HOUSING IN AMERICA: OVERSIGHT OF THE FEDERAL HOUSING FINANCE AGENCY

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Wednesday, July 20, 2022

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Sherman, Meeks, Scott, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gottheimer, Lawson, Axne, Casten, Pressley, Lynch, Adams, Garcia of Texas; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, Timmons, Sessions, and Norman.

Chairwoman WATERS. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Housing in America: Oversight of the Federal Housing Finance Agency."

I now recognize myself for 4 minutes to give an opening statement.

First, I would like to extend my congratulations to Director Sandra Thompson, who has dedicated her career to promoting access to mortgage credit nationwide and protecting the safety and soundness of the housing finance system. Her confirmation marks the first time in our nation's history that a Black woman leads the Federal Housing Finance Agency (FHFA). Director Thompson, we are very pleased to have you here.

Today, we continue the committee's oversight of FHFA. As we all know, FHFA is responsible for the supervision, regulation, and oversight of the Government-Sponsored Enterprises (GSEs), which include Fannie Mae and Freddie Mac, as well as the Federal Home Loan Bank System. I know my Republican colleagues have recently complained about a lack of oversight hearings pertaining to housing finance. However, this comes as a surprise, given their repeated complaint that this committee has held too many hearings on housing, over 30 to be exact.

Let's get the facts straight. It was their former Director Calabria, who, in December 2020, refused to appear before this committee, despite our repeated requests. And it is Republicans in the Senate who have actively impeded our ability to confirm Federal agency leadership, including FHFA Director Thompson and FHA Commissioner Julia Gordon. So after 4 years of terrible stewardship by former Director Mark Calabria during the Trump Administration, I am relieved that FHFA is finally back to fulfilling its intended mission.

Under Mr. Calabria, FHFA made several irresponsible and dangerous moves that harmed borrowers in the housing finance market, including attempts to sidestep Congress and release the Enterprises from Federal conservatorship. In sharp contrast, Director Thompson's actions have been reasonable, fair, and grounded in facts and the law. In just a year, Director Thompson has taken critical steps to set FHFA on a new path forward by eliminating Mr. Calabria's unnecessary and harmful policies which made it more expensive for families to buy or refinance their homes, strengthening renter protections, and expanding access to credit through the use of additional credit data, like on-time rental payments.

Director Thompson has worked to fulfill her regulatory mission over the Enterprises by recommitting to comprehensive, fair housing and fair lending practices of the Enterprises. For example, Director Thompson most recently led the historic effort to require the Enterprises to develop and implement equitable housing finance plans to address the gross racial inequities on their books of business, and to ensure they prioritize innovative, equitable practices that benefit everyone. And we expect full transparency in these efforts, including public-facing metrics that show a concrete, measurable reduction in racial inequity.

FHFA plays an instrumental role in our housing finance market, especially as our nation continues to face a housing crisis that has been made worse by Republicans' refusal to support meaningful investments to increase the housing supply, reduce the housing costs, and offset inflation. I look forward to continuing our work with Director Thompson to put borrowers and communities first.

And now, I recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman, and Director Thompson, welcome to your first appearance before the committee as Director, and we are grateful you are here. We want to congratulate you on your confirmation, and we hope that this is the first of many appearances in an oversight fashion for the committee. I am sure you look forward to that, but in a different way than we look forward to it.

But this hearing is important for many reasons. First and foremost is the Federal Housing Finance Agency's regulation of the Government-Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac, as well as the 11 Federal Home Loan Banks. Combined, these entities hold more than $7.5 trillion in mortgage assets, with GSEs financing roughly half of all new mortgages originated in the U.S. each year. This makes them arguably the most important component of our housing finance system, despite the fact that they were put in conservatorship and nationalized under Bush 43.

The second reason this hearing is important is that it marks this committee's return to actually doing its oversight job. There will be more to come of the oversight agenda, but it has been nearly 2 years since the Chair has held a hearing with FHFA. That was when former Director Mark Calabria came to discuss his successful COVID response which helped protect homeowners and taxpayers from the total economic meltdown that was at the beginning of COVID. This earned Director Calabria much praise, followed by an unceremonious and unjustified firing by the Biden Administration in June 2021. After that, Ms. Thompson served as Acting Director for nearly a year. And it has taken another 2 months since her confirmation for her to be here before the committee, being invited before the committee, and there is no telling how long that streak would have continued.

Last month, Housing Subcommittee Ranking Member French Hill and I sent a letter to the Chair requesting that she invite Director Thompson to testify at the June housing hearing. Let's hope this doesn't turn out to be another case of too little, too late, like the Administration's response on inflation, gas prices, supply chain failures, or the rest of the economy.

Such blatant mismanagement has done real and lasting harm to American households. Congress' neglect of the FHFA and some of its recent decisions threaten to do even more harm. As the Chair noted at last month's hearing, "Rising home prices are directly contributing to inflation." Mortgage rates have nearly doubled over the last year to levels unseen since 2008. Meanwhile, instead of working to maintain stability, FHFA has weakened our housing finance system by reducing taxpayer protections and pushing risky new schemes. For example, the Agency rescinded the capital and liquidity rule designed to ensure that the GSEs could weather an economic downturn. We are concerned about that.

FHFA has also refused to complete work on the 2020 proposed rule on prior approval of new GSE products and pilot programs. That is of concern as well. And most importantly, FHFA compelled the GSEs to issue disastrous and controversial equitable housing finance plans which violate the spirit of that proposed rule. This is FHFA's focus as soaring housing costs and mortgage rates price hardworking families out of the market. American homeowners and prospective homebuyers deserve a fair system in which they can reasonably pursue the American Dream, and I think that is our shared goal here.

Inflation and instability do not support that objective, though, and I hope that we can use this hearing to get some answers from the new Director on her plans to make homeownership an attainable goal for all Americans. Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you, Ranking Member McHenry.

I now recognize the Chair of our Subcommittee on Housing, Community Development, and Insurance, the gentleman from Missouri, Mr. Cleaver, for 1 minute.

Mr. CLEAVER. Thank you, Madam Chairwoman. FHFA's mission, through supervision of regulated entities, is to foster a sustainable housing finance system that supports equitable access to both affordable homeownership and rental housing, reaching communities of color, rural areas, and other underserved populations, which is a description of my congressional district. Frighteningly, all across the United States, there is a widespread lack of affordable housing and access to credit, problems that are especially concentrated in communities of color, and low- and moderate-income Americans are increasingly cut off from housing opportunities. FHFA plays a vital role in both promoting equitable access to mortgage credit nationwide and in protecting the safety and soundness of the housing finance system.

I am very pleased to welcome Director Thompson, who is widely respected for her deep expertise and leadership in housing finance. Under Director Thompson's leadership, FHFA has already taken significant steps to promote access and protect the financial standing of the housing finance system, and I look forward to continued dialogue on advancing the FHFA's mission. Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you, Mr. Cleaver. I now recognize the ranking member of the Subcommittee on Housing, Community Development, and Insurance, the gentleman from Arkansas, Mr. Hill, for 1 minute.

Mr. HILL. Chairwoman Waters, thank you for agreeing with Ranking Member McHenry to invite Director Thompson to our committee today. I would urge the committee and the staff to recognize this responsibility as an annual responsibility under the statute to have the Director testify.

Director Thompson, it's terrific to have you here. Congratulations on your confirmation.

In just 10 days, the Federal Housing Finance Agency will turn 14-years-old. In its dual role, both as a regulator of the GSEs and the conservator of Fannie Mae and Freddie Mac, FHFA has a huge influence over our housing market and the entire American economy. You have awesome powers. This comes at a time when house prices were soaring to record levels and families were seeing their mortgage rates skyrocket. So, I look forward to your testimony today about your vision for FHFA, your 2021 report to Congress, your plans to finalize the long-overdue new products and activities rule, and to ensure that taxpayers are protected in the face of what I believe is financial laxity in your policies at the Agency.

And I yield back. Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much.

Mr. MCHENRY. Madam Chairwoman, I would ask for a point of personal privilege.

Chairwoman WATERS. The gentleman is recognized.

Mr. MCHENRY. I just want to take a moment to note a distinguished guest we have in the audience, and that is Mr. Clinton Columbus Jones, who worked on this committee for 24 years before making the jump to FHFA, where he is now the General Counsel. This is the room where it all started for Clinton. We will skip over the HUD time before that, Clinton.

[laughter]

Mr. MCHENRY. But I wanted to, on behalf of the committee and the 7 Chairs under which Clinton served, say, happy birthday. Today is Clinton's 32nd birthday.

[laughter]

Mr. MCHENRY. Happy Birthday, Clinton.

Chairwoman WATERS. Thank you very much for welcoming Mr. Clinton back in a different position. I don't want to know about him. I want to know about his son.

[laughter]

Mr. MCHENRY. Oh, that's so true.

Chairwoman WATERS. Thank you. I want to welcome today's distinguished witness, the Honorable Sandra L. Thompson, Director of the Federal Housing Finance Agency.

You will have 5 minutes to summarize your testimony. You should be able to see a timer that will indicate how much time you have left. I would ask you to be mindful of the timer and quickly wrap up your testimony.

And without objection, your written statement will be made a part of the record.

Director Thompson, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF THE HONORABLE SANDRA L. THOMPSON, DIRECTOR, FEDERAL HOUSING FINANCE AGENCY (FHFA)

Ms. THOMPSON. Chairwoman Waters, Ranking Member McHenry, and distinguished members of the committee, it is a great honor to appear at today's hearing. My name is Sandra Thompson, and I am the Director of the Federal Housing Finance Agency. I have had a 30-year career as a financial regulator. I served more than 2 decades at the FDIC, and just over 9 years at FHFA. I was sworn in as Director just last month after serving as Acting Director for the past year.

From my experience through two financial crises, I have learned that safety and soundness, and sustainable access to credit, work together to strengthen financial institutions, families, and the economy. Actually, sustainable access to credit requires prudent lending standards. The Enterprises have been in conservatorship for nearly 14 years, and their financial condition is a high priority for the Agency. Although the Enterprises are now retaining more of their earnings and building capital, it should be noted that there is still a long way to go to meet their regulatory capital requirements.

As of the first quarter of this year, Fannie Mae and Freddie Mac combined had more than $80 billion in capital reserves. In February, FHFA finalized important enhancements to the capital framework. These changes have enabled the Enterprises to improve their capital position and have provided them with the necessary incentives to transfer mortgage credit risk to private investors. This helps protect taxpayers while still requiring the Enterprises to hold a substantial amount of capital.

The housing market has faced several years of rapidly-rising home prices and limited housing supply. In addition, interest rates have risen nearly 250 basis points in less than 6 months, making housing affordability a real challenge. I share your concern about the struggle for many homeowners and renters to find an affordable place to live. FHFA is taking incremental steps to help increase the supply of multifamily rental housing by raising the Enterprises' Low-Income Housing Tax Credit (LIHTC) investment allocations, which is an important source of funding for new, affordable rental housing. We also require that at least 50 percent of the

Enterprises' multifamily business be mission-driven affordable housing.

FHFA has taken a number of steps to continue providing liquidity in underserved areas. We recently proposed new affordable housing goals for the Enterprises and asked them to strengthen their duty-to-serve plans. The statutory duty to serve is particularly important because of its focus on areas with a great need: rural and tribal areas; manufactured housing; and affordable housing preservation.

In addition, the Enterprises have recently published equitable housing plans to help identify and address barriers that prevent otherwise qualified homeowners from gaining access to mortgage credit, particularly in communities of color. Under these plans, both Enterprises will consider a borrower's positive rental history in the underwriting of a mortgage. This is data that has not traditionally been included in the calculation of credit scores. It is one step in a series of efforts the Enterprises are exploring to help expand sustainable homeownership opportunities for underserved populations and support a more-equitable housing finance system.

While there is a lot of attention on the Enterprises, the Home Loan Bank System is also important as it provides critical support for small and community banks. As we near the 100th anniversary of the Banks, now is a good time to reexamine their approach to ensure that they continue to serve the needs of today and tomorrow. We plan to engage a variety of stakeholders in the coming months as we complete this review, and, of course, we welcome the input of Members of Congress. These are just a few of the many ongoing initiatives at FHFA to fulfill its mission of ensuring the safety and soundness of our regulated entities and promoting access to affordable and sustainable housing.

Before I close, I would like to acknowledge and thank the dedicated public servants at FHFA who work diligently to accomplish our mission. And thank you again for the opportunity to testify before you. I look forward to working with the members of this committee and answering any questions you may have.

[The prepared statement of Director Thompson can be found on page 54 of the appendix.]

Chairwoman WATERS. Thank you, Director Thompson. I now recognize myself for 5 minutes for questions.

Director Thompson, FHFA has taken important steps under your leadership to begin to address the racial homeownership gap, including taking a close look at appraisal disparities, expanding the eligibility for more affordable refinance options, and publishing the equitable housing finance plans of Fannie Mae and Freddie Mac, which marks the first time the Enterprises have had to make intentional plans to redress racial inequities in their books of business. Can you tell us more about what your approach has been in targeting inequities in today's housing market, and what further steps you might take to help improve equitable access and fair pricing for historically-underserved and excluded borrowers?

Ms. THOMPSON. Thank you for the question. First, I am a career safety and soundness regulator, so everything that we do at FHFA has to be grounded in safety and soundness. After the last crisis, we learned a very valuable lesson, and the thing that I took away from that is that safety and soundness and access to credit are two sides of the same coin. They work hand in hand for the betterment of our country.

One of the things that we have done at FHFA is to focus not just on standard business that the Enterprises buy in terms of loans, but we have also asked them to focus on underserved communities. This includes rural areas, tribal communities, and other areas where there is just not enough access to liquidity. One of the more recent things that we have done is we have asked the Enterprises to look at previously-redlined areas and try to figure out what barriers exist for borrowers who are otherwise qualified, but are not able to access credit. We believe that some of the initiatives that the Enterprises will undertake in this area will benefit all homeowners and potential homeowners.

