Stephen Lange Ranzini, CEO & President
University Bank
2015 Washtenaw Ave.
Ann Arbor, MI 48104

Ranzini@university-bank.com
Telephone: 734-741-5858

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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:

University Bank respectfully submits the following comment regarding "Proposed Enterprise New Product; Comment Request 'Freddie Mac Single-Family Closed-End Second Mortgages,' (No. 2024-N-5)" for consideration by FHFA. University Bank is a Michigan state-charted bank engaged in nationwide mortgage lending, including forward, reverse, and home equity line of credit mortgage loans. We appreciate the opportunity to provide comments on FHFA's proposed new product.

University Bank supports Freddie Mac's purchase of closed-end second mortgages. Providing an investor backed marketplace for the sale of second mortgages will allow mortgage lenders to remove the risk of holding closed-end second mortgages on their balance sheet, and thereby provide more incentives for banks and other mortgage lenders to offer this valuable product. Closed-end second mortgages provide a method for homeowners to access the equity in their homes for various needs, including for retirement, housing, educational, healthcare, and other purposes.

We agree with Freddie Mac that given the currently higher interest rate environment facing homeowners and lenders today, refinancing the balance of a lower interest rate first mortgage to access the equity in a residence is actually imposes an excessive and punitive payment burden upon a homeowner. The option to obtain an investor backed closed-end second mortgage will uncouple the interest rate from the closed-end second mortgage from the existing first mortgage, thus blending the interest rates of the two mortgages into a potentially lower blended rate to the homeowner than would be available if the homeowner refinanced the first mortgage loan. In addition, we anticipate that an investor backed closed-end second mortgage would be offered upon investor approved terms and conditions, thereby standardizing the product and making it easier to be understood by consumers.

With respect to the product eligibility descriptions in Table 1, we note that mortgage lenders holding closed-end second mortgages in portfolio for the six to nine months until the creation of second mortgage "non-TBA guaranteed securities" and for implementing the system should not be allowed to negatively affect the liquidity or capital position of mortgage lenders who have begun to originate eligible closed-end second mortgages. We believe that state and federal mortgage lending and banking regulators should be engaged in this discussion to provide approved sellers to Freddie Mac with appropriate balance sheet and financial statement relief while Freddie Mac rolls out the process to purchase and securitize closed-end second mortgages.

We believe that the requirement that Freddie Mac own the first mortgage in order to purchase the closed-end second mortgage, while certainly well intentioned, may be unduly restrictive. To the extent that the first mortgage is owned by Fannie Mae, Freddie Mac, FHA, VA or USDA-RD, and the mortgage loan is not delinquent, then the closed-end second mortgage should be eligible for purchase by Freddie Mac. Freddie Mac can and should layer on additional protections or eligibility requirements for closed-end second mortgages where Freddie Mac does not own the first mortgage, including LTV, income, asset, payment history, and pricing adjustments. Restricting the purchase of closed-end second mortgages as proposed by Freddie Mac may ultimately unduly restrict the availability of the product.

We understand other commenters have expressed concerns about potential downsides to this program. We, however, view this as another option for homeowners to achieve their financial goals and believe that more choices for homeowners lead to better outcomes.

In addition, we note some commenters have expressed concern that this proposed new product will not serve Freddie Mac's mission to increase homeownership and may lessen homeownership. While University Bank is unable to opine on whether Freddie Mac's purchase of closed-end second mortgages will diminish homeownership, we believe that this program does fall squarely within Freddie Mac's charter to "promote access to mortgage credit throughout the Nation". We, however, have previously advocated for two programs that will directly benefit homeownership, which Congress has long overlooked. Congress must (1) re-evaluate and increase the Title I program limits to $250,000 to provide a more meaningful ability for homeowners to invest in their homes and (2) fund the HUD 234d multi-family loan program, which will increase building of affordable new homes and the ability for more borrowers to attain homeownership.

Because all banks that are actively involved in providing housing related loans already are or will soon become capacity constrained due to liquidity limits, government loan programs are critical to increasing the supply of housing. University Bank can originate effectively unlimited amounts of residential loans that can be sold to the secondary market, however we can only originate $5 million of new portfolio loans of all types each month. HUD's loan guarantee programs could play a key role in addressing these problems, however HUD is prevented from assisting us in key ways. Let me explain.

1. **How can HUD increase the supply of newly built housing?**

Due to the high cost of new construction, including regulatory and development costs, projects that have multiple units are more cost effective and more affordable. Yet, for buildings or projects larger than 4 units, the supply of financing options is very low for building condo projects with high densities of units per acre and there are excellent options available for financing the construction of apartments. For example, all the tall buildings that have been built downtown in Ann Arbor over the past two decades are apartments and not "for sale" condos because they were built using HUD Multifamily loan programs.

Why? Here is a typical example:

At the intersection of Maple and Pauline in Ann Arbor they are building an apartment complex that will have about 400 bedrooms. It was originally proposed as condominiums but changed to apartments after the site plan was approved.

