



May 22, 2024

Federal Housing Finance Agency
RegComments@fhfa.gov

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

Dear Director Thompson:

The Housing Policy Council (“HPC”)¹ is submitting these comments in response to the Federal Housing Finance Agency’s (“FHFA”) request for comments (the “Notice”) on a proposal by Freddie Mac to purchase certain single-family closed-end second mortgages as a new product.² Our comments are divided into three parts.

Part I provides some broad observations on the second lien product, the liquidity available today for this product, and the market impact of permitting a government sponsored enterprise (“GSE”)³ to enter a market that already is served by private firms.

Part II addresses Freddie Mac’s specific request to offer single-family, closed-end second mortgages. While Freddie Mac has the authority to offer the proposed new product, we conclude that the request creates incremental safety and soundness risk for Freddie Mac and is not in the public interest.

Part III provides our concluding comments and our recommendation that FHFA deny Freddie Mac’s request.

I. Second lien mortgages are a long-standing consumer product not lacking in primary or secondary market competition. GSE entry into this market could add liquidity but at the expense of private capital and private markets.

Before addressing the question of whether Freddie Mac should be permitted to purchase closed-end second liens as a new product, we want to make clear that our position on this question is not based upon whether the product is appropriate for consumers, but is based upon our fundamental view that it is not necessary for a GSE to use its special status to offer a product that already is available in the private market.

¹ The Housing Policy Council is a trade association comprised of the leading national mortgage lenders and servicers; mortgage, hazard, and title insurers; and technology and data companies. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth building for families. For more information, visit www.housingpolycouncil.org.

² 89 Fed. Reg. 29329 (April 22, 2024).

³ Freddie Mac and Fannie Mae are classified as GSEs in the Federal budget. Their federal charters provide that they are to serve a limited purpose (i.e., to provide stability and liquidity for the secondary market for residential mortgages) and in doing so they are given certain privileges not enjoyed by other corporations (e.g., exemptions from SEC requirements and from state and local taxation). Since their failure and entry into conservatorship in 2008, they also have received explicit financial support from the Federal government.

A significant number of banks, credit unions, independent mortgage banks, and other finance companies offer closed-end second liens to their customers, and many offer a comparable product, a home equity line of credit (“HELOC”). There is no lack of capital, or competition, in this market. As with most financial products, when used with effective risk management practices, second liens may be an appropriate and valuable financing tool for consumers. And, depending upon circumstances, a second lien may be both preferential and less risky for consumers than a cash-out refinance, particularly in certain rate environments such as we have today.

The GSEs (Fannie Mae and Freddie Mac, collectively the “Enterprises”) are congressionally chartered for the purpose of promoting liquidity for homeownership. The GSEs’ charters grant them numerous privileges/subsidies to accomplish this outcome. Those charter benefits continue today while the Enterprises are in conservatorship, supported by direct taxpayer backing of their debt and mortgage-backed securities.

Given the special status of the Enterprises, when FHFA evaluates Freddie Mac’s request for new product approval, a central issue is whether such an approval is in the public interest. FHFA’s new product rule delineates eight distinct factors to help guide this public interest determination and the Notice includes a series of questions that invite feedback on these factors. In our responses to FHFA’s questions, which appear below, we explain why HPC believes that Freddie Mac’s request is not in the public interest, even as the product itself is, and should be, provided by private firms to consumers.

Should FHFA approve Freddie Mac’s request, HPC believes that some, perhaps many, companies that make such loans today would begin selling those loans to Freddie Mac. The pricing advantages Freddie Mac enjoys as a result of its GSE status will incentivize such sales. Further, a Freddie Mac second lien product could provide the benefit of standardization to the marketplace, enabling market efficiencies that lenders appreciate. In spite of these benefits, HPC is concerned that Freddie Mac’s entry into this market will not advance the public interest, but will instead shift the market away from banks and other financiers and displace the emerging private conduits to securitize such loans.

II. Freddie Mac’s request would create incremental safety and soundness risk for Freddie Mac and is not in the public interest.

To approve a new product, the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the “Safety and Soundness Act”) requires the Director of FHFA to determine that: (1) the product is authorized by the Enterprise’s charter act; (2) the product is consistent with the safety and soundness of the Enterprise or the mortgage finance system; and (3) offering the product is in the public interest.⁴ In other words, the Safety and Soundness Act requires the Director to determine whether a proposed product is appropriate for an Enterprise to offer, not whether the product is an appropriate product for consumers.

