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January 25, 2022

Fee Hikes on Second Home and High Balance Loans

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

Dear Acting Director Thompson,

The Community Home Lenders Association (CHLA)[1] writes to express our concerns about, and to recommend targeted adjustments to, fee increases announced on January 5 on second home loans and on high balance home loans purchased by Fannie Mae and Freddie Mac (the "GSEs" or the "Enterprises").

FHFA's announcement of the fee increases stated that: ***"These targeted pricing changes will allow the Enterprises to better achieve their mission of facilitating equitable and sustainable access to homeownership, while improving their regulatory capital position over time."***

CHLA's immediate public response to this announcement was that we are never happy to see higher GSE fees, but we are open to fee hikes if: (1) they are part of a broader strategy to keep fees as low as possible for core loan products (particularly for underserved borrowers), and (2) they are necessary for Fannie Mae and Freddie Mac to remain financially safe and sound. Notably, CHLA believes that any FHFA action whose main objective or impact is to shrink the footprint of Fannie and Freddie is **never** appropriate.

Having had time to review these pricing increases, they do seem consistent with a broader strategy to focus on core loans and underserved borrowers. **Therefore, CHLA hopes that these fee hikes will at least in part be used to fund LLPA reductions for underserved borrowers.**

However, we also believe that (1) fee increases being imposed on second home loans are excessive, and (2) fee increases on high balance loans are applied too broadly, adversely affecting middle income borrowers and middle price range homes. Thus, we make the following recommendations:

- **Delay the effective date of the fee hikes from April 1 to July 1, in order to give sufficient time for the FHFA to solicit and consider public comments on the proposed fee increases.**
- **Significantly reduce the level of fee increases being imposed on second home loans, at least for low and middle income borrowers and for non-high cost loans.**
- **High balance loan fee hikes: (1) Apply the fee hikes only to loans above 120% of the conventional loan limit, and (2) Exempt 1st time homebuyers up to 150% of median income.**

[1] CHLA is the only national trade association that exclusively represents independent mortgage bankers (IMBs). CHLA members are small and mid-sized, community-based IMBs, whose sole business is originating and servicing residential mortgage loans.

GENERAL DISCUSSION OF FHFA'S MISSION AND POLICIES

For many years, CHLA has strongly spoken out against the push by many parties to arbitrarily shrink the footprint of Fannie Mae and Freddie Mac. The proper role of Fannie and Freddie is established by Congress in statute. The statute both: (1) limits what loans are impermissible (examples are high cost loan caps and a prohibition against commercial loans) and (2) defines the mission of Fannie Mae and Freddie Mac - which is to **create a secondary market for residential mortgages (including loans for low and moderate income families that may have a lower economic return) and to promote access to mortgage credit nationwide (including in central cities, rural areas, and underserved areas).**

The most notable example of an action to arbitrarily shrink the footprint of Fannie and Freddie is the PSPA restrictions adopted in January 2021 on certain loan types (which CHLA quickly called on FHFA and Treasury to suspend). Their intent seemed clear: to shrink the number of Fannie/Freddie loan purchases, under the premise (or more accurately a hope not backed up by evidence) that the private sector would step in to fully fill the gap left by the Enterprises' exit.

CHLA does not believe that the main intent of the January 5 fee hikes is to reduce the footprint of Fannie and Freddie. Unfortunately, we believe there will be an impact, particularly on second home loans. Notably, various parties responded to the fee hike announcement by referring to this as a big opening for the private sector to capture GSE business – some even encouraging more such actions.[2]

FHFA did not claim that the loans posed a higher credit risk, and certainly not to the extent that would justify the large fee increases on second home loans. In fact, our members report that both high balance loans and second home loans they have originated and sold to the Enterprises have generally performed well.

FHFA's stated justification for the fee hikes is the desire to fulfill the GSEs' mission, by increasing their capital. CHLA is generally not opposed to a strategy of imposing higher fees on higher income, higher cost loans than lower income, lower cost loans - in order to cross subsidize and keep affordable core single family GSE loans, particularly for minority and underserved borrowers.

However, we would point out that while higher fees could raise Enterprise revenues and therefore their capital, to the degree that these loans become unaffordable to borrowers or are no longer competitive with private sector sources, Fannie and Freddie could actually lose net revenues, which would undermine or negate the stated FHFA goal of the fee hikes. **Thus, tempering the excessive level of the second home loan fee increases could actually be <u>more</u> effective in achieving the goal of building capital.**

Moreover, our analysis of the loans the higher fees would apply to is that they would adversely affect many middle income families, moderately priced homes, and middle income communities. This could undermine Fannie and Freddie's statutory mission of serving moderate income families.

As with any action that shrinks the footprint of Fannie and Freddie, a key question for consumers is whether the private market can step in to fully meet demand at affordable rates and terms. We acknowledge that there has long been a reasonably competitive jumbo mortgage market for loans above the conventional loan limit – albeit consistently higher than Fannie/Freddie rates and terms.

