March 18, 2025

The Honorable William Pulte
Director
Federal Housing Finance
1700 G Street, NW
Washington, DC 20552

Dear Director Pulte:

The Community Home Lenders of America (CHLA)[1] writes to congratulate you on your confirmation as Director of the Federal Housing Finance Agency (FHFA) and to offer our views on the appropriate role of Fannie Mae and Freddie Mac (the "Enterprises") in fulfilling their statutory affordable housing mission.

We want to express our strong appreciation for actions taken by the first Trump Administration to create a G Fee Parity requirement in the Preferred Stock Purchase Agreements, mandating that Fannie and Freddie purchase **all** qualified loans from **all** seller-servicers at rates competitive with direct loan securitizations. This is critical to ensure a broad, competitive market of mortgage lenders, which also benefits consumers.

We also commend the Administration for its intent to take the Enterprises out of conservatorship. CHLA has long supported Treasury and FHFA using their HERA authority to accomplish this administratively.

In your Senate Banking Committee confirmation hearing, you stated that you *"will work to eliminate waste, fraud, and abuse wherever it exists*" and will be *"laser focused on ensuring that Fannie Mae and Freddie Mac operate in a safe and sound manner*." CHLA wholeheartedly supports these objectives.

However, we ask that any cuts in FHFA staff or in Enterprise costs not result in the Enterprises reducing their broad base of seller-servicers - or in a return to repurchase policies for performing loans with technical defects that harmed lenders and borrowers alike. Further, we believe Fannie and Freddie can continue to operate in a safe and sound manner - while fully maintaining their affordable housing mission.

To achieve those objectives, CHLA makes the following recommendations:

1. **Fannie and Freddie should maintain their affordable housing footprint, including condo, investor, and second home loans - without volume caps or fee increases unrelated to risk.**

2. **Fannie and Freddie should strictly adhere to PSPA cash window requirements - and should not reduce the number of seller-servicers, whether out of convenience or to cut costs.**

3. **Fannie and Freddie should complete the process of replacing repurchase demands for performing loans with loan defects with an indemnification fee based on Enterprise risk.**

4. **Fannie and Freddie should take actions to cut mortgage origination costs – e.g., rejecting bi-merge in favor of tri-merge and addressing FICO's monopolistic credit score price hikes.**

[1] CHLA is the only national trade association that exclusively represents independent mortgage banks (IMBs). CHLA members are predominately small and mid-sized community-based IMB lenders and servicers.

Single Family Investor and Second Home Loans

Fannie Mae and Freddie Mac have a statutory requirement to facilitate access to mortgage credit for residential mortgages, providing stability and liquidity to secondary markets. This is reinforced by housing goals for loans to low and moderate income families and a Duty to Serve Underserved Markets.

With the implosion since 2008 of private label securities (PLS) mortgage markets and the broad retreat by banks from portfolio mortgage lending, a continued strong Enterprise presence in single family and multi-family markets is critical. Thus, the Enterprises should not retreat from core mortgage products. This includes single family loans for condos, loans in high cost areas, investor loans, and second home loans.

On January 14, 2021, FHFA and Treasury amended the PSPAs to implement a **Volume Cap** of 7% on the number of single family mortgages by Fannie Mae and Freddie Mac that are secured by investment properties and second homes. With no other way to ensure compliance with this cap, Fannie and Freddie imposed these caps at the seller-servicer level, on each individual lender. Moreover, these caps were imposed retroactively, based on the prior 52 week average purchases for each Enterprise.

For many lenders, particularly those with a focus on investor loans or with loans in areas with a higher percentage of second homes, this resulted in an immediate suspension of the lender's ability to originate and sell qualified investor and second home loans to the Enterprises. Thus, even though FHFA claimed it the cap was aligned with recent historical levels, in practice, this resulted in a reduction of these loans.

Eight months later, on September 15, 2021, **FHFA announced a Suspension** of this 7% cap on investor and second home loans. Subsequently, on January 5, 2022**, FHFA increased guarantee fees on second home loans** purchased by Fannie and Freddie, effective April 1, 2022.

The objective of these actions was to reduce the footprint of Fannie and Freddie – and they appear to be based on the premise that banks or the private label securities (PLS) markets would step in to fill the gap.