I will give you the example that I used in my oral testimony. One of the things that both Fannie and Freddie are doing is incorporating positive rental payments into the underwriting calculation. This is practical. A home or rent payment is the largest payment most people make every single month, and if people are able to pay their rent on time, why shouldn't those payments be considered in terms of determining whether they are able and/or willing to pay?

So, this is an opportunity that was included in the equitable housing plan, but it applies to all borrowers or all renters, and we just think that things that can be impactful will impact the entire population.

Chairwoman WATERS. Thank you for that answer. I would like to go on. While the skyrocketing appreciation of home prices during the pandemic has put homeownership even further out of reach for many, research from the Urban Institute has shown that there are still some communities throughout the country where homebuyers can purchase homes for less than $100,000, but only if they can pay all in cash, because mortgage lenders are unwilling to make such small mortgages. In 2019, over a quarter of all home sales were for homes priced at or below $100,000, yet only 1 in 4 were financed with a mortgage. These are some of the most affordable homes in America, and they are out of reach because of a lack of financing.

Is there anything that FHFA can do to help encourage more small-dollar mortgage lending? Is there any legislative authority that you need to tackle this issue? I am certainly interested in working with you on it.

Ms. THOMPSON. Certainly, and we believe that small-balance loans and providing financing for those loans are very important, whether it is to purchase or refinance. One of the items that we have directed the Enterprises to look at this year, and it is in the scorecard that sets the 4th-year priorities, is to look at ways to enhance more small-balance loans. And we will be happy to work with the committee on any legislation that would be helpful in that area.

Chairwoman WATERS. Thank you very much, and I will now call on the ranking member, Mr. McHenry, for his questions.

Mr. MCHENRY. Thank you, Madam Chairwoman, and Director Thompson, thank you for your career in public service. Your skill set is well-tuned to being a safety and soundness regulator because that is what your career is in. So, although markets are different than your previous career, you have the skills for this, and I am grateful for that, especially considering how large the portfolio you oversee is and how important it is to the American economy.

But let's start with oversight. Under the statute, you have a requirement to testify annually, so is it your intention to follow that statute?

Ms. THOMPSON. Sir, it is my intention to be at the call of the committee whenever they request me to come up, with the Full Committee or individual Members. I am happy to do that.

Mr. MCHENRY. Thank you. We are concerned about transparency. You have a very important agency. You don't have a statutorily-broad requirement for transparency other than the testimony piece of that, and so we would like to hear more about your plans going forward.

But let's start with what you oversee, which is the housing market. We had an all-time low mortgage rate of 2.65 percent, and 18 months later, we are back to 6, 7 percent mortgages. We have inflation. Give me your view on the outlook of the housing market.

Ms. THOMPSON. Sure. The housing market has been very volatile in the past 6 months. As you have mentioned, we went from record low interest rates to an increase in interest rates, almost 250 basis points in about 6 months' time. And we have also had a persistent supply issue or a lack of not just affordable supply, but supply generally. When you look at the rising interest rates, when you look at the lack of supply, you also have seen an historic increase in home prices, which is tempering just a little bit.

But when you look at all three of these components, it is really difficult from an affordability perspective to have borrowers, or prospective borrowers, be able to get homes. Certainly what they could afford 6 months ago, they can't afford now, because the interest rates have almost doubled. And it is just an environment that is very challenging, and the supply issue is also quite challenging because there just isn't enough supply, especially at the entry level, for persons to enter homeownership. We look at the characteristics of the mortgages that both Fannie and Freddie are buying. We look at interest rates.

And, in fact, after 2021, which was a record year for refinances, we looked at the portfolio. And there were still mortgages on the books that had been there for a while, that had interest rates of over 5 percent, and we were just wondering why people were not refinancing or taking advantage of those opportunities. We look at trends, we look at risk characteristics, and we look at loan factors so that we can make assessments on the risk profile, of the profile of the Enterprises.

Mr. MCHENRY. Okay. Let's get to that risk profile. Congress, from time to time, has had plans to have these Enterprises exit from conservatorship, and the Republican side of the aisle put out a bill for two Congresses on that. We welcome discussions from our committee Democrats on this, and we welcome the housing finance reform discussion, and this hearing gives you an opportunity to say that to them publicly. But along those lines, there are pros and cons to conservatorship and for this sort of halfway point that we have that you are overseeing. What are the cons? What are the pros?

Ms. THOMPSON. First, after coming from the FDIC, I don't think it was anybody's expectation for the Enterprises to be in conservatorship for 14 years, but I would say that some progress has been made just in terms of standardization, in terms of alignment. When the pandemic arose, for example, we were able to call the Enterprises together and put together new policies for loss mitigation so that borrowers who were impacted would have opportunities to be reinstated with your mortgages, and the pandemic wouldn't be as impactful as it was. And servicing standards have been aligned, data has been aligned for the mortgage industry, so there has just been a lot of positive improvements over time.

The one issue in terms of a con, I would say, is just the uncertainty about the status of the Enterprises. I am the sixth Director, and this issue has been in place for four Administrations, six Directors, and continues just in terms of, what is the future of the Enterprises? How are we going to get together? And it is just the uncertainty that is about the future that probably needs to be addressed by the Congress. But I do think that there are pros and cons, and I do think that the decision as to what happens certainly is up to Congress.

Mr. MCHENRY. Thank you.

Chairwoman WATERS. Thank you. The gentleman from New York, Mr. Meeks, who is also the Chair of the House Committee on Foreign Affairs, is now recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman. Thank you for having this very timely hearing, and congratulations, Ms. Thompson, on being the Director of the Federal Housing Finance Agency. We know that you are going to do a very great job at it.

Director Thompson, one of the things that I have found to be a huge barrier to homeownership in communities of color in particular is they are crippled by student debt, and it serves as a massive hindrance to being able to make the next step towards generational wealth building. Many years ago, that was one of the things that was hard for me. I had all of this student debt, but I wanted to buy a house, and there is a different consideration. This debt has serious implications for qualification for loans. That is what happened to me, but the student debt is not always treated the same by the various GSEs.

I have a bill called the Expanding Homeownership for Borrowers with Student Debt Act, which requires certain agencies to more fairly treat student loan borrowers looking to obtain an affordable mortgage through various programs. What are the positive impacts that this type of uniformity and alignment can have on student borrowers as their student debt is assessed for loan qualifications, regardless of where they seek out their loan?

Ms. THOMPSON. Thank you for the question, and student debt certainly is taken into consideration in different ways throughout the mortgage industry. And this is definitely an area that we would be able to work with you on in terms of trying to figure out how it is assessed today, and how it should be assessed going forward, in terms of homeownership and also the impact on credit scores.

Mr. MEEKS. Yes, I would love to work with you on that, and I will have my office follow up with yours because I am still a big believer that the way that we close the wealth gap is homeownership. Look at folks today, even within the middle of this crisis, with the cost of rent, I am still trying to get people to be homeowners. And working with you and trying to figure that out is something that is of huge importance to me, and I have used a lot of times, looking at the young people in my district, I have found that there has been a dramatic growth in fintech innovation leading to some rapid changes in our financial markets, particularly in the housing space, where fintechs are changing the landscape of how underwriting and mortgage processes operate, including loan origination and assessing credit risks.

Given this rise in fintech, and I see all the young people, they are just online. When my daughter was buying a house, they didn't go to the bank. They went to a fintech. But I know that just this week, you announced the establishment of the Office of Financial Technology at FHFA, which aims to evaluate the use of fintechs in housing finance. What are some of the benefits as well as the risks you expect the Office to identify, and will this Office look to put racial equity at the forefront of their engagement with these issues?

Ms. THOMPSON. Sure. Thank you, and we did this week establish an Office of Financial Technology. And, as you mentioned, financial technology, or fintech, is used in the mortgage process, and we need to get a better understanding of what these products are and how they are used, and to make sure that they are used in a safe and sound manner. We do think that there are opportunities to use technology in the mortgage process because it takes a very long time to go from application through closing. And there has to be a way to try to make the mortgage process cheaper for the borrower, faster, and also when you use technology, you often get good risk management practices.

One of the things that I have mentioned, and this is something that we have learned during the pandemic, is that when the interest rates were really low, people were trying to take advantage of refinances, and to refinance, you have to have an appraisal. The appraisers didn't want to go into the homes, and nobody wanted to let appraisers in, because this, again, was when the pandemic started, and we were able to use technology in a very meaningful way and introduced desktop appraisals, and that is now one of the staples of the Enterprises. It is one of the things that we learned during the pandemic that we have now made a permanent policy. And we think that these types of tools can be helpful in the mortgage process in terms of making it shorter and also more efficient in bringing risk management to the process.

Mr. MEEKS. Thank you. I see I am out of time, so I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman, and I am so very pleased that we are having a most relevant housing hearing at last. Director Thompson, I thank you for joining us today. It has been far too long since this committee has been able to perform its duty to conduct oversight at your Agency. I appreciate your willingness to be transparent and to be willing to take our calls and meetings.

With your significant safety and soundness regulatory background at FHFA and previously at the FDIC, what precautionary and preemptive steps are you taking with the GSEs as they head into these economic headwinds—that is all we can call them—of interest rate hikes, a lack of housing supply, unsustainable home price appreciation, and inflationary pressure?

Ms. THOMPSON. Thank you for the question, and, again, I am a lifelong safety and soundness regulator, and we take that responsibility very seriously, but we also couple that with access to credit. I just want to really be clear that when we talk about access to credit and we talk about affordability, we are also talking about sustainability. Our work with the Enterprises is really grounded in safety and soundness, and we want to make sure that borrowers have loans that they understand and loans that they can afford. And from our perspective, it just doesn't make sense for a borrower to get into a house and not be able to keep a house, so we are really focused, laser focused, on sustainability.

Mrs. WAGNER. These are very rocky times and we don't want people to get in over their head, and we hope that there will be more settling down and stability in the market. Whether you agreed or disagreed with his views, your predecessor had a clear vision for the Enterprises and a plan to get them out of conservatorship. What is your vision for GSE reform?

Ms. THOMPSON. We are taking steps to make sure that the Enterprises are run in a safe and sound manner, and that they are continuing to build capital. As you know, the Enterprises were just allowed to retain all of the capital that they earn, just over a year now. And between the two of them, they have about $80 billion in capital, so we are consistently allowing the Enterprises to build capital. We are also putting in place the provision to allow them to transfer credit risk away from the Enterprises and also the taxpayers to private investors. As you know, the Enterprises are probably the largest holder of mortgage credit risk in the country, and to move that credit risk to the private sector, we think is really important. So, there are a number of steps that we are taking—

Mrs. WAGNER. And let's talk about that for a minute because, Director Thompson, under your leadership the FHFA revised your predecessor's capital rule, which will result in the Enterprises holding less capital, and therefore, being more vulnerable to losses that the taxpayers will have to bear. Director Calabria's rule would have required the Enterprises to hold around $250 billion combined capital, which was above their previous $45 billion capital on retained earnings. In revising the rule, did FHFA calculate what the impact of the changes to the capital rule would be in terms of how much capital the Enterprises would be required to hold?

Ms. THOMPSON. Yes, another good question. We did take into consideration the capital requirements. The reason that we changed the rule was to really help facilitate credit risk transfer. A credit risk transfer program is really important because again—

Mrs. WAGNER. I am running out of time. Do you have a specific number? Can you describe the process, something? That is what I am looking for here.

Ms. THOMPSON. Okay. I think the number that was going to be required before was $316 billion, and now is $300 billion, and there was a de minimis change. But the purpose was to really move the credit risk to the private investors.

Mrs. WAGNER. So, you are going to make sure that they are holding around $300 billion in combined capital?

Ms. THOMPSON. That is the requirement, and, of course, that changes based on the amount of assets that they hold.

Mrs. WAGNER. As we don't want to weaken the capital buffer as we are heading into what could potentially be a recession, do you agree that it makes more sense to strengthen the capital reserve at Fannie and Freddie to avoid another taxpayer bailout?

Ms. THOMPSON. Yes, I do agree that it is important to strengthen the capital reserve, but we also think it is important to transfer credit risk outside of the system to private investors.

Mrs. WAGNER. Thank you for your input, and I yield back.

Chairwoman WATERS. Thank you. The gentleman from Georgia, Mr. Scott, who is also the Chair of the House Agriculture Committee, is now recognized for 5 minutes.

Mr. SCOTT. Thank you, and the first thing I want to say is, congratulations. You have made history, and you are now the first woman ever to lead this most important Agency at the right time with the right person. Congratulations.

First, Director Thompson, I want to ask you this. Back a couple of months ago, in April 2022, your Agency directed servicers of Fannie Mae and Freddie Mac loans to pause foreclosures for up to 60 days upon notification that borrowers applied for pandemic mortgage relief. Can you provide us with a specific number of mortgages impacted by your decision?

Ms. THOMPSON. Certainly. We think that the Homeownership Assistance Fund (HAF) program is really important. It was a provision put in place to help both borrowers and renters. One of the reasons we put the provision in place to put a halt on foreclosures was that we didn't want borrowers or renters to be adversely impacted when they were trying to get access, and then have a concurrent foreclosure or concurrent eviction. We don't have the specific numbers of all of the borrowers who have been advantaged by that program, but we do know that of the borrowers who were placed in forbearance plans by the Enterprises, about 96 percent of them have now exited those plans.

Mr. SCOTT. They were successful in reducing a borrower's monthly payments then. What is your Agency's projection of how many homeowners will be unable to resume regular mortgage payments after they leave forbearance, and what do you expect will be the outcome for them?

