COMMUNITY
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June 23, 2021

The Honorable Janet Yellen
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Ms. Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

Dear Secretary Yellen and Acting Director Thompson:

The Community Home Lenders Association (CHLA) writes to congratulate Ms. Thompson on her being named acting director of the Federal Housing Finance Agency (FHFA).

Neither of you were involved in the adoption of the January PSPA restrictions, which were implemented just days before the outgoing Administration left office.

Therefore, CHLA is writing to request that Treasury and FHFA immediately suspend the PSPA restrictions that artificially cap the percentage of new Fannie Mae and Freddie Mac loans for so-called "higher risk" loans and for combined investor and second home loans.

As part of such a suspension and subsequent review of the January PSPA restrictions, we would suggest that these two arbitrary volume cap restrictions ultimately be eliminated from the PSPA agreement– and the $1.5 billion lender cash window cap be raised to at least $5 billion prior to it taking effect in 2022.

The Administration has made as a centerpiece of its housing policy the pursuit of racial equity in homeownership. The PSPA volume caps are completely contradictory to this policy.

These PSPA restrictions are also contrary to every other fiscal and policy action taken over the last 15 months that provide **more** financial flexibility in response to economic dislocations caused by COVID.

The artificial volume caps for borrowers that otherwise meet GSE underwriting guidelines appear to serve no other objective than to shrink GSE loans, in the misplaced hope that "private sector" loans will replace them. This approach is particularly inappropriate at a time when the economy is recovering from COVID.

GSE Caps on So-Called "Higher Risk" Loans

The January PSPAs imposed an artificial cap of 6% on Fannie Mae and Freddie Mac of its home purchase loans that have characteristics that include higher LTVs, higher DTIs, and lower FICO scores – as well as a 3% cap on refinance loans with such characteristics. These loan characteristics strike at the heart of GSE efforts to facilitate mortgage credit for lower income, underserved borrowers. Artificially capping such loans also undermines Fannie's and Freddie's efforts to comply with their statutory housing mission responsibilities, particularly the GSE housing goals and Duty to Serve.

Above all, these artificial caps strike right at the heart of potential efforts to pursue racial equity with respect to homeownership.

GSE Caps on Investor/Second Home Loans

We recently became aware of several lenders that received verbal communication from Fannie Mae stating that, starting in July, their combined volume of investor and second home loans would be drastically lowered to a mere 3% of their GSE loan volume each month. Such draconian reductions seem wildly disproportionate to the 7% GSE-level caps in the January PSPA agreement.

We would note that investor loans are for rental housing, which serve a vital purpose at this time.

3% caps on individual lenders penalize the very lenders that stepped up during the COVID crisis to provide mortgage credit to rental home investors and the renters they serve. Last spring, the CDC imposed a nationwide eviction moratorium, protecting renters from eviction. This created financial strain for many rental owners, and many lenders have stepped in to make GSE refinance loans to ease the financial strain by improving their cash flow (as well as making purchase loans to stabilize this market).

Now because of the cap's retroactivity feature, the very lenders with a proven track record in serving these sectors of the market are arbitrarily being restricted to levels more than 50% lower than the nationwide GSE 7% cap. As explained in a recent CHLA letter on this subject, this disproportionately affects smaller IMB lenders and creates arbitrage profit opportunities for Wall Street Banks.

Lender by Lender Cash Window Caps

The January PSPA changes also included a $1.5 billion cap on an individual lender's sales to each Enterprise during any 52-week period starting January of next year. As we understand it, the purpose of this cap is to encourage lenders that have the capability to execute GSE loans to do so through the swaps market – focusing the cash window on smaller lenders.

While we appreciate this objective, in discussion with CHLA members, we have concluded that the $1.5 billion cap is too low. Many smaller lenders that do more than $1.5 billion of volume a year with Fannie or Freddie lack the organizational capability for executing swaps, and developing this capability takes time and investment and is ultimately subject to the individual GSE's approval.

This cash window cap is scheduled to take place in 2022, giving FHFA and Treasury time to take public comment on this issue and make appropriate adjustments. We encourage such a process, and urge final action to raise this cap to $5 billion prior to its taking effect.

Sincerely,

Community Home Lenders Association