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March 22, 2021

| The Honorable Janet Yellen | The Honorable Mark Calabria |
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| Secretary | Director |
| U.S. Department of the Treasury | Federal Housing Finance Agency |
| 1500 Pennsylvania Avenue NW | 400 7th Street SW |
| Washington, DC 20220 | Washington, DC 20219 |

Dear Secretary Yellen and Director Calabria,

The Community Home Lenders Association (CHLA) writes to request that Treasury and FHFA suspend the mortgage purchase restrictions on Fannie Mae and Freddie Mac (the Enterprises) on so-called "higher risk" loans in the January 14, 2021 revisions to the Preferred Stock Purchase Agreements (PSPAs), in order to complete a review of the impact these restrictions will have on access to mortgage credit.

We call for this suspension and review for the following reasons:

* These restrictions will have a disproportionate impact on minorities, low- and moderate-income, and other underserved borrowers - thus undermining the Administration's focus on racial equity.

* These restrictions come at a time when statistics show that minority and other underserved individuals and families have been disproportionately negatively impacted by COVID.

* Although the Enterprises have not fully implemented the restrictions, we already see price increases and credit overlays from some lenders and aggregators, such as a minimum 680 FICO credit score.

* The restrictions may also create arbitrage opportunities for Wall Street Banks to make inflated profits - by purchasing GSE loans covered by the new restrictions at deflated prices, holding them in portfolio, and later securitizing them when they can better manage these volume restriction limits.

* These restrictions were put in place in the final week of the previous Administration. Therefore, it is appropriate to suspend these changes to give more time for review and public scrutiny, in the same way as the Consumer Financial Protection Bureau (CFPB) recently delayed changes to the Qualified Mortgage (QM) rule from becoming final due to access to mortgage credit concerns.

We offer these observations as the only national trade association that exclusively represents independent mortgage bankers. Our comments reflect the perspective and full spectrum of smaller lenders that sell Enterprise loans across different channels - from lenders that sell Enterprise loans to aggregators, to seller-servicers that use the cash window, to seller-servicers that securitize Enterprise loans.

CHLA continues to oppose actions merely for the purpose of reducing the Enterprises' footprint. We do appreciate that Treasury and FHFA want to ensure that the Enterprises do not engage in risky loan purchases. However, we believe the new PSPA restrictions are disproportionate, particularly in light of current profitability levels, and other less severe approaches are available to address risk concerns.

Section 5.14 of the revised PSPAs caps each Enterprise's purchase of mortgages with two or more higher risk characteristics at 6 percent for home purchase mortgages and 3 percent for refinance mortgages. The higher risk characteristics are a combined loan to value (LTV) ratio above 90 percent, a borrower debt to income ratio above 45 percent, and a FICO credit score below 680 (or an equivalent score produced by another model validated by an Enterprise). Section 5.14 also caps purchases of mortgages secured by second homes and investment properties at 7 percent of total purchases.

Notably, these caps are backward looking, based on loan volume during the prior 52 weeks. Further, the language of Section 5.14 suggests that the cap applies to the 52-week period immediately prior to the acquisition date for each mortgage purchase – in other words, a rolling backwards cap that the Enterprises must calculate each day they purchase one of these mortgages. We do not understand the purpose of this methodology, which greatly – and in our opinion needlessly – complicates compliance.

It appears that the Enterprises intend to implement their numerical restrictions by capping purchases from each lender at the same percentage as applies to each Enterprise. Fannie Mae did this in a March 10 lender letter on the second home/investment properties restriction. Our members' reaction to this has been to ratchet back origination of such loans, to ensure that an individual lender does not breach their lender cap. The likely result will be that an Enterprise's total loan volume purchase of restricted loans will be far below their Enterprise-level cap – thus exacerbating the negative impact on access to mortgage credit.

In some cases, these restrictions actually work against the goal of reducing Enterprise risk. For example, a simple refinance of an Enterprise guaranteed loan (i.e., with no cash out) that reduces monthly payments makes a loan more affordable and sustainable, thus reducing the risk of default. Yet Section 5.14 will artificially restrict Enterprise purchases of such loans when the loan has a greater than 90 percent LTV ratio and the borrower has a below 680 FICO credit score. In contrast, the HARP program from a decade ago allowed – even encouraged – high LTV refinances of loans in order to reduce Enterprise risk.

Our members report they already are seeing measurable increases in the prices being charged for restricted loans – not by the Enterprises but by aggregators, in direct response to the restrictions. For example, on March 19, three large banks (Wells Fargo, Chase and US Bank) announced fee increases for certain mortgages covered by the restrictions.

Again, the borrowers that will be most affected by the restrictions on loans with higher risk characteristics are disproportionally minorities, low- and moderate-income borrowers, and underserved borrowers.

Moreover, these changes more directly affect consumers served by independent mortgage bankers (IMBs) than by banks, since IMBs generally don't have the ability to hold new loans in portfolio and manage their securitization in a more flexible way in response to the volume restrictions.

Our understanding is that the previous Treasury was a driving force behind including these restrictions in the revised PSPA, and with the pending transition, there was not sufficient time to adequately consult with or receive feedback from affected parties, such as consumer groups or mortgage lenders.

Therefore, we urge Treasury and FHFA to suspend these restrictions pending a full review, and to consider substantially modifying them or eliminating them.

Thank you for your consideration of this request, which we would be happy to discuss with you.

Sincerely,

Community Home Lenders Association

CC: Mr. Hugh Frater, Fannie Mae
Mr. Mark Grier, Freddie Mac