Ms. THOMPSON. Sure. At the start of the pandemic, about 2.2 million borrowers entered into forbearance plans. Today, there is probably about 90,000 some-odd borrowers who are still in forbearance plans. Ninety-six percent of borrowers who entered forbearance plans have exited them. And what we found particularly interesting was that there are a number of people who were in these forbearance plans who continue to pay, even though they had signed up for the forbearance, and we put in place a modification so that borrowers would not be as severely impacted as they otherwise would be if they had the option to defer their payment.

And then the deferred payments, they could reinstate them, or they could pay them over time, or they get tacked on to the end of the mortgage. But there were lots of modifications that were put in place to keep borrowers in their homes. And for the almost 100,000 who are left, they are in modification programs, and we are hoping that they will have successful workout solutions.

Mr. SCOTT. Director Thompson, I want the nation to know, because one of the most startling statistics when we are discussing racial inequality in housing is this, that the Black homeownership rate has remained virtually the same as it was in 1968. This is startling. And right now, there are thousands of young people in my district and all of our districts, and millions across the nation with a dream of owning their own home one day, but who simply cannot afford mortgage payments. Let me ask you this: What steps is your Agency taking to ensure that first-time homebuyers and first-generation homebuyers, who would like to earn generational wealth, can realize their goal of homeownership?

Ms. THOMPSON. Thank you. And, again, certainly to your point, there were a lot of gains that were made, but they were lost in the Great Recession as we saw record numbers of foreclosures, particularly in communities of color where there were a lot of predatory loan practices. Having said that, one of the ways to close the equity gap is through homeownership. And we want to, again, put in place, or Fannie and Freddie have programs in place that allow creditworthy borrowers to take advantage of first-time homebuyer programs where they have homeownership education and they understand what homeownership means.

One of the provisions they put in place that we think will be really beneficial is incorporating the rental payments into their credit scores because some people don't have credit built up.

Mr. SCOTT. Thank you so much, and, again, congratulations. I look forward to working with you.

Chairwoman WATERS. Thank you very much. The gentleman from Texas, Mr. Sessions, is now recognized for 5 minutes.

Mr. SESSIONS. Madam Chairwoman, thank you very much. Director Thompson, thank you for taking time to be with us today. I have a piece of business that I simply want to bring to your attention. Madam Chairwoman, I have a letter that I would ask unanimous consent to have entered into the record.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. SESSIONS. Thank you very much. This is a letter that I have. Republicans—I am a Republican—have been working with the Secretary of Housing and Urban Development for months on getting more housing in Texas, and we believe that there are rules and regulations which could be waived by the Secretary. In essence, it goes through it here. I just want you to be aware of it, and I am going to make sure that your staff gets a copy.

But what we are trying to do is get the Secretary to look at ways within her discretion that she could waive some rules, allowing more building without having to tear down something that corresponds to that. Like, it is a 1-to-1 ratio when in Texas, we need more housing. And I just appreciate your attention that you have not been brought into this, but I want you to be aware of it. The young chairwoman is also getting this for the first time.

Director, I am interested in hearing from you about the President's call across all of government as it relates to equality and gender, about how you apply that within your Agency and how that is being applied to the loan-making process.

Ms. THOMPSON. Thank you. Certainly, we at FHFA are responsible, as are all of the other financial regulators, for adhering to the Fair Housing Act, which looks at equality and housing—

Mr. SESSIONS. Yes, madam, but you were given that under the law also. I am talking about specifically anything new or different that you may have undertaken. What I am particularly interested in is that it be applied equally to everyone else, too, not necessarily to a selected group. And I do think it is important, as the President has noted, that they pay close attention, but I want to ask, have you taken other facts or factors into play as a result of that direct order from the President?

Ms. THOMPSON. Our primary objective is to comply with the law and to make sure that it is applied in our regulated entities. We certainly look at programs and policies, but we, again, first, want to make sure that they are in compliance with the regulations that undergird our authority. And so, again, the Fair Housing Act probably has more credence to looking at certain characteristics, but we want to make sure that the programs and policies that are applied at Fannie and Freddie apply to all persons who are eligible and meet the criteria.

Mr. SESSIONS. In other words, you have not utilized any different discretion. You have not utilized anything necessarily different with the President's request?

Ms. THOMPSON. I don't think that I have done that.

Mr. SESSIONS. So, you have not done anything. You looked at the law. You looked at the law as needing to be fair and equitable anyway, and you have not undertaken any steps within these agencies to direct them or to have them change the processes that would have been available under the law. That is what I hear you saying.

Ms. THOMPSON. That is correct, sir.

Mr. SESSIONS. Okay. Thank you very much, because we are very interested in the success that you have spoken about of being fair and doing these things because with the increase of interest rates, it is becoming even more critical for people to land within housing that is properly within their scope.

The chairwoman and I lived through what happened in 2008 and 2009, and we want to make sure we are not going to create any sort of a bubble, any sort of an articulation of Federal policy that would do anything other than follow the law as it has been and as it is now. And I appreciate the gentlewoman for her testimony before this committee. Thank you very much. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. It is an honor to serve under your leadership. And I would like to thank the Director and salute her for having the opportunity to serve in such a high capacity within our government. I am confident that she will do a stellar job.

Madam Director, I would like to address two issues. The first has to do with something that you have caught our attention about, which is purchasing homes. People who can pay rental payments timely are likely to be able to make a mortgage payment timely. This is something that I concur with. In fact, I concur with it to the extent that I can share with you H.R. 123, a piece of legislation that I have filed in multiple Congresses, called the, Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act, "reauthorization," because we actually passed it in Congress once. So, I salute what you are doing, and I would like to have you take a look at my H.R. 123 because I am curious as to whether you think that it might, in some way, conflict with what you are doing currently.

I salute what you are doing. I don't think we can do too much to help people who need some opportunity to own property, which is a means by which they can build wealth. H.R. 123 would have additional credit scoring in the area of rental payments, light bill, gas bill, water bill, phone bill, and other things that are not automatically scored. They would then become a part of a pilot program to have them scored such that we can examine not only the efficacy of simply scoring, but also the mechanics of doing it. I think it is a pretty good bill. I have sponsored it multiple times, and I would like to have you take a look at it, if you would, to give me some commentary as to whether or not it would conflict with what you are attempting to do with your program. I yield to you for a comment, please.

Ms. THOMPSON. Sure. We are happy to work with you on this very important issue. We do believe alternative data in evaluating credit is very important, and we are happy to look at the bill.

Mr. GREEN. Thank you. I will make sure that we get it to you immediately, if not sooner. Now, I am also concerned about the lack of homes available to first-time homebuyers, for persons who are wedding, young people, Millennials and Generation Z, or persons who are trying their very best to get into their first home.

I am concerned because at a hearing under the leadership of the Honorable Maxine Waters, one of the things that I discussed at the hearing was a concept known as predatory purchasing. We have these major corporations with deep pockets that are buying properties out from under first-time homebuyers, and they are converting these to rentals. They with their deep pockets can make cash offers. The cash offer, in and of itself, will shut out a good many persons who have to purchase with credit. My concern is with the predatory purchasing and how it is impacting the housing market. Currently, I have some indication that we need some 300,000-plus, 328,000 new apartments annually to meet the demand. That demand is being thwarted to a certain extent by this predatory purchasing, in my opinion.

Are you familiar with what I speak of, and if you are, can you give me some thoughts as to how we might manage to let young people have the opportunity to purchase their first home, to keep homes on the market for first-time homebuyers as opposed to having them become rentals wherein persons with these deep pockets can raise rents and it becomes very profitable for them, but it doesn't help those who are seeking homes? I yield to you, Madam Director.

Ms. THOMPSON. Okay. We are very familiar with that issue, and in 2018, we prohibited the Enterprises from engaging in sales with large institutional investors, and this is particularly true in the single-family rental space. I think both Enterprises had pilot programs and we stopped those, and they are no longer able to purchase these loans or these homes from these large institutional buyers. One of the things that we are doing on the Enterprises' real estate owned (REO) portfolios is we have what is called a First Look Program, and it is a 30-day window where an owner-occupied or potential owner-occupied person has an opportunity to bid on the loan or a nonprofit.

And there is a 30-day window whereby which owner-occupied potential tenants or borrowers can take a look at these properties before investors start purchasing them. And I do think it is important that we make homeownership affordable in that all people have the opportunity to purchase these mortgages, especially those who can't afford to pay cash.

Mr. GREEN. Thank you, Madam Chairwoman. My time has expired. Thank you so much.

Chairwoman WATERS. The gentleman from Florida, Mr. Posey, is now recognized for 5 minutes.

Mr. POSEY. Thank you very much, Madam Chairwoman. Time expired while Director Thompson was answering Congressman Greene's question. I am willing to allow her some extra time if she wanted to expand her thoughts on a little bit further.

Ms. THOMPSON. Thank you. I am fine. Thank you.

Mr. POSEY. Okay. We still call them Government-Sponsored Enterprises, or GSEs, but for the last 14 years, Fannie and Freddie have been government agencies, pure and simple. I am just curious about what FHFA leadership has done to improve the safety of the loans securitized by these agencies?

Ms. THOMPSON. When we look at the Enterprises' portfolio, because of the low interest rates, a lot of the risk was removed through refinances where people were able to reduce their mortgage payments. We also have seen an increase in home prices, which means that the loan-to-value ratios have decreased on the Enterprises' portfolio, which means that homeowners' equities have increased. And we think that the portfolio, as evidenced in terms of how it performed during the pandemic, is in a very good position to weather a storm. We do monitor the loan characteristics that the Enterprises' purchase, and we make sure that they are operating in a safe and sound manner. Again, we do take a look from a safety and soundness perspective at every single thing that the Enterprises do, and we want to make sure that they continue to be in good financial condition.

Mr. POSEY. Thank you. Now, the FTC and the Justice Department are apparently reviewing the merger between mortgage software firms, ICE and Black Knight. I am just wondering if you have any concerns about this Big Tech merger and its potential impact on the GSEs and ultimately on consumers.

Ms. THOMPSON. I don't have any thoughts on that particular issue, sir.

Mr. POSEY. Okay. Do you have any plans to remove Fannie Mae or Freddie Mac from conservatorship?

Ms. THOMPSON. Excuse me, could you repeat the question? I'm sorry.

Mr. POSEY. Do you have any plans to remove Freddie or Fannie from conservatorship?

Ms. THOMPSON. Sir, we are working on, again, approving the financial condition of the Enterprises. We think that the future state of the mortgage secondary market ought to be determined by the Congress, but, again, we are taking steps to allow them to build their capital. They are transferring credit risk. We also implemented a capital planning requirement for both Enterprises as well as a capital disclosure where they have to disclose information about their capital position. We think that those things are steps that move them towards taking good steps to move towards whenever they are out of conservatorship.

Mr. POSEY. Okay. Thank you. Data from your Agency says that Fannie and Freddie purchased 62 percent of all mortgages originated in 2020, and purchased, on average, 54 percent each year from 2002 to 2020. What is the Administration's vision for increasing the role of the private sector market in the secondary mortgage market?

Ms. THOMPSON. I know that the Enterprises really play a countercyclical role in the mortgage market as evidenced by what happened after the Great Recession and also what happened in the pandemic. I think when there were sources of liquidity that were not available to borrowers across the country, the Enterprises did step in. So, we do believe that there is a role for the Enterprises. They play a countercyclical role, and they certainly did step up and make purchases during and after there is a crisis, in particular the pandemic.

Mr. POSEY. Given what happened before the financial crisis, would it make sense to limit government exposure in the secondary market to those activities that meet our objectives for low- to moderate-income homeownership and leave the remainder of the markets to the private sector?

Ms. THOMPSON. I think the statute requires us to provide liquidity to all Americans across the country, and based on their eligibility, borrowers can get mortgage loans. So, I think that would be something that would have to be decided by the Congress.

Mr. POSEY. Very good. I thank you for your direct answers, and I yield back the balance of my time.

Mr. CLEAVER. [presiding]. The gentleman yields back. I now recognize myself for 5 minutes.

The gentleman from Texas, Mr. Sessions, had mentioned a few minutes ago the 1-for-1 HUD policy—well, he didn't mention the 1-for-1 HUD policy, but there is a 1-for-1 HUD policy. We can only build a new unit or financially support a unit that has been demolished, and we ended up having a number of those during the Hurricane Katrina crisis. The chairwoman and I, along with Mr. Green, toured some of those projects. But in all of the projects in which all of the units had been damaged and needed to be demolished, we ended up, I think, replacing one unit because of the policy. And if the gentleman from Texas is interested in that, it is something that we can address, but only with an increase in the HUD budget, which we have tried to do almost each year, and it is not anything that I think FHFA is involved with. It is a HUD policy. But let me say that I would love to work with Mr. Sessions on dealing with that issue and on increasing the HUD budget.

My home district would not be this high, but the average housing price is over $500,000 in the United States. As I said, in my district, it would be less, and so we are always looking for ways in which we can construct badly-needed affordable housing. And one of the things that I have become quite interested in is the CrossMod homes. They are manufactured homes. They are built to meet construction and architectural design standards, and they are also consistent with site-built homes. We have a number of problems. One of them is that there appears to be an appraisal bias against the HUD code label, which has distorted and made inaccurate appraisals of these homes. And I am trying to figure out ways in which we can remove the barriers for a significant source of affordable homes for American families.

And so I am hoping, Madam Director, that you can address in some way, both here and in your policies, CrossMod homes, by addressing the barriers to their adoptions, such as ensuring Enterprise guidance will ensure accurate appraisals. If we don't get accurate appraisals, we are not going to be able to move to this form of housing, which has changed dramatically from when I was a kid, when nobody wanted anything to do with it. You wanted to move away from it, but now they have changed and they meet most standards. But is there a way in which appraisals can be examined to allow these CrossMod homes to be acceptable?

Ms. THOMPSON. Yes. We believe that manufactured housing can be a huge benefit to addressing the housing supply issue. We are very much aware of the CrossMod appraisal issue, and we are working with our regulated entities to see what flexibilities there might be in that particular situation.

