

Congress of the United States
House of Representatives
Washington, DC 20515-3215

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

Dear Director Thompson:

I write today to express concern with the Federal Housing Finance Agency (FHFA)'s announcement on April 16, 2024, that Freddie Mac is seeking approval to begin purchasing certain single-family closed-end second mortgages.¹

I believe the proposal risks unfairly and inappropriately widening the gap between underserved households, including communities of color, and wealthier homeowners. I believe more analysis is needed in order to assess whether this new home equity product will disproportionately benefit upper middle class and wealthy households. Eligible beneficiaries must not only own homes, but they must also have significant equity built up in those homes. Renters, recent homebuyers and financially less-secure households will not see any direct benefits.

According to the National Association of Realtors (NAR) the homeownership rate in the U.S. was 65.5% in 2021, but the rate for Black and Hispanic Americans was 44% and 50.6% respectively.² In contrast the homeownership rate for White Americans was 72.7%. I believe Freddie's proposal raises serious questions around fair lending and equal opportunity, namely whether this product will provide generous benefits to wealthy households at the expense of those with modest means.

Freddie's proposal is light on details, but I understand estimates suggest this new home equity product could see hundreds of billions³ or even trillions⁴ of dollars of loan volume, if Fannie Mae offers the same product. Due to the attractive 20-year term and what is likely to be a relatively low interest rate associated with the product, analysts suggest it could replace large portions of today's consumer loan market as a vehicle for homeowners with a lot of home equity

¹ "Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages; Comment Request" <https://www.federalregister.gov/documents/2024/04/22/2024-08479/freddie-mac-proposed-purchase-of-single-family-closed-end-second-mortgages-comment-request>

² "The gulf between Black homeowners and White is actually getting bigger, not smaller." <https://www.cnn.com/2023/03/02/homes/race-and-home-buying-nar/index.html>

³ "Return of the Housing Godzillas." <https://www.wsj.com/articles/return-of-the-housing-godzillas-fannie-freddie-biden-second-mortgages-f7ac7d77>

⁴ "The mortgage reform that could unleash the next big US stimulus." <https://www.ft.com/content/1d287e0c-afda-46f0-9961-9da157b50101>

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to consolidate outstanding loans. Households that are not eligible to participate will be left with less attractive products and terms, putting them farther behind from a socioeconomic standpoint.

The proposal also has the potential to create upward inflationary pressure, further increasing prices for the most price-sensitive and vulnerable households. Fanning inflation runs counter to efforts by the Federal Reserve to keep prices in check.

I believe FHFA must carefully consider whether this product is in the public interest, including whether and how underserved markets will be better served. I would also like FHFA to show how competition will be fostered by the introduction of this product.

Finally, I am concerned that the proposal does nothing to improve housing affordability or supply, but instead injects new risks into the housing market and potentially exacerbates wealth inequality. In many ways, housing policy today is not addressing the needs of underserved communities. I am worried that this may become yet another example of this public policy failure.

Thank you for the time, and I trust my comments will receive full and fair consideration consistent with agency guidelines.

Sincerely,

A handwritten signature in black ink that reads "Ritchie Torres". The signature is written in a cursive style with a long, sweeping underline.

Ritchie Torres
Member of Congress