However, given the sharp decline in PLS and bank mortgage lending since 2008 it is highly unlikely the resulting affordable housing gap will be filled. Moreover, some loans will simply go to FHA.

Therefore, CHLA opposes actions like volume caps or guarantee fee increases unrelated to risk that are designed to reduce the core affordable housing footprint of Fannie Mae and Freddie Mac

CHALLENGES ARISING FROM INCREASES IN ALL CASH HOME PURCHASES

We are experiencing an increase in the percentage of home sales that are all cash, with around 25% of all current home sales being all cash. However, this statistic dramatically understates investor and second home markets. According to **National Association of Realtors** data from last year, **42% of investor single family homes are all cash, and 56% of homes bought by second home buyers are all cash.**

Low and moderate income families buying such homes are increasingly challenged by having to compete with all cash buyers – and sellers have a strong preference for accepting offers (even lower priced offers) from all cash buyers. **Thus, elimination, volume caps, or higher fees of these Fannie and Freddie loans will further undermine the ability of moderate income families to buy such homes.**

INVESTOR LOANS FACILITATE ASSET BUILDING, AFFORDABLE RENTALS

The concept of investor loans evokes images of wealthy individuals or corporations. This is not true for Fannie Mae and Freddie Mac. Historically, Fannie and Freddie have limited their purchases of single family investor loans to a maximum of six properties for Freddie Mac and 10 properties for Fannie Mae.

Enterprise single family investor loans are an important tool in facilitating asset building for Mom and Pop investors, including minority families.

We do want to distinguish between such small investor loans and loans to large corporations to build inventories of single family rental homes. In fact, in 2017, CHLA strongly opposed Fannie Mae's billion dollar loan to Blackstone's Invitation Homes in a **Letter to FHFA.**

Moreover, small investor home purchases are critical in providing affordable rental housing.
For example, a 2023 **JCSH report** found that:

- "10.9 million renters live in single family homes in 2021, just under 30 percent of all renters."
- "Investors are more likely to purchase lower cost homes."
- "Investor activity is especially pronounced in Sun Belt markets with strong rent and population growth."

SECOND HOMES HAVE BECOME INCREASING IMPORTANT AFTER COVID

COVID and remote work have significantly increased demand for second homes. According to a **Redfin report,** second home demand in spring 2022, two years after COVID, was 87% above pre-COVID levels.

Moreover, any perception that second homes are primarily composed of high priced vacation homes is very misleading. According to the National Association of Home Builders (NAHB), *"In-depth analysis of the county level data shows that the concentration of second homes is not simply restricted to conventional locations like beachfront areas. There were 807 counties spread over 50 states where second homes accounted for at least 10% of the local housing stock. Only Washington D.C. was the exception, reporting a second home share of 1.8%. Across the nation 314 counties, 10% of all counties in the U.S., had at least 20% of housing units that were made up of second homes."*

In short, mortgage loans on second homes are a core part of Fannie Mae's and Freddie Mac's affordable housing mission - and should be fully maintained.

RESTRICTING THESE LOANS INCREASES BANK RISKS, PER THE SVB BANKRUPTCY

We first witnessed the significant risks of banks borrowing short and lending long to originate mortgage loans in the 1980s, when taxpayers had to bail out the S&L industry to the tune of hundreds of billions of dollars. More recently, we were reminded of the risks of banks borrowing short and lending long, with the **$20 billion FDIC bailout of Silicon Valley Bank.** A **major cause of the Silicon Valley Bank failure** was unstable short term deposits funding long term assets, such as Mortgage Backed Securities (MBS), which triggered huge losses when interest rates increased.

In assessing any actions to shrink Enterprise loans of single family loan purchases, it is important to consider the increased financial risk of banks increasing portfolio loans for such purposes.

RESTRICTING THESE LOANS INCREASES FHLB (GSE) TAXPAYER EXPOSURE

One of the ways that banks try to mitigate against risks of borrowing short to fund long term mortgage originations is to use Federal Home Loan Bank (FHLB) advances. Yet, as the **FDIC** explains, this may create another set of risks.

This includes exposure to the Federal Home Loan Banks. It is important to remember that just as Fannie and Freddie are GSEs – so too is the FHLB system. It would be folly to ignore the risks of one GSE in order to try to reduce the risks of the other GSEs (Fannie Mae and Freddie Mac).

