COMMUNITY HOME LENDERS OF AMERICA

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

The Hon. Lael Brainard
Director of the National Economic Council and
Assistant to the President for Economic Policy
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

November 9, 2023

Dear Secretary Yellen and Director Brainard:

We write you again to request decisive and immediate action to address the current homeownership affordability crisis by reducing the historically high long-term mortgage rates relative to other bond indices, as we have uncovered additional evidence of harm in today's mortgage market: the lack of MBS buyers has effectively neutered a key earned benefit for many US veterans and active-duty families.

As we noted in our prior correspondence dated October 12, 2023, we seek actions to bring stability to the mortgage-backed securities (MBS) market through calculated purchases of MBS in illiquid coupons.

Specifically, we seek actions to reduce the historically wide spread between 30-year mortgage rates and 10-year Treasuries (30/10 spread), which could reduce mortgage rates by 100 to 150 basis points. More so, we believe the regulators must address the secular and structural decline in demand for mortgage-backed securities. We recommended the following actions that could help address this issue:

(1) The Federal Reserve shifting its policy to maintain its stock of MBS and suspend runoff until liquidity and the spread between the 30-year fixed rate mortgage and 10-year Treasury stabilizes, and

(2) Amending the PSPA agreements to enable Fannie Mae and Freddie Mac, on a temporary basis, to purchase their own MBS and/or Ginnie Mae MBS for a defined period of time.

As you know, VA mortgages, which typically get securitized and sold to investors via Ginnie Mae, play a key role for our military, but also our society overall. The product has been available since 1946 to help those military families serving our nation.

This “no-down” program has allowed veterans to provide stability for their families and build wealth while protecting the US taxpayer by virtue of the program’s very low default rates. As you know, military families do not join the ranks of our Armed Forces to get rich; this low-down program works for them because they don’t have thousands of dollars to bring to the closing table.

At the same time, the VA program is a key component of a fairer society, as the military is more diverse than the population at large, and the VA program serves lower-than-average FICO score families, again relative to the population at large.

But today’s MBS marketplace is no friend to the VA mortgage, nor the patriotic Americans it serves. Higher rates combined with sluggish demand for mortgage MBS instruments has affected the entire market, as we noted in our October 12th letter. And as we noted, this impact is even more pronounced for 1st time homebuyers, low and moderate income (LMI), and lower FICO borrowers, which describes many veteran and active-duty families. As we noted, these families are often subject to additional pricing pressures, higher rates, and lower cash for down payments and closing costs. In a normal rate environment, a veteran or active-duty homebuyer has multiple options when finding a rate with a lender:

> 1) take the “par” rate (the standard interest rate for the loan, without any cash back to the borrower, or cash to buy down the rate);
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> 2) move higher in rate to receive cash to cover closing costs; or
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> 3) pay points to move lower in rate.

Because there are almost no buyers of MBS coupons at current par rates (without an excellent credit score), many veteran or active-duty homebuyers cannot lock in a rate without bringing an additional thousands of dollars to the table. This means that option 1 – the “par” rate – is not available to many veteran and military families with low- and mid-level credit scores.

Option 2 is also not available to any families, as bond buyers are even less likely to buy even higher rate MBS, for fear that those loans will refinance even more quickly when rates drop in the coming years. (This option is often the best for veteran and military families with good incomes but lower-than-average savings – which is a large contingent of those families – because it requires them to bring even less cash or savings to the closing table.)

For many underserved homebuyers today, including military families trying to use their no-down mortgage, option 3 - pay thousands in points up front - is the **<u>only</u>** option. The amount the average VA borrower pays in points has more than doubled since 2017. The inability of borrowers to move up and down the rate sheet is due to a total lack of bond buyers in higher coupons for fear of refinances when rates ultimately drop in the coming years.

We would also note that the Federal Reserve has for many years purchased long-term Ginnie Mae MBS - including as noted most recently when mortgage rates were below 3%. Ginnie Mae MBS are solely made up of VA, FHA/HUD, and USDA loans – the very loans that were created for the specific purpose of serving the traditionally underserved populations of Americans: low-and moderate-income families, rural families, and military and veteran families. Given that the administration has clearly placed its focus on ensuring affordability and equitable access to homeownership for these families, it makes sense that the Treasury, FHFA, and the GSEs would take this step to help these families in the least affordable housing market in the last two decades.

Finally, as we noted previously, even if the Fed is not selling off MBS, it is effectively reducing its holdings with runoff from loans paying off and paying down. At an absolute minimum, the Fed should be buying higher-coupon illiquid MBS, while continuing to run off or even actively selling lower coupons. Not only will these higher-coupon MBS prepay more quickly than the current portfolio as mortgage rates move lower (resulting in quicker runoff), but the reduced rates brought about by a small liquidity injection will push mortgage rates slightly lower, thereby increasing balance sheet runoff of even lower coupons as current homeowners either refinance or become more comfortable with selling their homes and buying elsewhere.

Today, with no Federal Reserve, Fannie Mae, or Freddie Mac to act as buyers of last resort to stabilize mortgage rates, our nation's military personnel are often forced to come to the closing table with thousands of dollars cash to close on a home, ***which is effectively a violation of the social compact between the United States and our military families, precisely because it removes a promised benefit to these families—a true no-down mortgage program***. U.S. banks, foreign central banks, and overseas banks and insurance companies have recently moved away from buying MBS—but they are not chartered to maintain orderly mortgage markets such at all Americans, including and especially our military families, have a fair opportunity to participate in our nation's economic growth. It is Washington's job, however, to ensure this fair opportunity. We believe now is an appropriate time for the Federal Reserve or Fannie and Freddie to step up, and do so quickly.

We thank you for your consideration of this letter.

THE COMMUNITY HOME LENDERS OF AMERICA

CC:

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