Mr. CLEAVER. Are you having any ongoing contact about these homes?

Ms. THOMPSON. Yes. Actually, there was a housing event on the Mall, and I went, and walked through, and actually saw those CrossMod homes and the manufactured housing that was there, and it was just like you said, something that I hadn't expected and hadn't seen. The issue about the appraisals was raised with me directly as I was taking a tour through those homes. And we have committed to working with the Enterprises to look at the specific issue that relates to appraisals for these properties because, again, with the supply issue being so acute, we just believe that this could be a really good solution.

Mr. CLEAVER. Yes, I am surprised. I was surprised at the new direction they are taking, and they were trying to attract congressional attention on them.

My time has expired. Thank you very much, Madam Director.

The gentleman from Missouri, Mr. Luetkemeyer, is now recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman, and Director Thompson, welcome. It's good to see you. The capital rule you proposed recommends combined required capital for Fannie and Freddie of somewhere between $250 billion and $300 billion. This morning, you mentioned that $300 billion is your target. I'm glad to see that. I know we had lots of discussions with your predecessor with regards to this. I think this Agency was tremendously undercapitalized, and I think getting it there is where we need to be. As a former regulator, I am sure you understand the importance of capital to an entity, and we are certainly glad to see you there. Do you think $300 billion is a point at which the conservatorship can end?

Ms. THOMPSON. I think that when the Enterprises meet the capital targets, that is one component of exiting conservatorship. There are other factors that need to be taken into consideration, certainly conversations with the Treasury about the senior preferred shares. There are conversations with the Federal Reserve about certain policy issues, like single counterparty, what happens if the Enterprises exit and what other significant institutions have exposure to the Fannie-Freddie stock. There are just a number of issues that really need to be worked through that. Meeting the capital target alone just won't answer those questions.

Mr. LUETKEMEYER. Okay. One of the things that you have commented on a couple of times and I am excited about, quite frankly, because, again, I had a lot of discussions with your predecessor with regards to moving some of this risk to the private sector, getting to the secondary market. Can you give me an amount or percentage of what you think is adequate and what your target would be on it?

Ms. THOMPSON. We set targets for the Enterprises to transfer credit risk each year through our scorecard, and they have to transfer, I think it is 90 percent of certain loans, the risky loans. I think the loans have a loan-to-value ratio of 60 percent or higher. So, we look at the Enterprises' books, and, again, as you know, the Enterprises are the largest holders of mortgage credit risk. We want to make sure that they transfer, through either the capital market structures or reinsurance structures, a great amount of this credit risk to private investors so that if there is something catastrophic, the risk is not undertaken or borne by just the Enterprises or the taxpayers, and that private investors are bearing some of that risk.

Mr. LUETKEMEYER. I think it is fantastic. I think moving those things off the books to the private sector is extremely important. I'm just kind of curious, and I know my colleagues will kind of laugh when I ask the question because I am well known around here as being concerned about the current expected credit losses (CECL) ratio all the time. I know, again, in discussion with your predecessor, he indicated this would be something you would have to consider. Are you working with the new CECL regulations at this point and adjusting your reserves for that accounting rule?

Ms. THOMPSON. Yes. I am certain that our Office of the Chief Accountant is working on that.

Mr. LUETKEMEYER. You are not sure it will be effective at this point?

Ms. THOMPSON. Yes. I am not sure what the effect is right now.

Mr. LUETKEMEYER. Okay. I see my good friend, Clinton, back here. He can help me get that information, I assume. Okay. He is nodding. Thank you very much. Again, one of the things that is concerning right now, especially in this particular climate, is inflation and the proposed taxes out there that I think hurt the affordability of housing. You mentioned it a number of times. Leadership that has been here this morning talked about affordability and the ability of people to afford homes, and the high cost of those things.

It is interesting. Yesterday, I got some numbers that just floored me. The latest numbers show that cost of goods and services will cost the average American household over $8,600 a year. That is $165 a week in lost purchasing power compared to what they had a year ago. That is unbelievable. That hurts their ability to make those house payments that you have on the books right now with folks. Do you have the ability to talk to the President about affordable housing?

Ms. THOMPSON. I have actually talked to the President about affordable housing.

Mr. LUETKEMEYER. You talk, too, about the inflation problem in this country with regards to the increased value of homes and the increased cost of building homes, and then the lack or the hit that the wages are taking, so that there is this twofold problem: it costs more to purchase a home, yet you have less buying power for the individual. Do you talk to him about that?

Ms. THOMPSON. I think there are a number of people who talk to the President about those issues.

Mr. LUETKEMEYER. Madam Director, it is your job to worry about the housing industry, about the availability of affordable housing. You should be in front of his desk with your hand, getting some attention, "Mr. President, this is a huge issue for my Agency and the people of this country." Are you not having that discussion?

Ms. THOMPSON. We have discussions with all of the housing regulators and all of the interested parties.

Mr. LUETKEMEYER. Including the President?

Ms. THOMPSON. With the Economic Council, whether it is national or domestic.

Mr. LUETKEMEYER. Including the President?

Ms. THOMPSON. I have had conversations. I have been in a briefing with the President to speak about housing issues.

Mr. LUETKEMEYER. I am curious about your response.

Mr. CLEAVER. Thank you. Your time has expired.

Mr. LUETKEMEYER. Thank you.

Mr. CLEAVER. Mr. Luetkemeyer, thank you. The gentleman from California, Mr. Vargas, is now recognized for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman. Director, first of all, I want to congratulate you, like my colleagues, and I think you are the right person in the right place at the right time, and I also appreciate your background very much.

Why don't we start with inflation? Mr. Luetkemeyer brought it up, and I think it is a good idea to start with that. What is the inflation rate in England right now? Do you know?

Ms. THOMPSON. I do not.

Mr. VARGAS. It is a little higher than ours. It is 9.4 percent. We are at 9.1 percent. In fact, if you looked at a lot of the industrialized countries, the advanced economies, they are running a little hotter than ours. We have an advantage that our unemployment rate is lower than theirs and lower than many of these countries.

But anyway, when my colleagues on the other side talk about inflation, they make it seem as if it is only in the United States and only because of the American President that we have inflation. That is not true. The reality is, inflation right now affects the whole world, especially advanced economies. Anyway, I wanted to bring that up because they always have a good time beating up on all of the people who come here about inflation as if it was only in the United States. I agree that we have to do something about inflation, but at the same time, it is the pandemic that has caused all of this and now, of course, the war in Ukraine.

I do want to ask a little bit about the issue of housing inflation. Over the last 40 years, the average U.S. house price has increased by more than 470 percent because of the increased cost of labor, constrained supply chains for housing materials, and local zoning restrictions. Many families are being priced out of the American Dream. In my district alone, the median list price for homes increased 14 percent last year, making San Diego one of the most expensive housing markets in the country. Can you speak to this aspect of inflation and how this recent housing depreciation impacts Americans in need of affordable housing?

Ms. THOMPSON. Sure. Again, the rising home prices and the rising interest rates mean that borrowers cannot purchase as much as they could even 6 months ago, and then the supply issue that is just really acute, has exacerbated affordability. We are starting to see just a little bit of easing in the increase in home prices. Last year, we had a record increase in home prices, I think it was about 18.5 percent year over year. We are starting to see that slow down a little bit across the country. But there are pockets, as you mentioned, where there are huge increases in home prices, and it is really exacerbating the affordability issue.

So, we do look at that, and we are trying to figure out ways to be helpful. In terms of the multifamily business line, they are creating multifamily—Fannie and Freddie, in particular, are purchasing multifamily loans, and every loan that they purchase, about 50 percent of them have to be affordable. In addition, we have expanded LIHTC allocations, which go to very affordable housing across the country. And so, again, while Fannie and Freddie are not directly involved in supply issues, there are ways that they can try to be helpful.

Mr. VARGAS. Another concern of mine is that now that we are sliding out of the pandemic, and the help that we provided for homeowners and renters is basically going away, there will be people who can't afford to pay their mortgages and they will need some flexibility. Have you done any studies to look at how many people will be foreclosed upon because of this issue, and what can we do?

Ms. THOMPSON. I can tell you that when the pandemic started, there was a little over 2 million borrowers who entered into forbearance programs, and today, there are less than 100,000. I think there are about 94,000, 95,000 borrowers who are still in forbearance programs. The Enterprises have very effective loss mitigation programs, so when borrowers get in trouble, they can contact their servicers, and they can go into a workout solution that would allow them to modify the loan or defer the payment. So, we are really focused on home retention, and for those borrowers who are in trouble, they can contact their servicers and really try to get a loan modification or workout.

Mr. VARGAS. Okay. I think you are the right person at the right time for all this, and again, I thank you for your service. I wish you the best of luck, and I hope you do come back to us every year. Thank you for being here. Thank you, Mr. Chairman. I yield back.

Mr. CLEAVER. The gentleman yields back. The gentleman from Kentucky, Mr. Barr, is now recognized for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman. And to my good friend from California, I would just note that inflation rates for most recent months in the selected countries that belong to the Organisation for Economic Co-operation and Development (OECD), the industrialized countries, the vast majority of those countries, including all but one G7 country, have inflation rates lower than the United States. And the countries that have higher inflation rates are, in large part, those countries that are uniquely impacted by the Ukraine situation. What is different about the United States is bad fiscal policy compounded by monetary policy errors. And so, to my friend from California, if you are wondering about the unaffordability of gas and groceries and housing, we need to look at our own policies with an eye towards reversing the course on overspending and constraining supply, such as constraining the supply of energy.

But let's talk about the safety and soundness of the Enterprises and get back on topic, Director Thompson. I am concerned about the increased risk-taking by the Enterprises under various initiatives that have been recently announced by FHFA and/or the Enterprises. One potential check on excessive or creeping risk-taking by the Enterprises is maintaining a robust role for private capital in pricing credit risks ahead of and alongside the Enterprises. This is obviously one reason that the charter requirement for private credit enhancement for higher loan-to-value mortgages exists. Requiring the Enterprises to programmatically issue credit risk transfers is another mechanism which provides an independent market base check on the risks that the Enterprises are taking. And I compliment the Director for working to recalibrate the Enterprise Regulatory Capital Framework to enable more credit risk transfers.

My question is, can you tell us specifically what FHFA is doing to ensure that the Enterprises continue to shed this risk to private markets through a variety of executions and counterparties to help limit taxpayer risk, and explain that tweak to the regulatory framework?

Ms. THOMPSON. Sure. Thank you for the question. Credit risk transfer is something that is really important from a safety and soundness perspective. We can't have what happened in 2008 happen again, and the Enterprises are, again, the largest holders of credit risk in the country, so the Credit Risk Transfer Program that was started in 2013 has been very effective. There are a number of ways to transfer credit risk into the private sector so that if there is an unexpected or catastrophic loss, the private sector is helping to offset some of those losses, because otherwise, it would be on the backs of the taxpayers.

Every year, we set forth credit risk transfer requirements for the Enterprises, and we meet with them on a regular basis to make sure that they are effectuating those transactions. And again, everything that we are doing is going to be undergirded by safety and soundness, because their financial condition is so important to us in making sure that what happened before doesn't happen again.

Mr. BARR. Let me also talk to you about your role on the Financial Stability Oversight Council (FSOC) and the importance of enabling credit risk transfers through the private bank capital requirements, because if private bank capital requirements become excessively high, it is an impediment to credit risk transfer (CRT). In your role on FSOC, have you had a dialogue with the banking regulators and maybe the potential incoming Vice Chair for Supervision, Mr. Barr, around the appropriateness of also giving banks capital credit for credit risk transfer?

Ms. THOMPSON. I am happy to have that conversation with Acting Comptroller Hsu, incoming Vice Chair of Supervision Barr, and Acting Chairman Gruenberg.

Mr. BARR. That is important, and I appreciate you doing that. Final question, when the FHFA updated the conforming loan limits for single-family mortgages that can be acquired by the GSEs, you raised the baseline over 18 percent, or $100,000. These new limits will allow Fannie and Freddie to subsidize the purchase of an over $1-million home, even though they were intended to serve those with modest means. Should FHFA reevaluate the 2022 update to the conforming loan limits to ensure that Fannie and Freddie are serving low- and moderate-income individuals?

Ms. THOMPSON. This is a statutorily-required calculation that we have done every single year, and we are following the law and the statute as written. And we are happy to work with you all if you would like to change it or tweak it.

Mr. BARR. On safety and soundness, a million-dollar home sounds like quite a bit for your mission, but I appreciate your consideration. I yield back.

Mr. CLEAVER. The gentleman yields back. The gentleman from California, Mr. Sherman, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. SHERMAN. I have a couple of comments on comments made by our Republican colleagues. First, on inflation, thank God Democrats pushed for fuel economy standards. If we were still getting the fuel economy that I got in my 1975 Plymouth Fury, we would have to buy 3 times as much gas. We would have triple the demand for gasoline, so we would have much higher prices, and we would be buying 3 times as much.

There are those who say we should end the conservatorship. I think the GSEs are and should be government agencies. They make money for the government, and they give us much lower interest rates than we would have otherwise. They do so because we have a government guarantee of the debt risk, while the private sector assumes the interest rate risk. If we didn't have Fannie and Freddie, et cetera, we would not have 30-year fixed-rate mortgages. The shareholders were wiped out in any economic sense in 2008. They do not have a right to have us, at our cost, rehabilitate their private banking entities. And what we saw is that when you have the GSEs strive for profits for private shareholders but have a full government guarantee, you have socialism for the well-connected and the rich, and you have a bad system.

Now, in response to one of my Republican colleagues asking you why you don't limit the GSEs to, in effect, lower- to middle-income loans, you correctly responded that it was because Congress has told you to do really the entire middle-class. And under the formulas, we have a conforming loan rate of $647,000 in most of the country, and $970,000 in high-cost areas, and that is pursuant to congressional enactment. And that $970,000 loan gets you a 3-bedroom home in my district, whereas the $647,000 gets you a 4-bedroom or 5-bedroom home in Nebraska or Kansas.

