

Banking and Finance Law Daily Wrap Up, GOVERNMENT SPONSORED ENTERPRISES—GOP senators urge FHFA to reject Freddie Mac’s second-mortgage proposal, (May 29, 2024)

Banking and Finance Law Daily Wrap Up

[Click to open document in a browser](#)

By Suzanne Cosgrove

The planned mortgage product would “exacerbate inflation, disrupt the home equity lending and consumer credit markets, and increase risks to taxpayers,” say Senators Scott and Hagerty.

Freddie Mac’s proposal to purchase and guarantee second mortgages would lead Freddie Mac (and likely Fannie Mae) to finance hundreds of billions in equity extraction and transform Freddie into a massive consumer loan guarantor that could disrupt credit markets and crowd out private capital, two Republican lawmakers [charged](#). “Government subsidization will not only enable the proposed product to offer terms that are economically impossible for private capital to match but represents a vast (albeit indirect) expansion by the GSEs into these other credit markets,” said Senators Tim Scott (R-S.C.) and Bill Hagerty (R-Tenn.) in a [letter](#) directed to Federal Housing Finance Agency (FHFA) Director Sandra Thompson dated May 24.

Scott and Hagerty said the proposed products also would increase systemic risk. “As consumers opt for this new GSE product and use it to consolidate existing debts, Freddie’s balance sheet will absorb consumer loan risks directly linked to the housing market,” the lawmakers said. “The GSEs are already the largest mortgage guarantors in the country; expanding their roles as consumer loan guarantors is a significant step in the wrong direction,” they said. The letter was signed by the Republican members of the Senate Banking Committee, along with 23 members of the House Financial Services Committee.

Proposal out for comment. The FHFA announced the Freddie Mac proposal in April and put out a notice for comment on the plan (see [Banking and Finance Law Daily](#), April 17, 2024). As proposed, the product would be limited to the purchase of certain closed-end second mortgages on properties where Freddie Mac already held the first mortgage.

Thompson stated at the time that the Freddie Mac product would aim to provide homeowners with a cost-effective alternative for accessing the equity in their homes. Existing borrowers “face limited options” to access home equity in the current housing market amid higher mortgage rates, low housing supply and continued price appreciation, according to the product notice.

The FHFA notice also indicated that Freddie Mac believed the new mortgage proposal could advance its charter act purposes and lower its own credit risk because of the shorter duration of second mortgages relative to a typical 30-year cash-out refinance.

Favorable consumer input. The Center for Responsible Lending, a non-profit policy group, took a decidedly different view from the senators when weighing in on Freddie Mac’s proposal. In a comment letter dated May 22, the group said using a second mortgage rather than a cash-out refinance to access home equity would be more beneficial for borrowers during periods when the prevailing mortgage rate is significantly above the interest rate on outstanding mortgages ([CRL Comment Letter](#) on Freddie Mac Proposed Purchase of Single-Family Closed-End Second Mortgages (May 22, 2024)).

The GSEs, along with Ginnie Mae, have standardized the parameters for first mortgage securitization, and the GSE guarantee removes the credit and collateral risk, leaving mortgage-backed securities (MBS) with only interest rate exposure and thereby creating a deep market for MBS with a broad set of investors. Over time, Freddie Mac’s entry into second mortgages could have a similar effect, the group posited, as Freddie Mac will promote data and process standardization. These improvements will in turn encourage participation by lenders

who might not otherwise enter the market for second mortgages, and increased competition will lead to lower interest rates on second mortgages for borrowers.

Addressing concerns that the plan would increase market risk, the Center said that since Freddie Mac will own the credit and collateral risk of both the first and second liens, they will be better able to offer holistic loss mitigation options to borrowers who default due to financial hardship, compared with a private lender who only owns the risk on the second lien.

Companies: Fannie Mae; Freddie Mac

RegulatoryActivity: CommunityDevelopment EqualCreditOpportunity FinancialStability

GovernmentSponsoredEnterprises Loans Mortgages OversightInvestigations SecuritiesDerivatives