Maintaining A Robust Equitable Cash Window for Smaller Lenders

One of the great success stories of the conservatorship of Fannie Mae and Freddie Mac has been not just the adoption of a policy of G Fee parity (no fee discounts based on lender volume or size) – but also a robust cash window in which Fannie and Freddie equitably purchase **all** qualified single family loans from **all** seller-servicers, at rates competitive with lender securitizations, with the option to the lender whether or not to maintain servicing.

These policies addressed a significant contributing factor to the Enterprises going into conservatorship – preferential pricing for large, reckless lenders like Countrywide and WAMU. Conservatorship policies of G Fee parity and equitable cash window access have returned Fannie and Freddie to their core mission – providing liquidity to a broad base of mortgage loan originators on equitable terms.

In September 2020, CHLA spearheaded an IMB letter, asking FHFA/Treasury to amend the PSPAs to **"to maintain a nationwide cash window and provide equitable secondary market access to all lenders.**

In January 2021, as noted, the first Trump Administration did precisely that - adopting the following permanent requirement in the PSPAs, unequivocally stating that Fannie Mae and Freddie Mac:

(a) not vary the pricing or any other term of the acquisition by Seller of any Single-Family Mortgage Loan (including by granting any variance) based on the size, charter type, or volume of business of the seller of such loan;

(b) offer to purchase at all times, for equivalent cash consideration (subject to an appropriate adjustment for the value of any servicing rights retained by an approved seller-servicer and also for the cost of bearing or otherwise managing any incremental credit, market, operational, liquidity, or other risk associated with the cash window), and on substantially the same pricing and other terms, any Single-Family Mortgage Loan that:
(i) is of a class of Single-Family Mortgage Loans that Seller then offers to acquire for Seller-guaranteed mortgage-backed securities or other noncash consideration;
(ii) is offered for sale to Seller by a seller that has been approved to do business with Seller; and
(iii) has been originated and sold in compliance with any underwriting or other similar restrictions prescribed by Seller or the Agency;

CHLA requests that FHFA remain vigilant about enforcing these requirements, which are critically important to smaller lenders - and which also ensure a broad competitive market of conventional lenders, which is critically important in fostering lower rates and more loan choices for consumers.

CHLA also requests that any reductions in FHFA or Fannie/Freddie staff or operations not result in a reduction in the number of approved, active seller-servicers - whether unintentionally or based an objective of reducing the number of originators the Enterprises supervises and interfaces with.

Similarly, Fannie and Freddie should only increase net worth, liquidity, and other seller-servicer requirements based on considerations of risk – and never based on an objective of it being more convenient for the Enterprises to work with a smaller base of large mortgage loan aggregators.

Offering Indemnifications for Performing Loans with Defects

As mortgage rates skyrocketed in 2022, the cost of repurchase demands by Fannie Mae and Freddie Mac exploded. Sales of repurchase loans in the scratch and dent market suddenly increased to 30% to 40% per loan. CHLA documented how repurchase loss rates vastly exceeded GSEs loss risk on performing loans with defects and highlighted how borrowers were harmed by the loss of GSE loss mitigation and foreclosure protections.

In May 2023 CHLA sent a **Letter** asking Fannie and Freddie to routinely offer an indemnification for performing loans instead of a repurchase demand on performing loans with loan defects.

In response, on January 31, 2024, FHFA released its 2024 Scorecard for Fannie Mae and Freddie Mac – which included a goal for progress and improvements in their respective repurchase policies. By this time, the Enterprises were already working on the issue.

FREDDIE MAC

On November 18, 2023, Freddie Mac announced a Pilot creating a fee-based repurchase alternative - an indemnification fee - on performing loans, waiving the indemnification fee for smaller lenders. As 2024 progressed, Freddie increasingly offered indemnifications in lieu of repurchase demands for loans.