The question I have is, why do we have higher fees on some conforming loans, those in higher-cost areas? Congress has said that a conforming loan is a conforming loan, and a high-cost area conforming loan is up to $970. And the GSEs have decided there is a real conforming loan and there is a not-so-real conforming loan, and the 2-bedroom and 3-bedroom houses in the chairman's district will be subject to a big fee. Why are we treating all conforming loans equally?

Ms. THOMPSON. Let me just say that the conforming loan limit, again, is required by statute, as you stated. And for many of the conforming loans, even for first-time homebuyers, especially in high-cost areas, if they have an area median income of less than 100 percent, there is no fee, and that is true across-the-board. I just wanted to make sure—

Mr. SHERMAN. But somebody with an income above average in Nebraska gets a conforming loan, and somebody in California gets a penalized conforming loan. That is not what Congress provided, but I want to move on to another question and that is these Property Assessed Clean Energy (PACE) loans. In effect, the agencies you oversee, you draft all of the mortgages that are used in the country. Those mortgages contain a Paragraph 4 that says you can't have a superior lien, but under these PACE loans, you, in effect, do have a superior lien. Why aren't you requiring these GSEs to modify their form so as to clarify that under Paragraph 4, you can't get around the requirement of turning the first mortgage into a second mortgage just by calling it a part of your property taxes? Why don't we amend Paragraph 4 and protect the GSEs from this?

Ms. THOMPSON. Certainly, that is something that we can look into. The Enterprises having priority lien status is pretty important, but we can—

Mr. SHERMAN. And under these PACE loans, your first is turned into a second?

Ms. THOMPSON. That is a requirement, and, again, we can look into that.

Mr. SHERMAN. I look forward to working with you on that. And finally, I would hope that you would change the lending caps on multifamily because we have a crisis. The rents are too high, and people are sleeping on the streets. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Texas, Mr. Williams, is now recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Madam Chairwoman, and thank you for being here, Director Thompson. The GSEs have been in conservatorship for 14 years now, and former FHFA Director Calabria had made it a priority to get these Enterprises out of government control and back in the hands of the private sector. He had a clear focus for the Agency, and every action seemed to be building towards that ultimate goal. However, since you have overseen the FHFA, it does not seem like there is a similar focus on working to get away from the conservatorship. Director Thompson, do you think there are any negative consequences if we retain the status quo of the GSEs in perpetuity?

Ms. THOMPSON. Thank you, and I would say that we are working diligently to make sure that the Enterprises are in good financial condition, and that they are operating in a safe and sound manner, and we think that these things are prerequisites to them exiting conservatorship. We are making sure that they are retaining their capital and earnings, and we are also, again, focusing them on credit risk transfer so that we are taking incremental steps to prepare them. Certainly, there are pros and cons for being inside of conservatorship and outside of conservatorship, as I spoke to earlier, and we just think that, again, Congress can decide what it wants to do with the secondary market. And in the meantime, we will continue to prepare the Enterprises in a safe and sound manner.

Mr. WILLIAMS OF TEXAS. I am concerned with the one-size-fits-all approach that we have the FHFA and the GSEs are taking with respect to lease terms. In the manufactured housing space, Fannie and Freddie are attempting to nationalize landlord tenant law by requiring lease terms that are in conflict, frankly, with the current laws of several States. And, in fact, every State in the country would be out of compliance with the new national standards being set by the GSEs. These changes were done without any stakeholder input, with one GSE simply publishing the change on its website. Director, are you concerned that your Agency unilaterally made a single Federal standard that is at odds with every other State's laws, and will you commit to working with stakeholders to come up with a better solution than that?

Ms. THOMPSON. Thank you for the question. Really, we are always happy to work with stakeholders. We do believe that tenant protections are important, and we did have outreach sessions with various stakeholders to have a conversation about them. And the tenant protections that are required are giving notice to renters before they are evicted, or giving notice to a borrower before rent is raised. But if there are things that are prohibitive, we are certainly willing to work with stakeholders at the State or local levels on these issues.

Mr. WILLIAMS OF TEXAS. Okay. I am concerned about a trend I am seeing now in the Biden Administration where they just label anything that President Trump did as bad, and therefore, it must be reversed. There seem to be a few examples of this coming out of your Agency that were overturned without much justification. Quickly, Director, how did reversing Director Calabria's rule that limited the GSEs' ability to purchase mortgages from second and vacation homes further the mission of the FHFA?

Ms. THOMPSON. We put that provision on pause that was part of the agreement that was embedded in the preferred stock purchase agreement that FHFA and Treasury are a party to. I am a lifelong safety and soundness regulator. This risk management is what we do, and we certainly are looking at the loan characteristics, whether they are seconds or investors, and we are also looking at debt-to-income ratios. We are looking at LTVs. We are looking at all of these things on a daily basis, and these are the things that we ordinarily do as regulators and as conservators. And again, we are effective risk managers, and safety and soundness is really undergirding everything that we do.

Mr. WILLIAMS OF TEXAS. Okay. Madam Chairwoman, I yield back. And Director, thank you for being here.

Chairwoman WATERS. Thank you. The gentleman from Illinois, Mr. Foster, who is also the Chair of our Task Force on Artificial Intelligence, is now recognized for 5 minutes.

Mr. FOSTER. Thank you, Madam Chairwoman. Director Thompson, in May of this year, this committee passed my bill, H.R. 7022, the Strengthening Cybersecurity for the Financial Sector Act of 2022. This bill would give FHFA the authority to regulate and examine the third-party service providers of its regulated entities. This is similar to the existing authority that prudential banking regulators have over banks' third-party vendors under the Bank Service Company Act.

The Financial Stability Oversight Council (FSOC) noted in its 2021 annual report that some regulators, including FHFA, "continued to have limited authority to regulate and supervise third-party service providers." I am very concerned about the risks that third parties may pose to individual financial institutions as well as to the entire financial system, given how interconnected our system is, and how many of these third parties are, in fact, core providers to not just one, but several financial institutions. Director Thompson, could you tell us the extent of FHFA's current authority over the third-party providers to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks?

Ms. THOMPSON. Sure. That is a great question, and thank you for asking it. The Agency has been asking for a number of years for the third-party service provider oversight, and this is something that is similar to what the banking regulators have through the Bank Service Company Act. In fact, when I got to the FHFA from the FDIC, I was very surprised that we didn't have that authority because, as you say, the services that are provided to our regulated entities are really important. They could impact the safety and soundness of our regulated entities. And so, we just want comparable authority similar to that which the other regulatory agencies have, so that we can ensure the safety and soundness of our regulated entities. So, thank you for that.

Mr. FOSTER. Thank you. In your view, would it also be helpful for the Federal Housing Administration (FHA) to have this authority to examine and regulate third-party vendors, to the Enterprises and the Federal Home Loan Banks?

Ms. THOMPSON. I am not going to speak for them. If we can stick to the FHFA for this authority, I would be very happy. Thank you.

Mr. FOSTER. Okay. I will let you off the hook on that one. Some of the logic I think sort of speaks for itself. And, Director Thompson, while historically-low mortgage interest rates have expanded access to credit for many borrowers by making the cost of lending more affordable, housing supply constraints have continued to lock borrowers out of homeownership. According to the Urban Institute and the National Association of Home Builders, housing supply is at the lowest level of the century, with just 2.6 months' supply as of May 2022. The supply shortage is especially acute for low-income consumers and many first-time buyers who are looking for starter homes.

This lack of supply has led to record year-over-year home price appreciation. This measure was 17.5 percent for 2021, with some States, such as Arizona, Utah, and Idaho being closer to 30 percent. And now, someone said that this is a housing bubble that is imminent, reminiscent of what we saw in the lead-up to 2008. However, the high levels of home equity have been generated at the same time that we have a significantly lower level of subprime lending. And we have more responsible limits on credit and other reforms put into place by the Dodd-Frank Act, which hopefully have helped protect the safety and soundness of our housing market, despite the recent turmoil and the potential for future turmoil.

Are you nonetheless concerned that record house price appreciation could create real estate bubbles in certain markets, and is there anything that should be done about that?

Ms. THOMPSON. I agree with you in terms of the increase in home prices, the increases in interest rates, and the current lack of supply. Actually, before the pandemic, there had been a persistent lack of housing supply. One of the things that we have asked the Enterprises to do is increase their LIHTC allocation so that they can start providing supply in low- to moderate-income areas to low- to moderate-income individuals. And affordability is just a huge issue, both in rental properties and in mortgages, so anything that we can do to be helpful in that space, we will certainly take those steps. But as you know, the Enterprises don't directly impact the supply issue, but we certainly will be working with all stakeholders to see what we can do to address that issue.

Mr. FOSTER. Thank you. I am nearly out of time, so I yield back.

Chairwoman WATERS. Thank you. The gentleman from Arkansas, Mr. Hill, is now recognized for 5 minutes.

Mr. HILL. Thank you, Chairwoman Waters, and let me say, again, thank you for holding this overdue and very welcome hearing. Director Thompson, we are delighted, as I said in my opening comments, to have you back. Before you came to the Agency, you talked about your background, and 23 years at the FDIC, including as the Director of the Division of Risk Management Supervision, so that gives you a heavy dose of background in managing risk. Would that be a good description?

Ms. THOMPSON. That would be a good description.

Mr. HILL. And back in September of 2020, you were Deputy Director of FHFA's Division of Housing Mission and Goals, and that is what you were doing in 2020, right?

Ms. THOMPSON. That is correct.

Mr. HILL. And you attended the FSOC meeting that was held on September 25, 2020, where the Council unanimously voted on a public statement regarding the secondary mortgage market. Is that accurate?

Ms. THOMPSON. That is accurate.

Mr. HILL. I have that statement, and I would ask unanimous consent to insert it in the record, Madam Chairwoman.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. HILL. I thank the Chair. This statement highlighted the central role that the Enterprises continue to play in the housing markets. And it also described how any distress at Fannie and Freddie could pose a financial stability risk unless that risk was mitigated by the new FHFA capital rule, and you voted to support that FSOC report?

Ms. THOMPSON. I was the Deputy. My principals supported it.

Mr. HILL. Yes. Very good. If you had been the principal, would you have supported it?

Ms. THOMPSON. It's hard to say. At the time, that was a proposed rule that the FSOC wrote the statement on, and there were lots of questions about credit risk transfer. There were a number of comments, and I think that, as we have spoken about earlier, the Credit Risk Transfer Program is very important. The statement was issued in September, but the rule was finalized in December, so I am not sure.

Mr. HILL. Okay. Looking back at that, there was a real effort to allow the two GSEs to gather capital and become stronger, not with any issue, that they would immediately be eligible for release from conservatorship. You supported building the capital with Fannie Mae and Freddie Mac?

Ms. THOMPSON. I still do, yes.

Mr. HILL. Yes. Can you explain why you cut the capital ratio from 4 percent to 3 percent?

Ms. THOMPSON. We issued through notice and comment a rule to make the leverage ratio buffer a dynamic buffer instead of a static buffer. This was something that the bank regulators did as well. One of the concerns that was raised was that the leverage ratio was becoming a binding constraint. And we have a risk-based capital rule as well that takes a look at the risk characteristics of the loans versus the leverage, which you well know. And so we wanted to make sure that the leverage ratio served as a credible backstop for the risk-based capital—

Mr. HILL. Let me reclaim my time. Thank you. I think you have explained that well. And when you look at the risk-based situation, clearly doing a stress test is an important part of that, right? What was CPI inflation in June? Do you know what that was: 9.1 percent. Do you agree with that?

Ms. THOMPSON. 9.1 percent.

Mr. HILL. That was high, right?

Ms. THOMPSON. It was very high.

Mr. HILL. Your stress test implies that inflation will be 1.5 percent between 2022 and 2025. In your worst-case scenario, do you think that seems low?

Ms. THOMPSON. We haven't released our stress test scenario for this year, and we get our assumptions from the Federal Reserve like the other regulators, so we will be releasing that information in August of this year, the stress tests for both.

Mr. HILL. I hope that stress test will reflect the inflationary environment we are in and also the potential for a recession. I am glad to know that it will be out in August. You didn't mention in your prepared remarks about your pending products and activities rule and when we can expect that.

Ms. THOMPSON. Sure. We have been working on finalizing that rule for awhile now. And the issue that we are looking at is, how do we marry the rule with our current conservatorship authorities as we look towards working that out? We will finalize the rule.

Mr. HILL. This year?

Ms. THOMPSON. In the near term.

Mr. HILL. Okay. It seems to me in looking at your pilot transparency framework, and your equitable housing finance goals, those are in conflict with not having that product and services rule. I think it is putting the cart before the horse. That rule should be in place, and then those agencies can comply with those other policies with it.

And, Madam Chairwoman, I would ask unanimous consent to insert in the record a letter that Senator Tillis and Senator Toomey sent to Director Thompson, dated July 19th.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. HILL. I thank the Chair, and I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Ohio, Mrs. Beatty, who is also the Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Mrs. BEATTY. Thank you, Chairwoman Waters, and thank you to Director Thompson for appearing before the committee today. Let me say at the onset that it is great to have an experienced and competent leader at the head of FHFA, especially at this very critical time in the housing market.

I represent Columbus, Ohio, and the surrounding areas, and housing affordability is one of the most-pressing issues facing my district. Unlike practically all of the other Midwestern cities, Columbus is growing. Between the 2010 and 2020 Census, the population of the Columbus Metropolitan Area grew by 236,000 people, which is 9 times more than the entire rest of the State of Ohio. And we are very fortunate that with Intel's incredible multi-billion-dollar investment in semiconductor manufacturing in the area, the growth is only going to accelerate in the next decade. This is a great position to be in, but that growth has put a huge strain on the availability of housing, especially affordable housing.

