



May 22, 2024

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street SW
Washington, DC 20219
RegComments@fhfa.gov

RE: Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages; Comment Request (No. 2024-N-5)

Dear Director Thompson,

On behalf of its member credit unions, the Cooperative Credit Union Association, Inc. ("Association") appreciates the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") notice on Freddie Mac's Proposed Purchase of Single-Family Closed-End Second Mortgages which, if approved, would allow Freddie Mac to purchase second mortgages from credit unions and other financial institutions. The Association is the state trade association representing approximately 200 state and federally-chartered credit unions located in the states of Delaware, Massachusetts, New Hampshire, and Rhode Island, which further serve over 4.9 million consumer members. The Association has developed these comments in consultation with our members.

The Association's High-Level Comments

- The Association supports Freddie Mac's proposal to purchase single-family, closed-end second mortgages from credit unions and other financial institutions that are approved Sellers/Servicers to Freddie Mac.
- Freddie Mac's purchase of second mortgages would further Freddie Mac's congressionally established purposes by giving credit unions a new source of mortgage-lending liquidity. This program would allow credit unions to free up their balance sheets by selling second mortgages held in portfolio to Freddie Mac and/or engaging in an originate-to-securitize model for second mortgages that is not currently practicable in the private capital markets.
- Freddie Mac and Fannie Mae typically have minimum annual mortgage volume requirements that a credit union must meet each year to become or remain an approved Seller/Servicer. We urge the FHFA to ensure that Freddie Mac and Fannie Mae approve and retain smaller credit unions as Sellers/Servicers consistently with the purposes of the Small Business Act.

The Association's Detailed Comments

The Association supports the proposal of the Federal Home Loan Mortgage Corporation (Freddie Mac) to purchase single-family, closed-end residential second mortgages. While Freddie Mac has not purchased second mortgages since 2008, Section 302(h) of its charter expressly authorizes it to purchase "secured loans that are secured by a subordinate lien against a property as to which the Corporation may purchase a residential mortgage...." 12 U.S.C. § 1451(h).

1. To what degree might the proposed new product advance any of the purposes set forth in Freddie Mac's charter act (see section I.B above)?

The Association believes the proposed new product helps promote all four of Freddie Mac's statutory purposes, which are to: "(1) provide stability in the secondary market for residential mortgages; (2) respond appropriately to the private capital market; (3) 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) 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." 12 U.S.C. § 1451 note.

FHFA should approve Freddie Mac's proposal. This product is consistent with Freddie Mac's statutory purposes because it should improve access to residential mortgage credit by creating liquidity and market stability for second-lien residential mortgages which the private capital markets do not sufficiently provide.

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?

This product should help Freddie Mac serve underserved markets by working with not-for-profit credit unions, especially credit unions that are low-income-designated credit unions (LICUs) and/or Community Development Financial Institutions. It should also help Freddie Mac meet its housing goals by helping borrowers finance the renovations needed after purchasing a "fixer-upper." These homes are usually the most affordable residences in any neighborhood but also require additional capital beyond the initial purchase price because of the poor condition of the property.

Due to lower-income borrowers' limited access to second-mortgage credit, many of these fixer-uppers are currently purchased by investors who intend to "flip" the house and sell it at a profit after improving it, however, after this markup the property is typically no longer affordable to lower-income borrowers. Expanded access to second mortgages for home improvement should help lower-income homeowners benefit from improving their own

home, which should increase their home equity (since the property will be worth more once it is in better condition) as well as improve their quality of life.

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

Credit unions already make second mortgages but typically must hold these loans in portfolio because there are limited opportunities to sell such loans on the secondary market at this time. They usually can only make second mortgages when they have sufficient liquidity, which is compressed in the prevailing interest rate environment. Credit unions being able to sell their existing second mortgages as well as newly originated second mortgages to Freddie Mac would therefore allow credit unions to make more second mortgages.

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

The new product would promote competition because it would allow credit unions that are currently fully lent-out to provide additional residential mortgage credit to borrowers.

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

The proposed new product would help overcome natural market barriers because there is a deep and liquid established market for Freddie Mac bonds. Credit unions have limited opportunities to securitize second mortgages at this time in the private capital markets, and the market for credit union second-mortgage loan sales is generally limited to sales from one credit union to another. In addition, credit unions have more liberal investment authority to purchase Freddie Mac bonds than they do with respect to purchases of private-label mortgage-backed securities, meaning that Freddie Mac second-mortgage bonds would have more potential buyers than a similar private-label security.

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

The proposed product would reduce credit risk and interest rate risk on credit unions' balance sheets.

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

Please see the Association's response to question number 2, above.

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

We believe that this new product will help borrowers by increasing the availability of second mortgages for single-family residential homes, which should also help make such credit more affordable to consumers.

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

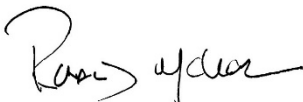
Freddie Mac and Fannie Mae typically have minimum annual mortgage volume requirements that a credit union must meet each year to become or remain an approved Seller/Servicer. Some of the Association's members have recently faced challenges either meeting these initial requirements or continuing to remain eligible as an enterprise's Seller/Servicer during periods of declining mortgage volumes, especially in the case of "small credit unions," which the Small Business Administration defines as those with less than \$850 million in assets. See 13 C.F.R. § 121.201.

We believe that Freddie Mac and Fannie Mae setting minimum volume requirements for a credit union to be a Seller/Servicer is not consistent with the policy of the Small Business Act. Under Section 2 of the Act, "[i]t is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government (including but not limited to contracts or subcontracts for maintenance, repair, and construction) be placed with small business enterprises..." 15 U.S.C. § 631(a). We believe this provision is applicable in the case of government-sponsored enterprises like Freddie Mac and Fannie Mae purchasing loans from small credit unions.

We urge the FHFA to ensure that Freddie Mac and Fannie Mae approve and retain small credit unions as Sellers/Servicers consistently with the purposes of the Small Business Act with respect to all Freddie Mac and Fannie Mae products.

Thank you for the opportunity to comment on Freddie Mac's Proposed Purchase of Single-Family Closed-End Second Mortgages. If you have any questions or desire further information, please do not hesitate to contact the Association at (508) 481-6755 or govaff-reg@ccua.org.

Sincerely,



Ronald McLean
President/CEO
Cooperative Credit Union Association, Inc.
rmclean@ccua.org