In this section, we address the application of each of the three statutory standards to Freddie Mac’s request.

Freddie Mac has statutory authority to purchase closed-end second liens.

Freddie Mac has the statutory authority to offer this new product. In 1984, Congress amended Freddie Mac’s charter to permit the purchase of mortgages secured by a subordinate lien on one- to

⁴ 12 U.S.C. 4541(b).

four-family properties until October 1, 1987.⁵ After several short-term extensions of this authority, Congress made this authority permanent in the Housing and Community Development Act of 1987.⁶ This authority is subject to certain limitations. The subordinate lien must be less than 50% of the primary mortgage, and Freddie Mac may not purchase a subordinate lien if the total outstanding indebtedness on the property exceeds 80% of the value of the property unless the portion over 80% has mortgage insurance, the seller retains a participation of not less than 10%, or the seller agrees to repurchase the mortgage in the event of default.⁷

The proposed new product may not reduce safety and soundness risks for Freddie Mac, but will introduce new costs.

The Notice states that the proposed new product would enhance Freddie Mac's management of risk because Freddie Mac would purchase a closed-end second mortgage only if it had purchased the first mortgage and this would give it insight into the performance of both the primary and the secondary mortgages on a property enabling better risk management.⁸

This justification for the proposed product conflates risk with risk management. Obviously, if Freddie Mac guarantees a first lien mortgage to a borrower that has a loan-to-value ("LTV") ratio of, say, 65 percent, and then acquires a second lien loan made to that same borrower of, say, 15 percent of the property's value, Freddie Mac's risk has unequivocally gone up. That Freddie Mac has data on the borrower's prior loan performance may help them assess the added risk, but backing a second lien would increase credit risk for Freddie Mac because the combined LTV would increase from 65 percent to 80 percent.

In today's market, the risk to Freddie Mac of a cash-out refinance likely would be greater than that of a second lien, given the pricing and borrower affordability differential between the two. However, a cash-out refinance is not the only option available to the Freddie Mac borrower. As mentioned above, alternative private second lien and HELOC products are available in the marketplace today. In other words, an existing Freddie Mac borrower need not be limited to a cash-out refinance to access equity in his or her home.

Furthermore, the proposed new product will require Freddie Mac to expend resources to establish new credit, operational, and compliance practices inherent with the entry into any new line of business and will require additional capital. All of this would be a new expense at a time when Freddie Mac remains in conservatorship and is undercapitalized. Thus, offering the new product will run counter to Freddie Mac's recapitalization efforts, which are intended to ultimately reduce Freddie Mac's continued reliance on taxpayer support. There also are no stated limits on the amount of second mortgages that Freddie Mac may hold or when Freddie Mac may seek to securitize those mortgages. The Notice merely states that Freddie Mac would limit the number and aggregate unpaid principal balance of second mortgage purchases only for "an initial period."⁹

⁵ The Secondary Mortgage Market Enhancement Act of 1984, PL 98-440, amended the Freddie Mac Charter Act by: (1) revising the definition of "residential mortgage" in section 302(h) of the Freddie Mac Charter Act (12 U.S.C. 1451(h)) to include subordinate liens on residential properties; and (2) inserting the express authority for Freddie Mac to purchase subordinate liens in section 305(a) of the Freddie Mac Charter Act (12 U.S.C. 1454(a)).

⁶ P.L. 100-242 (February 5, 1988).

⁷ 12 U.S.C. 1454(a)(4)(B), (C). The Notice indicates that the proposed new product would meet the 80% loan-to-value limitation, but it does not address the 50% requirement, see 89 Fed. Reg. 29331 (April 22, 2024).

⁸ 89 Fed. Reg. 29332 (April 22, 2024).

⁹ 89 Fed. Reg. 29331 (April 22, 2024), Table 1 – General Eligibility.

The proposed new product is not in the public interest.

FHFA's recently finalized new product regulation provides guidance on the public interest standard by listing eight factors the Director may consider when determining whether a new product meets that standard.¹⁰ The Notice invites public comment on these factors in a series of questions. As explained below, we conclude that Freddie Mac's request to offer single-family closed-end second mortgages does not align favorably with any of the factors.

