

**From:** [James Kirchner](#)  
**To:** [#FHFA REG-COMMENTS](#)  
**Subject:** [EXT] Opposition to Freddie Mac's Closed-End Second Mortgages Proposal: Concerns Regarding Public Interest and Financial Safety  
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May 21, 2024 @ 04:30pm

Opposition to Freddie Mac's Closed-End Second Mortgages Proposal: Concerns Regarding Public Interest and Financial Safety

Dear FHFA,

I am writing to express my strong opposition to Freddie Mac's proposal to purchase closed-end second mortgages. This policy would undoubtedly encourage riskier lending practices, with severe consequences for the housing market and the broader economy. By allowing Freddie Mac to acquire these second mortgages, originators will feel protected from the downside risks, leading them to take on riskier loans.

This moral hazard was eloquently described by Russ Roberts in his book *Gambling with Other People's Money*: "The greater the chance that Uncle Sam will cover the debts of the poker player if he goes bust, the less likely you are to try and restrain your friend's behavior at the table." This scenario mirrors what we saw leading up to the Great Financial Crisis of 2008, where the assurance of government bailouts led to reckless lending and investment practices.

The consequences of such risk-taking are severe and multifaceted:

**Increased Financial Instability:** Riskier lending practices will lead to an increase in default rates, especially during economic downturns. This will not only destabilize the housing market but also threaten the broader financial system.

**Higher Debt Burdens for Homeowners:** Borrowers will be encouraged to take on more debt, converting home equity into liabilities. This increases the likelihood of homeowners becoming underwater on their mortgages, which can lead to higher default rates and financial distress.

**Negative Impact on Inflation Control:** Introducing a large amount of additional liquidity into the housing market could complicate the Federal Reserve's efforts to control inflation. A *Financial Times* column estimated that this policy could release up to \$3 trillion into the economy, making it more challenging to achieve the Fed's 2% inflation target.

I urge the FHFA to reject Freddie Mac's proposal to purchase closed-end second mortgages. Let's learn from the mistakes of the past and prioritize policies that promote a stable and healthy housing market.

Sincerely,  
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