We know what the National Low Income Housing Coalition has said for our area, that there are only 32 available affordable housing units for every 100 households. That leaves us basically about 50,000 units short. So, I am very grateful for all that you have been saying to help us work on this, although I know you don't do housing and you don't originate home loans, but I am very impressed that you said in your testimony that you are exploring the policies and programs to address the high cost of housing.

But here is my first question. Everybody knows I am the Chair of the Diversity and Inclusion Subcommittee, and I have been on the record asking every one of your colleagues if you are aware of the Office of Minority and Women Inclusion (OMWI), and what that means, and if you have an OMWI Director?

Ms. THOMPSON. Yes, we are very aware of OMWI, and we do have an OMWI Director who reports directly to me.

Mrs. BEATTY. Okay. Thank you for that. You would be surprised at how many have not answered that question. Director Thompson, I also understand that FHFA announced that Fannie and Freddie contributed some $740 million into the Housing Trust Fund, and that, as I recall, is about a $29-million increase over last year. And we welcome that news because, as you know, the Housing Trust Fund is an important tool to produce and preserve affordable housing for low-income households. But the fact is, even with this increase, the Housing Trust Fund falls a little bit short of what we need in it. Can you speak to what impact it would have if perhaps, we were able to double the size of the Housing Trust Fund?

Ms. THOMPSON. Sure. Thank you. The Housing Trust Fund, the allocation that Fannie Mae and Freddie Mac make to both the Housing Trust Fund and the Capital Magnet Fund is through statutory formulas, and certainly, it is based on acquisitions. We had a record contribution last year because Fannie and Freddie had record acquisitions, and so depending on the number of loans they purchase, that will determine how much is contributed. The Housing Trust Fund is very important because we send the money to HUD, and they distribute it to the States, who have a good understanding of the specific needs in their respective areas. And so, those allocations are very important. The money to the Capital Magnet Fund goes to the Community Development Financial Institutions (CDFIs), and they, too, can distribute money as appropriate to their local areas, but the Housing Trust Fund and the Capital Magnet Fund are very important for impacting local housing supply.

Mrs. BEATTY. I am very glad you said that in front of my colleagues, because I have a bill that I am going to reintroduce, called the Generating Resources and Opportunities Within (GROW) Act, which will allow us to increase the contributions of Fannie Mae and Freddie Mac into the Housing Trust Fund and the Capital Magnet Fund. I think I have a few seconds left, and with that, is there anything else, if I yield my time to you, that you would like to say to us about your leadership or anything that you have been doing?

Ms. THOMPSON. Sure. Thank you for the opportunity. And, again, I really just want to reiterate that both safety and soundness, and sustainable access to credit are very important to me, and I take my position very seriously. We have a huge responsibility. We have public confidence. And I have actually worked at FDIC and at FHFA, and I have had an impact and a chance to see what happens when public confidence is destroyed. I take this role very seriously and I just want to make sure that we are marching down the path of safety and soundness, good financial condition, and also equitable access to credit throughout the country.

Mrs. BEATTY. Let me just say, thank you. And Madam Chairwoman, let me also say for the record, many other former Directors have probably done a great job, but they have not reached out as Director Thompson has. I want to be on the record and thank you for reaching out, for talking about housing far beyond the traditional means of coming before this committee, and I have had the opportunity to have some one-on-one time with you. Thank you, and I yield back.

Chairwoman WATERS. Thank you. The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairwoman Waters, and Ranking Member McHenry, for holding the hearing, and thank you to Director Thompson for being with us today.

I would just like to first express some concerns about the proposals that are attached to this legislative hearing today. We are over $30 trillion in debt. We are experiencing the highest inflation in over 40 years, and the Majority has chosen to attach proposals, like Build Back Better, and the Downpayment Toward Equity Act, to this hearing that would spend money we don't have, put people in houses they can't afford, and exacerbate the current inflation that is hurting everyday Americans, including Tennesseans back in my home district.

With that, let me dive right into some questions. Director Thompson, during your confirmation hearing before the Senate Banking Committee, you stated that you, "have long believed that safety and soundness and access to credit are not mutually exclusive." While some actions that the FHFA takes may promote either safety and soundness or access to credit, there are actions that FHFA can take and prioritize that enhance both safety and soundness and access to credit, such as utilizing direct mortgage insurance. Will you commit to prioritizing initiatives at FHFA that will both enhance safety and soundness and improve access to credit?

Ms. THOMPSON. Absolutely. Thank you for the question, because that is really something I firmly believe in, and/both safety and soundness and equitable access to credit, not either/or. And, again, we have seen the extremes on both ends, and they have to work hand-in-hand because the Enterprises have to do things in a safe and sound manner, but they have to fulfill their mission to promote equitable access across the country to every neighborhood so that we have a good functional housing finance system.

Mr. ROSE. What about direct mortgage insurance? Would you speak to that?

Ms. THOMPSON. That was, I think, a pilot that the Enterprises engaged in a couple of years ago. I would have to take a look at what the results were, and probably get input from stakeholders on the impact of that particular pilot.

Mr. ROSE. Thank you. Director Thompson, I would like to follow up on some of the questioning that you have already faced regarding the GSEs. Do you believe that the conservatorships are unsustainable and need to end?

Ms. THOMPSON. The Enterprises have been in conservatorship for 14 years, so I think that nobody ever expected that to be the case.

I know, again, at the FDIC, when an institution is placed into conservatorship, it is placed into conservatorship for a resolution, which is sale or some other mechanism. This is really unprecedented what we have had to deal with for these past years, and this isn't something that there is an easy answer to. So, when the Congress makes a decision on the future of the secondary mortgage market, we certainly can do whatever we can to facilitate that, and we can try to be helpful to the extent that you all want to engage in legislative proposals. But, again, I am the sixth Director, and have worked under four Administrations, and we are happy to engage on this issue whenever you all would like.

Mr. ROSE. Thank you. Do you believe that any government guarantee should be paid for and should come behind significant private capital in the first loss position, kicking in only in the most catastrophic of economic crises?

Ms. THOMPSON. Yes. I believe that is one of the reasons that we are allowing the Enterprises to build capital so that the government doesn't have to absorb any of the losses. As another reason, we are facilitating the Credit Risk Transfer Program, again, so that the private sector, not the Enterprises and not the taxpayers, can absorb any catastrophic or unexpected losses. We do believe in having skin in the game.

Mr. ROSE. And I think you have sort of alluded to this, but are you going to make it a priority during your time to end the conservatorships?

Ms. THOMPSON. I am going to make it a priority to make sure that the Enterprises are run as responsibly as they can be from an operational and financial perspective. Again, ending conservatorships is not a quick action to undertake. There are capital targets that have to be met. There are other policy issues that have to be decided by different stakeholders, Treasury, some with the Federal Reserve and others. So, it is not an easy or immediate process, and we will do our best to make sure that when they do exit, they are in a good position both financially and operationally.

Mr. ROSE. And in the last seconds that I have here, I want to just renew a statement that I made to your predecessor, which is that back in my home State of Tennessee, a lot of folks are still very concerned about compensation at the GSEs, particularly before that 2008 crisis. And if the taxpayer is going to be on the hook, we certainly want to be sensitive to that. Thank you.

Chairwoman WATERS. Thank you. The gentleman from Florida, Mr. Lawson, is now recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman, and Ranking Member McHenry. Director Thompson, congratulations and welcome to the committee. In terms of closing the racial wealth gap, where does FHFA stand on creating power programs that will allow the Government-Sponsored Enterprises to purchase more non-conforming loans for community development financial institutions?

Ms. THOMPSON. Thank you for the question. FHFA required the Enterprises, Fannie Mae and Freddie Mac, to submit equitable housing plans that looked at what are the barriers to homeownership, and what are some things that they could put in place to address those barriers. Again, there are creditworthy borrowers across the country who are not able to get homes, and some people don't even believe that they can have a home. I spoke earlier about one of the programs that both Enterprises have undertaken, which is to include positive rental payments in the calculation of the underwriting score, and that is a program that can be implemented across the country. But we believe that people have paid their mortgages and they pay their rent.

Rental payment is one of the largest payments that people make every month. And if you have someone who is paying their rent on time, that certainly speaks to their ability and willingness to repay, and that ought to be considered in the credit score calculation and certainly can help responsible homeownership.

Mr. LAWSON. Okay. That is great. And, Director Thompson, since you mentioned rental assistance, renters who are working hard and trying to save up enough for a down payment to purchase a home seem to be working against a moving target with strong year-over-year increases in home prices and rental costs as well as increases in interest rates. What more do you think the Enterprises can do to ensure that those who are looking to transition from rentals to owning a home are not left behind and locked out of the dream of homeownership?

Ms. THOMPSON. Both Enterprises have first-time homebuyer programs, I think, working with different stakeholders around the country to make sure that prospective homebuyers are aware of these programs, that they are aware of the requirements, and that they are ready for homeownership. We believe that there is a lot of information out there about the Enterprises and their programs to promote responsible access to credit, and just working with other stakeholders to make sure that information is available so that we can get creditworthy borrowers into homes.

Mr. LAWSON. Director, climate change poses an increased threat to the housing financial system. And I heard you allude to it earlier that FHFA does have to confirm these changes, the challenges that they have with these climate changes.

Ms. THOMPSON. That's a great question. From a housing perspective, we think of climate change from the natural disaster perspective. We look at wildfires and the impact of hurricanes and floods, and we want to make sure that the Enterprises are well-positioned to address these issues as they come up. For example, if a hurricane or a tornado takes place and there is a stated national disaster, homeowners are impacted immediately. The last thing they need to worry about is whether or not they are going to make their mortgage payment when they are looking for an alternative place to live.

So, making sure that we have good programs in place to help borrowers in their time of need, I think is very important. And as we are seeing more and more of these climate issues take place, making sure that people know that they don't have to worry about making their mortgage while they are actually trying to find adequate housing for their families. So, having forbearance programs and modification programs in place, we believe is really important.

Mr. LAWSON. Okay. Thank you very much. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much. The committee will take a 15-minute recess and resume at 12:16 p.m..

The committee stands in recess.

[recess]

Chairwoman WATERS. The committee will come to order.

The gentleman from Ohio, Mr. Davidson, is now recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman. Director Thompson, thanks for your time here today. And thanks for the work you are doing to make owning a home more feasible for more families around our country. We have had a lot of approaches here and within the committee, and I don't think it will surprise anyone that we have differences of opinion on how to solve a problem. The good news is that this is one in which we share a common objective. We think America is better and the American Dream is more complete when more people own their homes. And I just want to run through a couple of scenarios here that are ways to maybe go about that.

Hypothetically, if all borrowers were given a fixed sum of government grant money to purchase a new home, would the market respond by simply increasing home prices by the same amount?

Ms. THOMPSON. It is hard to tell the answer to that question, and I don't know that the market will respond by increase. I don't know how the market will respond, honestly.

Mr. DAVIDSON. I think economists would recognize that if you have an artificial insertion of, say, whether it is $10,000, $50,000, or $100,000, setting that aside, say my colleague, Mr. Loudermilk, he is going to sell a home and I will buy it, and we said, all right, $250,000, done. Great. Make it $300,000. What do you mean? We just shook on $250,000. Oh, we are going to get $50,000 from the Federal Government. That is effectively how subsidies work, and the things that we subsidize tend to be more inflated. We subsidized health care, most egregiously, and we have seen the problems of subsidies in education. And what is gone is the rate of inflation, and the things that we subsidize far outpace the massive inflation we have seen in the United States.

And, frankly, I have been really concerned because the Federal Reserve created this artificial subsidy for housing for a long time, and they were soaking up Treasuries that no one else was willing to buy massively, but they were also buying about $40 billion worth of mortgage-backed securities every month. That is not a direct subsidy, but it is an indirect subsidy. How will FHFA adapt and how will the market respond to the fact that the Federal Reserve is no longer soaking up $40-billion worth of demand for these every month?

Ms. THOMPSON. I think the Federal Reserve made a comment about what actions they were going to take, and part of those actions was to let some of the mortgage-backed securities run off, and we have seen some of that take place. When we looked at the actual coupons of what Federal Reserve Bank holdings were, I think they were looking at coupons or interest rates, securities with interest rates of like 2 and 2.5 percent, and in today's interest rate, our current coupon is about 4, 4.5 percent. So, we think that the Federal Reserve's actions certainly have started, and it has yet to be seen what impact they will have, but so far we have not seen a significant change.

Mr. DAVIDSON. You are doubling the cost of interest rates on homes, so the rate of interest is going to go up. We are seeing the market respond to that already. And fundamentally, that depresses prices, because for the same amount of money per month, someone who was going to buy a $250,000 home might have to look at a $200,000 home now because they can't afford the payment. The interest gets much more expensive, and that has the effect of depressing prices. Conversely, when they were subsidizing, it had the effect of inflating prices. We have experienced this asset price inflation for nearly 2 years with the Fed dumping fuel on the fire. I think one of the hopes, really, is technology.

We could all continue to have these debates about continuing, hopefully, to turn off some of the economic distortions that we are seeing here. It is trending the right way at the Fed. Hopefully soon, there will be an election that will help turn the trend the right way here in Congress.

But your office, I was encouraged to see, announced an Office of Financial Technology. In this paragraph, I just wanted to say, in the announcement, in preparation for the launch of the Office of Financial Technology, FHFA conducted discussions with peer regulatory agencies and industry groups. A key takeaway from those discussions is the value of consistent stakeholder engagement and helping to identify opportunities and challenges in the application of new technologies in the housing finance system.

Do you go about that approach with clear regulatory guidance or regulation by enforcement? And what are some of the things that you view as promising as you are launching this Office?

Ms. THOMPSON. Sure. It depends on the issue, which would determine, as it is true with the banking regulators, was implemented through guidance and what is implemented through statutory regulation. But as we engage with the other regulators, and we certainly do with the FFIEC and also with FSOC, but each of the regulators has started an office of financial technology or something similar.