Question #1 Response: *To what degree might the proposed new product advance any of the purposes set forth in Freddie Mac's charter act?*

Freddie Mac was established to serve four purposes: (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.¹¹

The Notice states that Freddie Mac believes that the proposed new product may advance these purposes.¹² Specifically, the Notice states that Freddie Mac believes the product could provide a foundation for more consistent liquidity in the secondary mortgage market because of its credit guarantee and experience securitizing mortgage loans, and that the shorter duration of the second mortgage term compared to a 30-year cash-out refinance would lower Freddie Mac's credit risk relative to a cash-out refinance.¹³

Additionally, Freddie Mac claims that the proposed new product could be beneficial in creating lending opportunities for more borrowers, could be beneficial to investors by enabling them to realize a more predictable and consistent rate of return, may provide data and process standardization to drive operational efficiency and assist with servicing the loans, and would reduce the challenges of obtaining concurrence for loss mitigation solutions on the closed-end second mortgage.¹⁴

However, as discussed further below, there already is a liquid and growing primary and secondary market for single-family closed-end second mortgages and their functional equivalent, HELOCs. Thus, the entry of Freddie Mac into this market would not advance its purposes, it would simply enable Freddie Mac to use its special status as a taxpayer-backed GSE to displace other market participants.

Question #2 Response: *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?*

¹⁰ 12 C.F.R. 1253.4. In the preamble to the final regulation on prior approval of Enterprise products, FHFA placed these factors into three broad categories: (1) the impact of the new product on the Enterprise's public mission; (2) the impact of the new product in terms of risk to the mortgage finance or financial system; and (3) the impact of the new product on the competitiveness of the market, see 87 Fed. Reg. 79223 (December 27, 2022).

¹¹ 12 U.S.C. 1451 note.

¹² 89 Fed. Reg. 29332 (April 22, 2024).

¹³ *Ibid.*

¹⁴ 89 Fed. Reg. 293332-29333 (April 22, 2024).

Although HPC members view single-family closed-end second mortgage loans as a worthwhile product that should exist in the marketplace, there is no clear link between Freddie Mac’s housing mission and second mortgage loans. The product would not directly¹⁵ improve housing affordability, homeownership rates, access to primary mortgage credit, nor, as explained below, would it advance Freddie Mac’s Duty to Serve markets or its housing goals. In fact, the time and effort spent on this new product likely will detract time, resources, and capital away from these mission activities.

FHFA’s Duty to Serve regulation requires Freddie Mac to facilitate mortgage lending to very low, low-, and moderate-income families in three markets: manufactured housing, affordable housing preservation, and rural markets.¹⁶ The regulation measures performance for loan purchases by counting dwelling units affordable to very low-, low-, and moderate-income families.¹⁷ In other words, performance is measured by activities that place these families into housing units. The purchase of a second mortgage on a home that is already occupied does not achieve this purpose.

FHFA Housing Goals regulation requires Freddie Mac to meet certain housing-related goals, including a single-family refinancing mortgage housing goal.¹⁸ Again, the purpose of these goals is to purchase loans that place families into housing units.¹⁹ The purchase of a second mortgage does not meet that purpose. Moreover, the purchase of a second mortgage would not count toward the refinancing goal since the regulation defines the term “refinancing mortgage” to be a “mortgage undertaken by a borrower that satisfies or replaces an existing mortgage of such borrower.”²⁰

Question #3 Response: *To what degree might the proposed new product already be supplied by other market participants?*

As described earlier, second liens are not a new product outside of the GSE context. Most commercial banks, large and small, many credit unions, and nonbank financial companies (including independent mortgage banks) have long offered second lien products. This product is cyclical, with demand for it varying as a function of factors such as interest rates, economic growth, and house prices.

Today, there is an active and growing market for second liens that is being met by other market participants. According to data compiled by Equifax, \$53 billion in closed-end seconds were originated between January and August 2022, which was a 50 percent increase from 2021.²¹ And, as of April 2024, banks had held over \$250 billion in HELOCs on their balance sheets.²² This origination market is supported by a residential mortgage-backed securitization market for closed end second loans and HELOCs that totaled \$4.5 billion in 2023 and is on pace to be a \$11 billion market in 2024.²³ In sum, Freddie Mac is not needed to support the availability of second liens.

¹⁵ Potentially, Freddie Mac could apply revenues earned from the proposed new product to core mission activities. However, revenues are fungible and there is no way to ensure that they would flow to those activities. Moreover, counting such potential indirect benefits would frustrate the purpose of the prior approval process since it could be argued that the revenue from any new product could potentially be channeled to core mission activities.

