

Congress of the United States
House of Representatives
Washington, DC 20515-3215

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

Dear Director Thompson:

We write today to express our concerns with the Federal Housing Finance Agency (FHFA)'s announcement on April 16, 2024, that Freddie Mac is seeking approval to begin purchasing certain single-family closed-end second mortgages.¹

We worry that the proposal risks unfairly widening the gap between underserved households, including communities of color, and wealthier homeowners. We urge FHFA to conduct additional analysis to assess whether this new home equity product will disproportionately benefit upper middle class and wealthy households. Eligible beneficiaries must not only own homes, but they must also have significant equity built up in those homes. Renters, recent homebuyers, and financially less-secure households will not see any direct benefits.

According to the National Association of Home Builders (NAHB) the homeownership rate in the U.S. was 65.7% in the 4th quarter of 2023, but the rate for Black and Hispanic Americans was 45.9% and 49.8% respectively.² In contrast, the homeownership rate for White Americans was 73.8%. Freddie's proposal raises serious questions around fair lending and equal opportunity, namely whether this product will provide generous benefits to wealthy households at the expense of those with modest means.

Freddie Mac's proposal is light on details but estimates suggest this new home equity product could see hundreds of billions³ or even trillions⁴ of dollars of loan volume, if Fannie Mae decides to offer the same product. Due to the attractive 20-year term and what is likely to be a relatively

¹ Federal Register: The Daily Journal of the United States Government. *Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages; Comment Request*. 22 April 2024. Retrieved from <https://www.federalregister.gov/documents/2024/04/22/2024-08479/freddie-mac-proposed-purchase-of-single-family-closed-end-second-mortgages-comment-request>.

² Zhao, Na. National Association of Home Builders. *Homeownership Rates by Race and Ethnicity*. 2 February 2024. Retrieved from <https://eyeonhousing.org/2024/02/homeownership-rates-by-race-and-ethnicity->.

³ The Editorial Board. The Wall Street Journal. *Return of the Housing Godzillas*. 5 May 2024. Retrieved from <https://www.wsj.com/articles/return-of-the-housing-godzillas-fannie-freddie-biden-second-mortgages-f7ac7d77>.

⁴ Financial Times. *The mortgage reform that could unleash the next big US stimulus*. Retrieved from <https://www.ft.com/content/1d287e0c-afda-46f0-9961-9da157b50101>.

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low interest rate associated with the product, analysts suggest it could replace large portions of today's consumer loan market as a vehicle for homeowners with a lot of home equity to consolidate outstanding loans. Households that are not eligible to participate will be left with less attractive products and terms, putting them farther behind from a socioeconomic standpoint.

According to the recent comment letter submitted by Better Markets, the proposal threatens to increase inflation with the new liquidity that new second mortgages would inject into the financial system.⁵ This could further increase prices for the most price-sensitive and vulnerable households. Fanning inflation runs counter to efforts by the Federal Reserve to keep prices in check.

We believe FHFA must carefully consider whether this product is in the public interest, including whether and how underserved markets will be better served. We would also like FHFA to show how competition will be fostered by the introduction of this product.

Finally, we are concerned that the proposal does not adequately address housing affordability and supply issues, but instead injects new risks into the housing market and potentially exacerbates wealth inequality.

We respectfully ask that you conduct an additional analysis of Freddie's proposal and seek additional input from the public on its likely costs and benefits before deciding to approve the product.

Sincerely,

⁵ Better Markets. *Proposed Enterprise New Product; Comment Request: Freddie Mac Single-Family Closed-End Second Mortgages; FHFA No. 2024-N-5; Document Number 2024-08479; 89 FR 29329 (Apr. 22, 2024)*. Retrieved from <https://bettermarkets.org/wp-content/uploads/2024/05/Better-Markets-Comment-Letter-FHFA-Freddie-Mac-Single-Family-Closed-End-Second-Mortgages.pdf>.

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