On October 28, 2024, Freddie Mac released a Statement, announcing that *"it will expand its performing loan repurchase alternative pilot to lenders nationwide beginning in the first quarter of 2025. The company also announced a new fee-only option for performing loans. Under that option, lenders can obtain immediate representations and warranties (R&W) relief in lieu of repurchasing a defective loan under the company's traditional performing loan remedies framework. Finally, Freddie Mac committed to greater transparency and reporting on repurchases."*

Subsequently, Freddie Mac expanded its pilot program to a broader offering effective in January 2025. This introduced a new fee-only option, allowing lenders to obtain immediate representations and warranties (R&W) relief instead of repurchasing a defective loan. Additionally, Freddie Mac committed to greater transparency and reporting on repurchases.

FANNIE MAE

On February 1, 2024, Fannie Mae announced a "Notice of Potential Defect" to provide lenders advance notice of a defect so that the defect may be able to be resolved before triggering a repurchase request.

In May 2024 Fannie Mae released an Analysis of top defects, citing remedies and tools for lenders to use to prevent these most common defects.

COMPLETING THE TRANSITION FROM REPURCHASE TO INDEMNIFICATION

CHLA appreciates the significant changes made by FHFA, Freddie Mac, and Fannie Mae the past two years with respect to performing loans with defects. These changes better align remedies with actual risks, avoid manufacturing significant and unnecessary losses for seller-servicers, and preserve loss mitigation protections for borrowers. However, this transformation is not complete.

FHFA should direct the Enterprises to process early notifications, an escalation framework, a tiered risk assessment, and indemnification options for all loans based on defect materiality, risk , and performance, while also fully considering the impact on smaller lenders.

Reducing Credit Report and FICO Credit Score Costs

CHLA appreciates FHFA's work in leading the industry transition to the FICO 10T and VantageScore 4.0 models – including the proposed shift to a credit merge policy requiring lenders to obtain FICO 10T credit reports from two instead of three national credit bureaus. We also appreciated FHFA's decision to pause implementation of this credit bi-merge initiative in response to concerns from industry participants.

CHLA now asks FHFA to immediately jettison this bi-merge + VantageScore proposal.

Further, CHLA asks that it be replaced with a proposal in which lenders can select either a FICO 10T or Vantage Score product from all 3 credit reporting agencies. This request is outlined in CHLA's **2024 White Paper on Mortgage Credit Score Markets and Pricing.**

CHLA has also expressed concerns about the ever-increasing costs to pull credit scores and urges FHFA to undertake a review of these cost drivers and explore alternative approaches. Rising costs in this area create additional financial burdens for both lenders and consumers. We also encourage FHFA to explore ways to find more efficient and less costly alternatives to the current credit reporting infrastructure**.**

We also call attention the quasi-monopoly that Fair Isaac (FICO) currently has on the market for credit scores. **Because Fannie and Freddie require all mortgages to have a credit score and Fair Isaac has over a 95% market share, Fair Isaac has had free reign to increase the cost of a credit pull by 700% in the last 28 months alone.** Without constraints, we expect more annual price hikes going forward.

In November 2022, CHLA wrote a **Letter to FHFA and FHA,** arguing that since these entities require credit scores on their loans, it would be appropriate to consider some form of utility pricing policy over FICO credit scores, as long as they effectively continue to function as a monopoly.

While we understand there may be reluctance to do this, we ask FHFA to explore other ways to accelerate industry competition for credit scores and to explore other ways to publicize the negative impact of exploding FICO credit scores on closing costs, in order to increase public pressure for FICO to curb costs.

Finally, CHLA asks FHFA to address the lack of alignment between the credit report policies of FHFA and other major government mortgage programs, such as the Federal Housing Administration (FHA), the Rural Housing Services (RHS), and the Department of Veterans Affairs (VA). Much of this issue will be resolved by ending the bi-merge proposal and retaining tri-merge, something the other three mortgage channels continue to require.

In closing, thank you for consideration of these comments and recommendations. We note that these recommendations are focused on FHFA's current authority as conservator. CHLA will separately weigh in with our priorities for protecting smaller lenders in an exit from conservatorship, which are:

- A permanent G Fee Parity/Equitable Cash Window requirement post-conservatorship.
- No Congressional authorization of new GSE charters for Wall Street Banks.
- No front-end risk sharing.
- A Utility Model, with FHFA authority to rein in excessive fee hikes or risky activities.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA

CC: Ms. Priscilla Almodovar, CEO, Fannie Mae
Ms. Diana Reid, CEO, Freddie Mac