¹⁶ 12 C.F.R. Part 1282, Subpart C.

¹⁷ 12 C.F.R. 1282.38(b).

¹⁸ 12 C.F.R. Part 1282, Subpart B.

¹⁹ Performance is measured using a fraction based upon the number of mortgage purchases that finance owner-occupied unit. 12 C.F.R. 1282.15.

²⁰ 12 C.F.R. 1282.1.

²¹ Laurie Goodman, Karan Kaul, Ted Tozer, *Second-Lien Securitization Could be a Key to Accessing Home Equity in a High Rate Environment*, Urban Institute, January 25, 2023.

²² FRED Economic Data, Saint Louis Federal Reserve Bank, April 10, 2024.

²³ BofA Global Research, Non-Agency MBS Weekly on April 19th, 2024.

Question #4 Response: *To what degree might the proposed new product promote or lessen competition in the marketplace?*

The Notice indicates that Freddie Mac’s entry into this market may provide borrowers with more lender choices and better pricing to further reduce their costs.²⁴ However, as noted above, banks and non-banks are increasingly directing private capital into home equity extraction products and allowing Freddie Mac to enter this market will simply redirect that activity away from private participants because Freddie Mac will be able to use its advantages as a GSE (scale, funding, lower capital, implicit government backing, etc.) to crowd out the private market and leave only loans on the margins of the credit box available to true private capital.²⁵

Crowding out private capital and making lenders reliant on Freddie Mac also has the potential to make the secondary market less resilient. A future pullback from this market by Freddie Mac, whether due to capital preservation or a new policy direction at FHFA, will be harder for the private market to absorb once it has been displaced. This phenomenon has been seen previously in other GSE activities, such as their withdrawal from providing Low Income Housing Tax Credit investments, which caused significant market disruptions.

Question #5 Response: *To what degree might the proposed new product overcome natural market barriers or inefficiencies?*

Freddie Mac’s entry into the market would not overcome any natural barriers or inefficiencies. In fact, because of its special status as a GSE, Freddie Mac’s entry into the market will serve to displace or undercut other market participants, and this, in turn, will reduce product innovations that could benefit homeowners.

An example of an innovation that is standard in the private market for second liens, but that would potentially be stifled through the GSE’s proposal is the use of appraisal alternatives for second liens. Our members have found that the private market’s adoption of appraisal alternatives for second liens has reduced costs, shortened the origination process, and potentially made the process fairer, all of which could be undone by the GSEs setting an industry standard that stifles this innovation.

RFI Question #6 Response: *To what degree might the proposed new product raise or mitigate risks to the mortgage finance or financial system?*

Just like a primary mortgage, a second mortgage is subject to credit risk, and there is a high correlation between delinquencies on first mortgages and second mortgages. One study found that when a first mortgage reaches the 90 to 120 days delinquent stage, only about 21 percent of the closed-end second mortgages remain current after four quarters.²⁶

Additionally, second lien products re-lever borrowers, which would increase loan level risk to Freddie Mac relative to a Freddie Mac primary lien only. Further, the default propensity of the 1st lien will rise after the equity extraction of the second lien, as the borrower has a higher all-in mortgage payment to make each month. This is particularly problematic for any borrower who is induced by an “attractive” offering by Freddie Mac to extract equity from a home.

²⁴ 89 Fed. Reg. 29332 (April 22, 2024).

²⁵ The Notice includes two tables that illustrates some of the terms and conditions that would apply to the proposed new product. Notably, however, those tables include no information on pricing.

²⁶ Donghoon Lee, Christopher Mayer, Joseph Tracy, *A New Look at Second Liens*, Federal Reserve Bank of New York Staff Reports, Staff Report No. 569 August 2012, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr569.pdf.

Lastly, since Freddie Mac's premise is to use its GSE status to produce below-market rates, it appears that the intent of the request is to redirect its GSE subsidy to the extraction of wealth rather than to improving housing affordability or increasing the homeownership rate. Private lenders should be free to offer, and consumers free to utilize, such loans. But, there is no public purpose served by subsidizing such loans, especially when the public purpose of the GSEs is to promote home ownership that enables long-term wealth-building for families. And, as noted earlier in this letter, increased leverage adds risk for the homeowner and for the financial system.

