May 22, 2024

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 Seventh Street, SW
Washington, DC 20024
RE: Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages (No. 2024-N-5)

Director Thompson:

Achieve, which provides a suite of products to help consumers resolve their debts, including consolidation loans and home equity lines of credit ("HELOCs"), appreciates the opportunity to comment on the proposal to allow the Federal Home Loan Mortgage Corporation ("FHLMC," "Freddie Mac," or "Freddie") to purchase second-lien mortgages. We have serious concerns about this initiative and believe that, if approved, this modification of FHLMC's remit will undermine the government-sponsored enterprises' ("GSEs") broader mandate to support affordable housing and homeownership, create unnecessary consumer confusion, interfere with private market innovation in mortgage financing, and disrupt local housing markets. For these reasons, we strongly discourage the Federal Housing Finance Agency ("FHFA") from approving Freddie Mac's request.

The proposal runs contrary to the GSEs' broader mandates of affordable housing and increasing homeownership.

Freddie Mac and the Federal National Mortgage Association (Fannie Mae) have historically played a critical role in the home financing markets, leveraging their scale and unique status as GSEs to support the home buying market by lowering the costs of mortgage financing and providing needed liquidity for home purchases. In turn, the GSEs' activities have, over decades, made the American Dream of homeownership a more affordable reality for tens of millions of consumers and households. The GSEs' participation, as central actors, in the first-lien mortgage market is appropriate and consistent with the federal government's aims in housing finance. However, allowing Freddie Mac to enter the market for second-lien mortgages will run contrary to these goals by drawing the GSEs into a segment of the mortgage market that, by definition, only serves to provide financing to Americans *on the home they already own*.

Allowing Freddie to buy second-lien mortgages runs counter to its traditional mission and role in the market because it would prioritize existing homeowners over prospective home buyers and deepen the existing chasm between these two consumer segments. It will also worsen inflation by flooding the housing market with government-backed financing, while the country is still dealing with the inflationary impacts of pandemic-induced stimulus. This could add fuel to the inflationary fires, in an attempt to solve a non-existent problem in the second-lien mortgage market and seems unnecessary, even borderline reckless. Second-lien financing, generally, does nothing to encourage homeownership or to expand the number of homeowners and should remain outside the scope of Freddie Mac's activities.

The proposal will create unnecessary consumer confusion.

The Freddie Mac proposal would only apply to purchases of second-lien mortgages on homes where Freddie has already purchased and guaranteed the borrower's first-lien mortgage. This has the potential to create confusion for consumers and foster unfairness via disparate treatment among homeowners. While consumers have a choice in which lender earns their origination business, they have little-to-no say in what happens to their loan after it closes, and they are typically unaware of which secondary market investor buys their mortgage. Furthermore, homeowners with a FHA, USDA, or VA mortgage — or a mortgage owned by a bank, credit union, or private lender — would be excluded from this plan, with these homeowners treated differently, likely disadvantageously, vis-a-vis homeowners with a first-lien mortgage that was purchased by Freddie. This level of confusion and complexity will be detrimental to the housing finance market and runs counter to the FHFA's aims.

Freddie Mac contends that its proposal is a necessary response to current market rates that make it unaffordable for homeowners to refinance. While the average mortgage rate has increased sharply over the past two years, it is important to note that, by historical standards, fixed-rate 30-year mortgages remain below the 54-year average of Freddie Mac's Primary Mortgage Market Survey[1].

Time Period	Average 30-year fixed interest rate
April 1971-May 2024	7.73%
2023	6.81%
2024 (through May 16)	6.89%

[1] freddiemac.com/pmms/docs/historicalweeklydata.xlsx Averages calculated from Freddie Mac's historic PMMS data. Accessed May 21, 2024

Furthermore, the majority of homeowners who would benefit from Freddie Mac's proposal have already refinanced the original mortgage they obtained to buy their homes, including many who extended the term of their loans or cashed out equity in their homes. According to Mortgage Bankers Association estimates, from 2020 to 2021, over 60% of all first-lien mortgage originations were refinance loans[2]. Clearly, there have been millions of homeowners who have already taken advantage of their home equity, even without Freddie entering into the second-lien mortgage market. As interest rates eventually decline in the future, it is highly probable that Freddie's traditional activities in first-lien mortgage refinancing will be adequate to provide opportunities for many homeowners to lower their cost of homeownership.

The proposal will stifle private market innovation.

Today, there is a robust and growing private market for second-lien mortgage finance. As a result, homeowners have numerous options to safely access a portion of their home equity with a second-lien mortgage via the private markets, without participation from the GSEs. For example, Achieve has a growing business originating HELOCs and has successfully brought four different HELOC securitization deals to market, each with a 'AAA' rating for the senior bonds. Other private loan originators and aggregators have also brought several rated securitizations of HELOCs and closed-end second-lien mortgages to market quite successfully, with overall high demand from the capital markets. In addition, for over 20 years, private banks and credit unions have offered a variety of second-lien financing options for homeowners.

Furthermore, the private markets have delivered significant innovation in second-lien mortgage products. The Achieve Debt Consolidation HELOC is fixed-rate, fully amortizing loan, eliminating uncertainty and risk of payment shock for consumers from variable interest rates and interest-only payments. The success of this program and others from private lenders is a testament to the breadth, variety, and liquidity of second-lien financing options that already exist for American homeowners. However, it is difficult to imagine that any of these innovations would have occurred if the GSEs had entered the second-lien mortgage market. We are concerned that allowing Freddie Mac to leverage its size and unique GSE status to enter the second-lien mortgage market at this point would stamp out competition and stifle innovation at a time when the private market, while very active, is still gaining traction.

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[2] 2020: mba.org/docs/default-source/uploadedfiles/research/mortgage-finance-forecast-mar-2021.pdf
2021: mba.org/docs/default-source/research-and-forecasts/forecasts/mortgage-finance-forecast-mar-2022.pdf
Calculation based on MBA Mortgage Finance Forecast estimates of 2020 and 2021 mortgage industry origination volume and product mix. Accessed May 21, 2024

Given these concerns and the risks Freddie's proposal presents to both consumers and private-label market participants, the FHFA should not approve the proposal.

The proposal likely will undermine and disrupt local housing markets.

Housing markets across the country face severe inventory shortages that are making homeownership increasingly unaffordable for would-be buyers, and we believe Freddie Mac's scale and resources are better directed at efforts to help increase the construction of single- and multifamily owner-occupied housing and promote broader access to affordable rental housing. Earlier this month, Moody's Analytics estimated that there is a deficit of up to 1.2 million single-family housing units across the United States[3]. This is, in part, due to homeowners who obtained their current first-lien mortgage during the period of extraordinarily low rates during the COVID-19 pandemic being disincentivized from selling their homes. We believe that Freddie Mac's size and scale are such that its second-lien mortgage proposal would further entrench millions of these homeowners in their current residences at a level significant enough to exacerbate already tight conditions in the housing market.

In sum, there are several compelling reasons for the FHFA to be wary of Freddie's proposal to enter the second-lien mortgage market — and few reasons to justify the proposal. Thus, we encourage you to reject the proposal from Freddie Mac.

Sincerely,

Kyle Enright

President of Lending

Achieve

[3] cre.moodysanalytics.com/insights/cre-news/one-good-year-does-not-solve-americas-housing-shortage/