Mac's primary purposes is to advance home affordability for first-time homebuyers, including those in underserved communities. Under FHFA's statutes, 12 U.S. Code § 4565, the enterprises (i.e., Freddie Mac) have a duty to serve underserved markets, including affordable housing preservation. Specifically, § 4565(b)(4) states that for the enterprises to carry out their duty to serve underserved markets, they must "develop the institutional capacity to help finance low- and moderate-income housing, including housing for first-time homebuyers."

The product proposed would primarily and directly benefit existing homeowners, who would see the financing costs of their CES loans lowered, increasing their liquidity and their capacity to consume. Unfortunately, by supporting their liquidity and consumption spending, the proposed outcome could directly contribute to continued inflation through the very same demand-side channels that the Federal Reserve is relying upon to cool inflation. At the margin, this proposal would push the Federal Reserve to maintain higher interest rates for a marginally longer period. Current levels of interest and mortgage rates make it considerably more difficult for first-time homebuyers to access the financing necessary to purchase a home, particularly for marginalized and underserved communities.

Aside from the perverse impacts on homebuyers, higher interest rates also disincentivize homebuilders and the associated housing supply chain from making the capacity investments needed to meet the broader demand for housing stock, whether owner-occupied or tenant-occupied. Multifamily construction is now historically low and risks exacerbating housing supply challenges in the future. This proposal would, all else equal, delay or forestall future housing supply through interest rate and credit channels.

Freddie Mac's proposal to purchase CES loans raises serious risks in the housing financing system and the broader economy, especially given the current state of monetary policy. By facilitating CES loan liquidity, Freddie Mac is shifting financing resources within the mortgage market away from prospective homebuyers and providing consumers with cash at a time when the Federal Reserve is trying to curb consumer spending without adversely affecting supply-side investment dynamics. In a macroeconomic environment where monetary policy aims to stabilize consumer prices while maintaining maximum employment, boosting consumer spending among existing homeowners may run counter to these objectives, potentially hindering broader housing investment efforts and exacerbating inflationary pressures.

Considering the macroeconomic factors at play, Freddie Mac's proposal is directly at odds with the goal of the Federal Reserve and the public. If the proposal is approved it could potentially increase inflation, causing the Fed to delay plans to normalize interest rates. The broader public could feel the impact either through collateral costs to the labor market or, most pertinently, to the housing market. As such, Freddie Mac's proposal should be denied on this public interest basis alone.

FHFA's scope and authority under 12 CFR § 1200.1 notes that FHFA is charged with ensuring regulated entities (i.e. Freddie Mac) "...comply with the Safety and Soundness Act and their respective authorizing statutes, and rules, regulations and orders issued under the Safety and Soundness Act and the authorizing statutes…" FHFA's approval of Freddie Mac's proposal to purchase CES loans would directly contradict the statutory intent of Freddie Mac. Freddie Mac was authorized in 1970, during a high inflation environment, to inject liquidity into the secondary mortgage market to increase housing supply and provide access to affordable housing for middle-income families. Specifically, Freddie Mac was authorized by Public Law: 91-351, The Emergency Home Finance Act of 1970.

In the legislative history of Freddie Mac's authorizing statute, Congress consistently emphasized that the macroeconomic ramifications of high housing demand coupled with low production and high interest rates required broader access to mortgage credit to ensure middle-income families could access affordable housing. In detailing the purpose of the legislation, the Senate report states:

> *"The bill, as reported, is designed to encourage and expedite the construction and financing of a substantial number of new and existing homes. Primary emphasis is placed on the expansion of existing mortgage credit facilities and the creation of new secondary market facilities to broaden the availability of mortgage credit."*

Throughout the report, Congress emphasized the broader macroeconomic indicators reflecting low housing supply and how the creation of this corporation was to expand access to mortgage credit for the purposes of increasing supply.

FHFA was created to ensure Freddie Mac's compliance with its authorizing statute and its duty to serve underserved markets. Freddie Mac's proposal to purchase CES loans is counterintuitive to its legislative intent to increase housing supply and its duty to serve first-time homebuyers and underserved markets. The proposal does not serve first-time homebuyers and does little to boost housing production.

Conclusion

In the current high-interest rate environment, Freddie Mac's proposed new product to purchase single-family closed-end second mortgage loans would increase liquidity for existing homeowners, boost consumption spending, and raise inflationary pressures. Consequently, this product would counteract the Federal Reserve's efforts to normalize interest rates, thereby hindering housing investment and delaying the production of new housing. Furthermore, the proposed product directly contradicts Freddie Mac's authorizing statute and the FHFA's mandate to ensure that Freddie Mac builds the institutional capacity to finance affordable housing for first-time homebuyers. This product primarily benefits existing homeowners, would limit access to mortgages for first-time homebuyers, and stymies the production of new housing supply. Given the broader macroeconomic factors at play, FHFA should not move forward with approving Freddie Mac's proposal as it does not serve the public interest.

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