Question #7 Response: *To what degree might the proposed new product further fair housing and fair lending?*

The proposed new product is silent on how it might further Freddie Mac's fair housing and fair lending obligations. One recent study that examined 50,000 cash-out refinancings and HELOCs between 2012 and 2018 found that it was older homeowners with higher credit scores that engage in equity extraction and that minority and lower-income homeowners were least likely to have any equity to tap.²⁷ The proposed new product also would have no value for individuals and families that do not own a home, including most Black households.²⁸

Question #8 Response: *To what degree might borrowers benefit from or be adversely affected by the proposed new product?*²⁹

The Notice includes an illustration that shows that in today's interest rate environment a closed-end second mortgage could be less costly for a borrower than a cash-out refinancing.³⁰ As such, this may benefit certain borrowers seeking access to their home equity for various reasons. The Notice is also careful to point out that any actual savings "could vary by the interest rates and the loan terms." As we noted above, there also could be benefits from standardization. These benefits, however, need to be weighed against other factors related to the entry of Freddie Mac into an already functioning market and the use of Freddie Mac's privileges to displace other market participants. Subsidized financing certainly provides a benefit to borrowers, but which borrowers and for what purpose should continue to be a critical consideration for FHFA and the GSEs.

Furthermore, borrowers are already well protected in the closed-end second marketplace, as such loans must meet the Qualified Mortgage ("QM") regulation issued by the Consumer Financial Protection Bureau. That regulation includes a rate cap in place of Average Prime Offer Rate + 350 bps for loans that are greater than \$74,277, and Average Prime Offer Rate + 650 bps for smaller loans. We assume that Freddie Mac would only accept QM qualifying closed-end second loans, and thus would have offers inside these parameters.

²⁷ Diana Farrell, Fiona Greig, Chen Zhao, *Tapping Home Equity: Income and Spending Trends Around Cash-Out Refinances and HELOCs*, JP Morgan Chase Co. Institute, December 2020, https://www.jporganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/Institute-Home-Equity-Report_ADA.pdf.

²⁸ See for example: Jung Hyun Choi, Alanna McCargo, Michael Neal, Laurie Goodman, Caitlin Young, *Explaining the Black-White Homeownership Gap: A Closer Look at Disparities Across Local Markets*, Urban Institute, Housing Finance Policy Center, October 2019, https://www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_2.pdf.

²⁹ This question is not based upon one of the factors the Director may consider when determining if a new product is in the public interest that are listed in FHFA's regulation on prior approval for Enterprise products.

³⁰ 89 Fed Reg. 29332 (April 22, 2024).

Question #9 Response: *Are there any other factors that the Director should take into consideration concerning the proposed new product?*

The Director should consider the impact of Freddie Mac's entry into this product on FHFA's resources. If the Director approves this new product, FHFA may need to establish additional disclosure and reporting requirements to monitor uptake, performance, and outcomes. Additionally, FHFA may need to dedicate additional staffing resources to provide oversight of this new program, which could be better deployed by focusing on Freddie Mac's existing core business and mission activities. Finally, while FHFA's risk-based capital rule includes a risk multiplier for subordinate liens, that risk factor may need to be recalibrated if Freddie Mac becomes a major participant in this market, to account for the added capital required for this new product.³¹ In that case, FHFA should not allow its capital rule to create a capital arbitrage between the Enterprises and the thousands of banks that offer this product today. And on a related point, the capital charge for second liens may be subject to a counter-cyclical adjustment, based on the trend in house price appreciation.

III. FHFA should deny Freddie Mac's request. The proposed product is not in the public interest. Freddie Mac's entry into this market would introduce a GSE competitor, with all of its charter advantages, into a market well served by a large number of private sector firms and would detract from Freddie Mac's primary mission.

This is the first instance in which FHFA has sought public comment on a new product since Congress amended the Safety and Soundness Act to require FHFA to approve new products for the Enterprises.³² As a result, the Director's determination in response to Freddie Mac's proposal will establish an important precedent for how FHFA interprets the statutory standards the Director must consider in approving a new product as well as the factors in FHFA's new product regulation that relate to the public interest standard.