One of the things we wanted to do was try to figure out what lessons they have learned before we started our office, and specifically, we want to focus on technology impacts in the mortgage industry. And we want to see the technology that is being used, and how it is being used, to make sure that it is a safe and sound process, not just for the user of the technology, but for the borrower as well.

Mr. DAVIDSON. Thank you. My time has expired, and I look forward to cooperating with you as you develop that office. Thanks.

Chairwoman WATERS. The gentleman from New Jersey, Mr. Gottheimer, who is also the Vice Chair of our Subcommittee on National Security, International Development and Monetary Policy, is now recognized for 5 minutes.

Mr. GOTTHEIMER. Thank you, Madam Chairwoman, and thank you, Director, for being here today. The United States is suffering from a chronic housing shortage, as we know, and I believe it is well past time to implement a long-term national strategy to expand our housing supply. The first step of developing a sustainable and abundant supply of housing, of course, is to reduce the cost of materials and increase access to labor. To do this, Congress will take immediate action to fix our supply chains and strengthen our workforce by, among other actions, investing in skilled and construction trades.

Director Thompson, from your perspective, what is the greatest obstacle to increasing the supply of housing in the United States, and what actions could Congress take to most quickly reduce housing costs for Americans?

Ms. THOMPSON. That's a great question, and certainly, the housing supply shortage is not new, and it is getting exacerbated, as you stated, through the labor shortage, labor costs, and supply chain issues. And to the extent there are answers to address those particular issues, I think that can be very helpful in terms of just addressing the housing supply. If you have the supplies and the supply chain is distorted and taking a long time, that has a huge impact on home builders, and it is just a domino effect. So to the extent that Congress has ideas about things that they want to do, certainly we would work with them to figure out what would work for our regulated entities in a way that would be helpful.

Mr. GOTTHEIMER. And are there policies that FHFA is pursuing to increase the supply of affordable housing in the United States?

Ms. THOMPSON. FHFA indirectly impacts affordable housing and housing specifically. We don't build. We are, as you well know, providers of secondary market liquidity, and we can incrementally impact housing. For example, we have allowed the Enterprises to allocate low-income tax credit or the housing tax credit in rural and other properties as specifically focused on affordable housing. We have also encouraged the Enterprises to take a look at their existing Accessory Dwelling Unit (ADU) programs, and also manufactured housing programs, which we think will be very beneficial in terms of helping the housing supply in rural areas where housing supply issues are particularly acute.

And again, we are happy to work with the Congress to do whatever we can to be helpful as we, as a nation, address the housing supply issue.

Mr. GOTTHEIMER. Thank you, Director. Now, I would like to shift focus to the ongoing credit score evaluation, which has now been in progress for more than 7 years. Over the past 4 years, I joined my colleagues in sending letters to three different FHFA Directors, including you, about my concerns with the proposed multi-score option where the credit bureaus own one of the credit score developers, VantageScore. The credit bureaus already control the credit data that would be needed by any credit score developer to produce a score for this unique market. As a result, I don't see how creating a multi-score system, which strengthens the credit bureaus' market position, is a viable consideration.

I appreciate your recent response to my letter raising these concerns, but I am requesting further elaboration, please, on how the so-called lender choice option could address the vertical integration threats, consumer confusion, and a host of other problems that arise from this approach.

Ms. THOMPSON. Sure. Thank you for the question. We have not made a decision on the credit score model. As you know, both Enterprises and most mortgage participants have used the FICO classic model for over 20 years now. And there have been so many different changes and things that should impact credit scoring, like utility payments or rental payments. And there are just a host of other issues that are now more prevalent than they were 20 years ago. In fact I don't even think they existed 20 years ago.

But at the end of the day, making a change on updating the credit score model is a decision that we take very seriously because it is going to have significant operational and cost impacts, even if we move from one credit score to a new credit score. So, we want to be very thoughtful, and we want to engage with all of the stakeholders about not just what we do, but how we do it, because it is going to be very costly. Many people think that the credit score models—

Mr. GOTTHEIMER. I'm sorry. I want to try to get a sense of your timing in that, when you expect a decision. Do you have a sense of timing of it coming, because it has been 7 years? Do you have a sense of whether that will be soon?

Ms. THOMPSON. Yes. We are in the process. This isn't an easy decision, and we want to make sure that we are making the right decision because it impacts so many stakeholders throughout the nation.

Mr. GOTTHEIMER. Yes. I just worry a lot because we know that is going to take another 2 years once it is decided. I just worry a lot about the impact it is having on homeowners and families. So, anything you can do to keep us abreast of kind of that progress would be very helpful.

Ms. THOMPSON. I am happy to do so. Thank you.

Mr. GOTTHEIMER. Thank you so much, and I yield back.

Chairwoman WATERS. Thank you. The gentleman from Georgia, Mr. Loudermilk, is now recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman. Director Thompson, congratulations on your position. And it is a very important time, a very tenuous time that we are in right now, where we are focused on the safety and the soundness of the GSEs, and I hope you would agree with that. And I want to talk a little bit about some priorities of your office, and, first, let me ask, where are you on finalizing the rule for prior approval of Enterprise products as the law requires?

Ms. THOMPSON. Sure. That's a great question. We are in the process of looking at finalizing that rule. We want to make sure that there is transparency in the activities of the Enterprises, and we are looking at a couple of different aspects. So, we will be finalizing the rule.

Mr. LOUDERMILK. You are going to finalize the rule as it is written by law?

Ms. THOMPSON. Yes.

Mr. LOUDERMILK. Okay. I just want to make sure, because my understanding is you may be replacing it with a pilot transparency framework.

Ms. THOMPSON. No, no, the pilot transparency framework—just to be clear, there were a lot of questions about what the Enterprises were doing in both their duty to serve plans and also the equitable homeownership or the equitable housing plans. And we wanted to have a framework in place to be transparent about what activities the Enterprises were undertaking so that people could comment or so you would just know what they were doing. And that was just one step that we were undertaking, because these pilot programs, some of them are included, and we want to have a transparent process where people know what the Enterprises are doing.

Mr. LOUDERMILK. So, your pilot transparency framework is not going to replace the rule. And you are still going to require public comment?

Ms. THOMPSON. We have a proposed rule, and we received public comment on the proposed rule. We are taking those comments into consideration, and we are going to finalize the rule based on the comments that we received. The pilot transparency does not take the place of the rule.

Mr. LOUDERMILK. Okay. And that is why I am asking questions, because there are perceptions, and in politics, perceptions can be reality, so I just want to make sure we are in the right place on priorities. And let me first say that I agree, and I think everyone on this committee, in Congress, agrees that there should be equity in all that we do, regardless of someone's background, someone's race, et cetera, and I applaud those who look at that to ensure that things are equitable. But there have been some issues that we have seen here in Congress that when you base a policy specifically on race, that is unconstitutional. We have seen that happen recently.

And I just want to make sure that the racial equity plans that we come forward with are based on the Constitution. Our concern is that Fannie Mae's recent racial equity plan never mentions, "safety and soundness," and Freddie Mac's plan only mentions it twice. And the fact that some of these are race-based is generally unconstitutional, which we saw on the American Rescue Plan when a race-based priority was given to government subsidies and the courts ruled that is unconstitutional and struck it down. I just want to make sure that when you are going forward, you are working within the framework of the Constitution.

Ms. THOMPSON. Yes, absolutely, and thank you for the question, because I can assure this committee that we fully intend to comply with the law as written. And the equitable housing plans are certainly plans that are focused on underserved communities, similar to the plans that we have for rural communities which are underserved, and tribal communities. We are focused on communities of color because they have been impacted by the housing crisis of the Great Recession and even prior to that, and so the things that are in some of these equitable housing plans will benefit all. I had mentioned earlier the positive rental payments. That would be appropriate for all borrowers, all prospective borrowers.

Mr. LOUDERMILK. Okay. I only have a few seconds left, and you mentioned the 2008 recession. That was brought on because, really, we were subsidizing people to buy houses they could not afford, right? Right now, we are in a situation where the demand is outpacing supply. How do you reconcile that the Treasury Department is raising interest rates to suppress demand as we are trying to get inflation under control, but the GSEs are trying to artificially stimulate through homebuyers' subsidies? Is that not contradictory here?

Ms. THOMPSON. I'm a safety and soundness regulator first and foremost, and everything that the GSEs will do will be grounded in safety and soundness, and that includes access to credit. We have already seen what happens when unsustainable loans were made, and people had loans that they didn't understand and couldn't afford. We are not doing that. We want to make sure that access to credit is sustainable, that not only do people get in homes, but hey stay there, because it is completely disruptive for borrowers, servicers, you name it, an unsustainable system.

Mr. LOUDERMILK. Thank you, Madam Chairwoman.

Chairwoman WATERS. The gentleman's time has expired. The gentlewoman from Iowa, Mrs. Axne, who is also the Vice Chair of our Subcommittee on Housing, Community Development, and Insurance, is now recognized for 5 minutes.

Mrs. AXNE. Thank you, Madam Chairwoman, and thank you, Director Thompson, for being here. I very much appreciate it. And I sure appreciate hearing the word, "rural," in the last 5 minutes, I think 3 times, so thank you and your team for all that you are doing for rural housing as well.

Just over 3 years ago, some of my constituents living in a manufactured housing community—which, as you mentioned, are good opportunities for getting people into homes—in Waukee, Iowa, received a notice that their community had been sold, and that their rents were set to be jacked up by 69 percent. Many of these folks are people who are living on fixed incomes. They are, of course, now struggling to afford food and keep a roof over their heads. But to make matters even worse, that community, just like hundreds of other communities like theirs across the country, saw rent and fee increases, and the buyer was backed by Fannie Mae.

So, having these kinds of predatory rent increases benefiting from Federal backing just seems so wrong. It is like adding insult to injury. And a few years ago, FHFA, Fannie Mae, and Freddie Mac worked on a set of tenant site lease protections (TSLPs). These are very basic things, as you well know, like notice of sale, or closure of a community, or the right to sell your own home in your community. But here is the problem. That community that I just talked about with a more than 60-percent increase in rent, that purchase included those TSLPs, and the buyer actually got a discount to buy that community, but he is still jacking up their rent increases by 60 percent.

I have to ask you, Director Thompson, does it feel like the residents in that community are really getting protected?

Ms. THOMPSON. Great question. We believe that tenant protections are very important, and that is why we require both Fannie and Freddie to not purchase loans, especially in manufactured housing communities that don't have the tenant protections, and they won't get the duty to serve credit. I think we need to follow up on that specific example of what took place there because that is not the intent. In addition to putting these protections in place, one of the things that we do is we have the seller or the seller of the loan to Fannie or Freddie certify every year that these protections are being enforced. I really would like to follow up with you on that specific incident.

Mrs. AXNE. Absolutely, and I appreciate that because we have to make sure that we take care of this, so thank you. Now, can you explain quickly what the duty-to-serve obligations are and whether you think this purchase counts towards that requirement?

Ms. THOMPSON. In order to meet the duty-to-serve requirement to get credit from our Agency for Fannie and Freddie, they have to have the tenant protections, and we ask the Enterprises to put forth a plan as to how they are going to increase liquidity in hard-to-serve areas, rural areas in particular. The duty to serve covers three specific areas: rural; manufactured housing; and affordable housing preservation. They submit their plans, and then we review them and approve them, and they have to meet those plans and then they get credit, and we assess their progress on an annual basis: Here is what you said you were going to do, and here is what you did. Did you do it, and if you didn't, there are lots of conversations.

Mrs. AXNE. Good. Thank you. So, it definitely does count. And I believe this kind of action should not be counting as community here, and I would ask you to look at those changes, so thank you for bringing that up that your team will because it is really important. And I have to tell you, it is incredibly frustrating for me and my constituents who feel like they are being put under the thumb of a landlord who is taking advantage of Federal backing and not putting forth the protections that my constituents need. These are just average, everyday folks trying to make ends meet, save enough for a dignified retirement, and keep a good roof over their heads.

In general, I would love to see you and the FHFA strengthen the protections for residents of communities that Fannie and Freddie finance, require public disclosure of those communities, align duty-to-serve credit with the actual level of support for the residents, and work to give residents a strong right of first refusal to give them a chance to buy their own communities. You may know I have been working with Senator Hickenlooper on this. We have a letter that gives more detail on those recommendations, so we will be getting that to you. And can I just have you commit to reviewing that letter and taking a look at some of these protections for manufactured housing?

Ms. THOMPSON. Absolutely. We are happy to do so.

Mrs. AXNE. Thank you so much. I will make sure the Senator knows about that. My team and myself are ready to work with you and your team at any given point in time. I agree with you. I think manufactured housing could be much more impactful in helping get a roof over people's heads in this country, but only if the protections are really there for those tenants. Thank you so much. I yield back.

Chairwoman WATERS. Thank you. The gentleman from Ohio, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman. And thank you, Director Thompson, and congratulations, which has been extended so many times and is much deserved.

When I look at the housing market today and really for the last several years, I think what we see is a clear supply and demand imbalance which is jacking up prices. Of course that was, in many ways, stimulated by zero percent interest rates which were held too low for too long. That aside, homes are becoming more unaffordable, and it is pricing, especially young families, out of the market entirely. As you note in your testimony, the number-one issue is low inventory. Beyond increasing the GSE's equity investment cap, what more can the FHFA do to increase supply? For example, could Fannie and Freddie take steps to encourage more lenders to make more low-cost loans available for builders to buy land and construct less-expensive starter homes for first-time buyers?

Ms. THOMPSON. That's a great question, and we will have to take a look at the charter requirements for Fannie and Freddie to see if they were eligible to purchase construction or loans that had not, without the actual collateral, they have to buy the loans on property that exists, not to be. But certainly, we would have to look at the charter requirements for Fannie and Freddie on that particular issue.