Why did this 400 unit project switch from for sale condos to apartments? A developer can obtain a loan from HUD up to 90% of the "as built" appraised value of a project. Condo loans come from banks and banks will only lend up to 70% of the "as built" appraised value of a multi-family construction project. An investor needs to put triple the investment into a condo project versus an apartment project and gets 1/3rd the return on investment relative to the dollars invested. HUD will back apartment loans, but not condo construction or condo permanent financing loans for projects with more than 4 units.

Apartments don't allow the building of equity and inter-generational wealth. HUD's programs are warping the market supply. This problem could be fixed if Congress would just fund the HUD 234d Multifamily loan guarantee program (which is the only HUD program that could be used to build 5 or more unit condos for sale), which is on the books but has not been funded by Congress in over three decades. To control risk and align incentives with lenders, the program could be modified to require a 90% maximum loan guarantee.

In sum, Congress needs to appropriate funds to restart the HUD 234d Multifamily loan guarantee program and change the program so that it is a 90% maximum loan guarantee program and not a 100% loan guarantee program.

2. **How can HUD increase the density of the existing housing stock?**

Many American homeowners now have a 2% or 3% fixed rate 30-year mortgage. With interest rates on new mortgages at 6%, 7% or 8%, they cannot afford to move. If they need to add to their home, they need a home equity loan. However, HUD's current home equity lending program is quite useless, as it has a $25,000 loan limit for a single-family home and a $60,000 limit for a multi-unit home, with a sublimit of $12,000 per unit. HUD can increase the density of the existing housing stock by making changes to HUD's Property Improvement Loan Program (Title I).

Under the Federal Housing Administration (FHA) Title I Loan Guarantee Program, HUD's FHA Program insures lenders against 90% of the losses on loans that finance property improvements. Property to be improved may be residential, nonresidential or commercial. Lending institutions make loans from their own funds to eligible borrowers to finance these improvements.

The Title I program insures loans to finance the light or moderate rehabilitation of properties, as well as the construction of nonresidential buildings on the property. This program may be used to insure such loans for up to 20 years and 32 days. The maximum loan amount is currently set at $25,000 for improving a single-family home or for improving or building a nonresidential structure. It's been at that level since 1970. This loan limit has not been adjusted in 54 years!

For improving a multifamily structure, the maximum loan amount is $12,000 per family unit, not to exceed a total of $60,000 for the structure. These are fixed-rate loans, for which lenders charge interest at market rates. The interest rates are not subsidized by HUD, although some communities participate in local housing rehabilitation programs that provide reduced-rate property improvement loans through Title I lenders.

FHA insures private lenders against the risk of default for up to 90 percent of any single loan. The annual premium for this insurance is $1 per $100 of the amount advanced; although this fee may be charged to the borrower separately, it is sometimes covered by a higher interest charge.

This program used to be quite useful and active but is in disuse today due to the loan limits being so low and not changing with ongoing inflation. In 1970 a $25,000 loan covered most needs. That is the equivalent of $250,000 in 2023 dollars, inflation adjusted. For multi-family units, $1,000,000 would cover a 4-unit property. Since it is a risk sharing program, with only 90% guarantee, it is in HUD's best interest to revitalize the program, as it lowers HUD's overall risk in contrast to 100% guaranteed loans where the lender has less skin in the game after origination.

This program, as a second mortgage eligible program, is quite flexible and the paperwork can be a thin file, saving consumers significant sums. The cost to originate a new first mortgage has risen with the excessive compliance costs to an industry average of $10,000 per loan! These Title 1 loans can be originated for a cost of under $1,000 per loan at scale, similar to any other home equity or consumer loan.

As a second mortgage program, it would be ideal for conversion of garages to mother-in-law suites or construction of additional residential units (ADUs) on a single family property (many towns are changing their zoning to allow ADUs now).

In sum, the loan limit for FHA's Title 1 Loan Program needs to be adjusted through legislation to $250,000 per unit (a maximum of $1,000,000 for a 4-unit property), with the limits automatically adjusting annually with inflation going forward. These new loan limits should only apply to residential property.

Final Thoughts

Because all of HUD's loan guarantee programs are properly constructed, they earn an annual profit for the U.S. Government. These recommended changes would likely score positively at the Congressional Budget Office and lower the deficit, not increase it. Also, these changes should be supported on a bi-partisan basis, so should be easier to get through the legislative process.

As to Freddie Mac's proposal, there is no assurance that the Freddie Mac program would result in positive underwriting results and it could cause material losses for Freddie Mac because it is a program where 100% of the risk is borne by Freddie Mac without risk sharing.

Therefore, changing the loan limits on the HUD Title 1 program, which does have significant risk sharing, is a superior policy option to the proposed Freddie Mac program we are addressing here.

Yours truly,

/s/ *Stephen Lange Ranzini*

Stephen Lange Ranzini
CEO & President