In responding to Freddie Mac's request, it is worthwhile for FHFA and all interested parties to reflect on the original purpose of FHFA's prior approval authority for products. The 2008 amendment to the Safety and Soundness Act that established FHFA's current authority was enacted in response to concerns expressed by the Department of Housing and Urban Development,³³ the Department of the Treasury,³⁴ the General Accounting Office (now called the General Accountability Office),³⁵ and private sector competitors³⁶ that the pre-existing process for reviewing the activities of the Enterprises was

³¹ "Freddie Mac's Proposed Home Equity Product Could Unlock \$850B in Originations," HousingWire, April, 19, 2024, <https://www.housingwire.com/articles/freddie-macs-proposed-home-equity-product-could-unlock-850b-in-originations/>.

³² Section 1123 of the Housing and Economic Recovery Act of 2008 amended the Safety and Soundness Act to require the Enterprises to provide a notice to the Director of FHFA for a determination of whether a "new activity" is a "new product" subject to prior approval, and if the Director determines that a new activity is a new product, the Enterprise must obtain prior approval from the Director before offering the new product. See, Section 1321 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. 4541.

³³ Administrative Perspective on GSE Regulatory Reform, Hearings Before the House Committee on Financial Services, 109th Cong. 1st Sess. (2005), at 22. In this hearing, Secretary Jackson expressed frustration with HUD's difficulty in attempting to contain the Enterprises' expansion into new areas. Secretary Jackson stated: "We have made efforts to stop new program authorities, we have made efforts to make sure that they conform to the program limits. But in many cases, we have not been very successful because-and I am going to be very candid-because we were consistently being contested by the GSEs as to what we had the power to do."

³⁴ Testimony of Treasury Under Secretary Gary Gensler, Hearings on H.R. 3703, The Housing Finance Regulatory Improvement Act, Before the House Committee on Banking and Financial Services, 106th Cong. 2d Sess. at 210. (Mar. 22, 2000).

³⁵ Reforming the Regulation of the Government-Sponsored Enterprises, Hearing Before the Senate Committee on Banking, Housing and Urban Affairs, 110th Cong. 2d Sess. at 186 (2008). In that hearing, William Shear, representing the GAO, testified that what is needed is a regulatory framework that distinguishes programs that are contributing to "the mission or causing the GSE to go outside of its mission boundaries."

³⁶ See, Ed Roberts, Competitors Want Fannie, Freddie Out of Their Business, Credit Union J., June 16, 2003; Citizens Against Government Waste, Corporate Welfare for the Politically Connected: The Story of Fannie Mae and Freddie Mac. ("We share Chairman Greenspan's view that the GSEs have served an historically important purpose ...However, now that they show symptoms of that age-old Washington malady, mission creep, Congress must act to ensure that their non-mission-related activities and exploding debt load do not put taxpayers at risk.").

ineffective in preventing them from expanding into activities beyond their core statutory missions. In 2008, the private sector, and many in the government, believed that it was not appropriate for the Enterprises to compete against truly private companies given the funding and other advantages derived from their status as GSEs. That concern is just as valid today as it was then. The Enterprises were formed by Congress to provide a secondary market for certain mortgages and thereby enhance the ability of the private sector to provide mortgage credit to promote home ownership. They were not established to use their special status to displace private market participants.

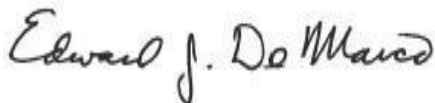
As a basic principle, HPC believes that given the unique benefits Congress granted the Enterprises, they should remain focused on achieving their fundamental purposes and no more. In this case, the proposed product fails to satisfy any of the eight public interest factors set forth in FHFA's regulation. In particular, the proposed product would introduce a GSE competitor, with all of its charter advantages, into a market well served by a large number of private sector entities. Thus, it specifically fails both the third and fourth factors (i.e., "the product is being, and could be supplied by other market participants" and the new product does not promote competition in the marketplace, to the contrary, "it would result in less competition").

Freddie Mac's entry into this market also would distract Freddie Mac from its main mission of supporting a steady supply of financing for primary residential mortgages. The GSEs are part of a broad federal policy aimed at encouraging homeownership and making housing more affordable for low- and moderate-income families. Freddie Mac should stay focused on that mission.

Therefore, the Housing Policy Council respectfully requests that FHFA deny Freddie Mac's new product authorization request.

Thank you for making Freddie Mac's request to purchase second liens subject to public input under FHFA's new product rule. We would be glad to provide additional information or clarification as may be constructive to your determination.

Yours truly,

A handwritten signature in black ink that reads "Edward J. DeMarco". The signature is written in a cursive style with a large, stylized "E" and "D".

Edward J. DeMarco
President
Housing Policy Council