We do not have the same confidence in the ability of the private market to take up the slack on second home loans – particularly for middle income borrowers. Therefore, our recommendation is to provide targeted fee hike exemptions for second home loans as FHFA did for high balance loans.

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[2] For example, a 1/5/22 National Mortgage News article: (1) concluded that the biggest beneficiaries of the fee hikes would be large real estate investment trusts that securitize these loans, (2) quoted the Structured Finance Association as saying "This is the right move on FHFA's part," referring to increased opportunities for the private securitization market, and (3) quoted the Mortgage Bankers Association as saying "I think we'll see that the private market may well be a more attractive delivery option for some second homes and high balance conforming loans than is currently the case." See "FHFA Hikes Fees for High Balance and Second Home Mortgages," National Mortgage News, January 5, 2022. https://www.nationalmortgagenews.com/news/fhfa-hikes-fees-for-high-balance-and-second-home-mortgages

FEE HIKES ON SECOND HOME LOANS

We understand that second home loans in high priced vacation locations don't engender a lot of sympathy, particularly if the borrower is financially well off. We would note that second home loans which are also in high cost areas will apparently get hit with both new fee hikes. Thus, for example, a $700,000 loan could have a fee increase of up to $32,375. We don't expect that these fee levels will be very competitive, so we doubt there will be many Fannie Mae or Freddie Mac purchases of such loans.

CHLA's concern is that the significant fee hikes on second home loans will impact many middle income second home homebuyers and communities. Not all resort communities are high-end; many cater to second home owners of more modest means. And a significant number of second homes are not in resort communities. Second homes in non-resort communities make an important contribution to affordable housing and to the economic health of such communities.

We would also note that second homes are commonly an interim step for individuals or couples in their 50s or 60s that plan to make the second home their primary residence when they retire, as part of a financial strategy to downsize their home and reduce housing costs.

Finally, we would point out that since the 2008 crisis, the percentage of single family homes held as investor properties for rent has risen dramatically and is now over 30%. This sector of the market has come under some criticism for a number of reasons. We believe that making it harder to obtain Fannie/Freddie loans for second homes will drive this development even more.

The fee increases being imposed on all Enterprise second home loans are significant, ranging from 1.125% to 3.875%, tiered by LTV ratio. Moreover, unlike the higher balance loan fee increases, there are no exemptions related to either income or size of the loan.

For a loan at the current conventional loan limit, for example, this could add as much as $25,160 to the loan fee (and thus effectively the home purchase cost). Even for a relatively low priced second home with a loan of $200,000, this could add as much as $7,770.

Therefore, we are asking FHFA to significantly reduce the excessive level of the proposed fee increases on second homes. Such a fee reduction could be targeted – i.e., limited to low- and middle income homebuyers and to loans which are not high cost loans.

This would more appropriately balance the FHFA's objective of raising fees on higher income, higher balance loans with the GSEs' mission of serving middle income borrowers and communities.

FEE HIKES ON HIGHER BALANCE LOANS

The fee hikes on higher balance loans in higher cost areas are modest, ranging from .25% to .75%.

We understand the negative optics of Fannie or Freddie purchasing a home loan of up to $978,800. However, we would point out that these fee hikes apply to any loan over the base conventional loan limit of $647,200.

There is a reason Congress adopted high cost loan limit provisions. While a $650,000 loan may seem like a high amount to a family in Omaha, Nebraska or rural areas of Vermont, that level barely registers as a starter home in higher cost areas like the Bay Area, Los Angeles, or the New York City area.

A $650,000 loan may be a "high balance" loan – but it is not necessarily a high end loan, at least measured by median homes prices in the area. We would note that in Arlington, VA (CHLA's backyard), a $650,000 home on the market is likely to be a tear-down, in order to build a more expensive home.

In fact, a significant number of so-called high balance loan areas have a median home price in excess of conventional GSE limit of $647,200. Therefore, the fee hike will negatively impact a significant number of homes below the median income in the local area.

Thus, we believe the threshold for the higher fees on so-called higher balance loans is too low. CHLA suggests raising this threshold to 120% of the conventional loan limit – which is $776,640.

[An alternative approach to accomplishing the same objective would be to raise the threshold using the local area median price as a benchmark]

Additionally, CHLA appreciates that loans to first time homebuyers below 100% of area median income and loans financed by state Housing Finance Agencies are exempt from the fee increases. However, homes in higher cost areas are generally less affordable than loans in lower cost areas. It is commonly necessary for a family in a high cost area to have to have an income of more than 100% of median income to buy such a home.

Therefore, we would request that the 100% of median income exemption be raised – to as high as 150% of the local area median income.

These two steps would help ensure that middle income range homebuyers in high cost areas buying homes in the middle tier price range in the area are not negatively impacted by the fee hikes – steps that are consistent with the Enterprises' mission of serving middle income borrowers and communities.

In closing, we appreciate your consideration of our comments and recommendations - and would be happy to discuss them with you at any time.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION