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May 22, 2024

Federal Housing Finance Agency
Office of the Director
400 7th Street, SW, 9th Floor
Washington, DC 20219

RE: Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages; Comment Request

Dear Director Thompson:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the proposal by Freddie Mac to purchase certain single-family closed-end second mortgages. The Federal Housing Finance Agency (FHFA) determined that this proposal qualifies as a new product and therefore is seeking public comment.

While ICBA appreciates Freddie Mac's intention to provide liquidity to lenders and borrowers that may benefit from a closed-end second mortgage, the Enterprise has failed to justify the market need for this product, neglecting to adequately recognize that these loans are readily available in the private sector. The Enterprise also does not provide sufficient details regarding pricing, property valuation, and risk management. The proposal also appears inconsistent with Freddie Mac's core housing mission and has the potential to exacerbate housing supply challenges for new homebuyers during an already challenging interest rate environment. For these reasons, outlined in more detail below, ICBA urges FHFA to deny Freddie Mac's request absent more compelling evidence that this product satisfies market demand for liquidity and, more importantly, falls within the scope of its charter and is appropriate given that the Enterprise remains in conservatorship.

[1] The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at icba.org.

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Background

Freddie Mac is proposing to purchase certain closed-second mortgage loans from approved seller/servicers if it currently owns the first mortgage. The loan terms would be fully amortizing up to a twenty-year term, with less than or equal to 80 percent combined loan-to-value (CLTV) and delivered through the Cash Window. The proposal does not discuss issues surrounding appraisal requirements or how this product interacts with existing private insurance tied to the original loans.

Freddie Mac's proposal suggests that this product will support borrowers facing limited alternatives to access the equity in their homes, particularly during a period of high mortgage rates, year-over-year housing appreciation, and a limited housing supply. For example, it may not make sense in the current housing market for a traditional cash-out refinance loan, resulting in a much higher interest rate for the life of the loan. Instead, a second closed-end mortgage could be the better, more affordable option for the consumer. Indeed, this product is commonly offered to their customers by community banks and other financial institutions throughout the nation.

Comments and Feedback

Freddie Mac fails to establish or justify a market need for this product.
While some institutions, including some smaller lenders, may choose to sell closed-end second mortgages to Freddie Mac, the private sector offers numerous home equity loan products to satisfy existing demand. We believe the onus should be on Freddie Mac to show that there is a significant lack of liquidity in the market to warrant the Enterprise offering a new product. While Freddie Mac frames the product as providing an affordable option for the borrower, a potential unintended consequence may result in Freddie Mac directly competing with or undermining community banks' ability to provide second mortgages and home equity lines of credit (HELOCs) in their communities. Again, there needs to be demonstratable evidence that the market is failing to meet consumer demand.

Moreover, Freddie Mac's charter explicitly states that the Enterprise's purpose is 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

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investments and improving the distribution of investment capital available for residential mortgage financing.[2]

There is no clear evidence that offering to purchase closed-end second mortgages as a means for customers to access housing equity represents a subsidy that falls within the Enterprise's charter. Freddie Mac fails to offer a compelling case that shows that such a product provides market stability, is a response to market demand, provides any direct housing benefit to low- and moderate-income families, or promotes access to mortgage credit more generally. In this case, promoting access to home equity for existing homeowners neither reduces demand for new affordable housing nor adds to the housing supply. A case can also be made that this product runs counter to the notion of housing affordability, as it largely benefits existing homeowners with significant equity instead of helping to create new housing opportunities for first-time homebuyers or those with lower incomes.

Freddie Mac needs to establish important details regarding loan characteristics and requirements that will help ensure safety and soundness.

Prior to approval, it is critical that Freddie Mac provide metrics and transparency around the product while setting clear parameters that will ensure safety and soundness going forward. Strict limitations and guidelines need to be set relating to pricing, interest calculation, LTV/CLTV, any effect on private mortgage insurance requirements, and the appropriate use of credit risk transfers to mitigate risk. Furthermore, standards and procedures need to be established around property appraisals and evaluations – there need to be ample guardrails to ensure that taking out equity does not generate excessive risk for the borrower or the housing system as a whole.

ICBA also questions the purpose and necessity of such a product while Freddie Mac remains undercapitalized and in conservatorship. Offering this product will divert resources and require additional credit risk mitigation that could delay retaining appropriate levels of capital and allowing the Enterprise to exit conservatorship. Further, Freddie Mac proposes to retain these loans in portfolio until such time they can be securitized and sold in the capital markets. Freddie Mac could better serve the marketplace and fulfill its housing mission by utilizing its portfolio to manage and improve the pricing of its securities.

ICBA does not support perpetual conservatorship or complete government ownership and control of the Enterprises and urges FHFA to expedite the process to end the conservatorships in an orderly and transparent manner while avoiding any disruption of the mortgage market.

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[2] https://www.freddiemac.com/governance/pdf/charter.pdf

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ICBA appreciates the opportunity to comment on Freddie Mac's proposal and looks forward to working with the Enterprise and FHFA on this issue and any additional proposed products. Please contact the undersigned if you have any questions regarding this letter.

Sincerely,

Tim Roy
Vice President – Housing Finance Policy