Mr. GONZALEZ OF OHIO. Anything else that you could think of within your remit that could boost supply?

Ms. THOMPSON. Again, as you pointed out, Fannie and Freddie have very little impact on supply. Certainly, they can provide liquidity for different types of mortgages. And you mentioned on the multi-family side, we talked about an increase in the LIHTC allocation. On the single-family side, we have really been looking again at accessory dwelling units and also the manufactured housing. We think, again, that the manufactured housing programs that already exist at Fannie and Freddie can certainly be helpful in terms of providing liquidity to those who want manufactured housing.

Mr. GONZALEZ OF OHIO. Yes, thank you. I think that highlights a point that Mr. Davidson was moving in the direction of, which is the more subsidies we provide, the more that we do these sorts of things, we don't actually solve the underlying problem, which is the lack of homes, and there simply isn't enough supply in the market. This is especially acute in the places with the worst homelessness problems because it is nearly impossible.

For example, let's talk about San Francisco for a second, where it's nearly impossible to bring homes online. It takes forever. It costs ungodly sums, and, as a result, their housing crisis is probably as bad as any in the country.

So, I hope this committee will start to take that issue up in a major way. We talk a lot about housing and we should, because, as Mr. Davidson suggested, it is a shared priority for all of us. But until we do something significant on the supply side, I just don't see this solving itself.

I have a minute and 40 seconds left. So once again, the GSEs are growing in power and building up. They are implicitly taxpayer-guaranteed debt. As it stands, the combined assets of the GSEs are over $7 billion, which is an amount greater than the combined assets of the nation's three largest banks. What steps is the Agency taking to ensure that in the event of a market downturn, low-income buyers will be protected and taxpayers won't be required to once again bail out the GSEs?

Ms. THOMPSON. That is a great question. The Enterprises, as you mentioned, are responsible for a little over $7.5 trillion in—

Mr. GONZALEZ OF OHIO. Trillion? I said, “billion.” It is trillion.

Ms. THOMPSON. Yes, but your point was well made. Just over a year ago, they were allowed to retain all of the earnings that they made, and this has been about a year-and-a-half now, and between Fannie and Freddie combined, they have about $80 billion in capital. And in addition to continuing to build capital, they are also engaged in the Credit Risk Transfer Program, because while they are building capital, we want to make sure that if something unexpected happens or if there is a catastrophic loss, that we have transferred that credit risk to the private sector so that they can absorb some of those losses and that those losses are not on the backs of the taxpayers or the Enterprises.

Mr. GONZALEZ OF OHIO. And how do you feel about that at the moment? Do you feel comfortable with the safety and soundness of our GSEs at the moment?

Ms. THOMPSON. Yes, I feel very comfortable with the safety and soundness of the Enterprises. We have outstanding supervision programs, great people at FHFA who look at Fannie and Freddie every single day. We also actually benefited, to some extent, from the portfolio perspective, with the low interest rate environment as many borrowers took the opportunity to reduce their interest rates. I would consider that derisking the existing portfolio, so we are in good condition. We are concerned about some of the market volatility and some of the rapidity with which these changes have taken place, the interest rate increase in home prices, so we keep our eye on that.

Mr. GONZALEZ OF OHIO. Thank you. I yield back.

Chairwoman WATERS. The gentleman’s time has expired. The gentleman from Illinois, Mr. Casten, who is also the Vice Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. CASTEN. Thank you, Madam Chairwoman, and Director Thompson, it’s nice to see you. I have great sympathy for your position because I feel like all of us who are responsible in some capacity for housing policy are deeply schizophrenic. On the one hand, we want houses to be a store of wealth and increase the wealth of the American people. On the other hand, we want housing to be affordable, and anything we do to push one of those levers hurts the other. And I think we have seen it a lot on this committee today, right, whether or not we think about housing inflation as being a good thing.

From 2010 to 2020, a period that I think all of us would agree was not a particularly inflationary period, we saw median wages in the U.S. over that 10-year period grow by only 9 percent. CPI was up 20 percent during that period, and median home prices went up 50 percent. Those are numbers to prove what we all know, which is that it has gotten harder and harder for most Americans to buy their first home and start accumulating that wealth.

And I had this conversation recently with Larry Summers that you can put a part of the blame for that on the fact that way back in 1983, we actually took housing prices out of the CPI Index. There was a concern that this was going to eventually bankrupt

Social Security because housing prices were going to grow so quickly. And the result of that, in part, has been that the Fed does not raise interest rates as quickly to rising house prices as they otherwise would have.

And I wonder if you could comment just, number one, how you see your role, how you balance that tension between wealth creation and housing affordability? And number two, what would you pay if you didn't have a house? Should we think about putting housing prices back into CPI so that the Fed can actually get out ahead of housing bubbles beforehand?

Ms. THOMPSON. It is a great question, and I haven't really thought about whether or not we should put housing back into CPI. I am certainly happy to work with you and do some research on that particular issue and get back to you and your staff on that.

In terms of the balance, we try to balance all of the different factors, the market factors, and the other issues that pertain to the activities of our regulated entities. And there is always a healthy tension, as you mentioned, between the home prices and also affordability. And again, our view is to make sure that safety and soundness as far as in that we are making sure that we are providing liquidity across the country to those who are eligible and able to purchase homes.

And striking that balance, again, is important, because sometimes there are factors, as you have mentioned, that we just can't or didn't plan for. But, again, we have pretty restrictive programs in place that make sure that we are not allowing loans to be made that cannot be repaid and that borrowers cannot afford. I think that those are really some healthy tensions in terms of affordability and the home price.

Mr. CASTEN. I would love to continue the conversation. It is a tricky issue. But at a minimum, it seems to me that if wealth is growing faster than income, that is going to disproportionately accrue at the upper ends of our economy, which is what we stated.

Second, unrelated question, I know you have gotten a lot of questions about Fannie and Freddie and conservatorship, and I understand you are not going to go on the record with what might happen there. But it strikes me that you have a fairly unique vantage point because you oversee all of these other Federal Home Loan Banks (FHLBanks), many of which, unlike Fannie and Freddie, don't have this innate conflict because it is a federally-backed, forprofit institution. They behaved in ways that got them into conservatorship in the first place, that you didn't have to deal with, with the other FHLBanks because the other FHLBanks structurally don't have a conflict between their customers and their homeowners.

And I wonder if you would consider having a conversation that if we are going to eventually get Fannie and Freddie out of conservatorship, can we think about learning the lessons from the other FHLBanks and maybe changing the structure of Fannie and Freddie so that they don't have the incentives to get back in, because, again, I think within the banks you oversee, it is not coincidental that the one that went into conservatorship, that blew up, was the one that had the conflict of interest, that, too, would have a conflict of interest.

Ms. THOMPSON. We are happy to have those conversations.

Mr. CASTEN. Okay. I will follow up with your office, and I will yield back the balance of my time. Thank you.

Chairwoman WATERS. Thank you. The gentleman from Wisconsin, Mr. Steil, is now recognized for 5 minutes.

Mr. STEIL. Thank you very much, Madam Chairwoman. And thank you for being here, Director Thompson. I appreciate your time with us today as well as your testimony.

In your testimony, you noted that at the FHFA, you took decisive action to support the market and provide relief to borrowers and renters with mortgages backed by the Enterprises. This is in relation to navigating through the pandemic. And you said, "Our actions allowed millions of Americans to stay in their homes." That is a great thing for so many Americans. Do you believe that during the pandemic, FHFA's response to the pandemic fell short?

Ms. THOMPSON. I believe that the pandemic was unprecedented. And I believe that FHFA and the regulated entities worked together to ensure that borrowers were protected and stayed in their homes, and also that renters were protected as well. And I think that we worked really hard to make sure that the losses, because nobody knew what they were, would not be exorbitant.

Mr. STEIL. Understood. And I would agree that I think we actually navigated through that reasonably well from an FHFA perspective, and I appreciate your comments. The reason I bring it up is earlier, I know, in a previous statement, going back a little bit, our chairwoman said, "I am very concerned that FHFA's response to this pandemic has fallen short, and that Director Calabria, like President Trump, is putting his personal agenda ahead of the American public." I disagree with that, and from your words, it sounds like you do as well.

Let me jump to the next topic I want to cover. I am curious, in particular, about the capital requirements, how we are building this up, in particular, and how, in your role as both a regulator and a conservator, you are analyzing building up those capital requirements and what actions are being taken under your direction to do that? How do you balance those two hats?

Ms. THOMPSON. Sure. We have an Office of Conservatorship, and we also have an Office of Supervision. And the Office of Supervision operates in a similar way to supervision responsibilities at other Federal regulatory agencies, so they supervise. We have a supervision team for the Enterprises, and we have a supervision team for the Home Loan Banks. The Office of Conservatorship looks at the infrastructure of the Enterprises, and they also work with the Division of Housing Mission and Goals, which works on many policy initiatives. We have a huge governance infrastructure that evaluates some of the policies and practices of the Enterprises, but we have a separate team that oversees supervision.

Mr. STEIL. Understood. That is a helpful clarification for me. Is it a goal in your role as the Director to continue to build capital at the GSEs?

Ms. THOMPSON. Absolutely.

Mr. STEIL. Perfect. And I would like to take that in that context and ask you a question about a decision you made. Under Director Calabria's FHFA, we put a portfolio cap on vacation homes and investment properties, which you removed once you took over, and I am curious about the justification for that? Earlier today, you said you think it is important that we move risks to the private sector, and I agree with that. So, how would you explain that to a voter in Kenosha, Wisconsin, who is concerned that their tax dollars are at risk for the GSEs, and, in particular, as it relates to vacation properties and second homes?

Ms. THOMPSON. I would say that FHFA and Fannie and Freddie monitor risk. There is a role for seconds and investors. And in many cases, the investor properties are in minority or low- to moderate-income communities. That would be true in Kenosha or—

Mr. STEIL. The vacation properties are in low- to moderate-income areas?

Ms. THOMPSON. No, no. Vacation properties might be in Door County or other.

Mr. STEIL. If they ever visited Wisconsin, it would be one of the most high-income areas in the State, right? There are often vacation, private—traditionally, people who have second homes are not low-income individuals.

Ms. THOMPSON. We just monitor the risks. We monitor what comes in for investor properties and second homes. I did not remove it. We are monitoring the risk to our conservatorship authorities and our supervisory authorities.

Mr. STEIL. I appreciate your comments. Let me just share my view on this, which is that I think any time government risk is being backed by shareholders, implicitly or explicitly—in this case, implicitly—I get really concerned when we are looking at fancy-pants vacation homes differently than, in particular, low-income individuals, whom we really have to make sure we are getting into that home. When we look at expensive homes, I think that is a different bucket. I appreciate your time. I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from Massachusetts, Ms. Pressley, who is also the Vice Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman. I really appreciate your holding this critical hearing, and Director Thompson, I appreciate your leadership at the FHFA.

Blatantly racist policies, like redlining, denied Black families homeownership opportunities throughout much of America's history, and we are still seeing the effects of those laws today. In fact, the WBUR analysis of mortgage lending in Boston, a city in my district, the Massachusetts 7th, found that between 2015 and 2020, Black applicants were denied mortgages at 3 times the rate of White applicants. This is modern-day redlining, and we need intentional policy solutions and tools to end this discrimination and create equity in our housing market.

Director, every family has the right to a stable, safe, and affordable home, but for Black families, this right has truly never been actualized. Director Thompson, last December you acknowledged that special purpose credit programs are important tools that can promote equity. Fannie Mae and Freddie Mac both cite these programs as ways to help promote credit access and reduce barriers to homeownership for Black and Latino borrowers. However, these programs remain dramatically underutilized. Can you share with us your plan to ensure the special purpose credit programs reach borrowers of color who are disproportionately underserved?

Ms. THOMPSON. Sure. Thank you for the question. The Enterprises, as you have mentioned, have published these equitable housing plans, and contained in those plans are provisions to utilize the special purpose credit programs. And we are making sure that all of the programs and policies that are in these equitable housing plans come before the FHFA so that we can understand the risk, and we can understand the impact, both on low- to moderate-income families and communities of color. And we really believe that the SPCPs, or the special purpose credit programs, are going to be a really good way to facilitate equitable homeownership in a responsible way, working with different stakeholders.

Ms. PRESSLEY. Thank you. And Director Thompson, Fannie Mae and Freddie Mac's practice of charging loan-level price adjustments disproportionately impacts Black and Brown borrowers, due, in part, to limited access to wealth for large down payments. These fees are pricing many Black and Brown borrowers in my district and around the country out of the mortgage market altogether. Will you commit to eliminating loan-level price adjustments, and have you considered how this change could help struggling homebuyers actually achieve equitable access to homeownership?

Ms. THOMPSON. Thank you for the question. We have asked Fannie Mae and Freddie Mac to undertake a holistic pricing review, which would include the loan-level pricing adjustments or delivery fees and also the guaranty fees. And we are going to look at the submissions and take into consideration the impact that pricing has on all of the different segments, including communities of color. That is a priority for the Enterprises for this year, and we will commit to taking a look at, again, the pricing and the impact on different areas of impact.

Ms. PRESSLEY. Thank you. And with the Federal Reserve's recent interest rate hikes, homeownership is even further out of reach for many working-class families due to the increased cost of mortgages, so at least some layer challenges there. Director Thompson, what policy options is the FHFA considering to offset rising interest rates and assist first-time homebuyers who lack intergenerational wealth? Would you agree that post-purchase counseling or, say, a reserve account to assist borrowers with home repairs and other financial hardships will help in that regard?

Ms. THOMPSON. I absolutely think that post-purchase counseling is extremely helpful, especially when a borrower gets in trouble. That was one of the lessons learned from the Great Recession, that borrowers were not calling their servicers when they were getting in trouble with having to pay their mortgages or when they couldn't pay. So, early contact is really important, and so we think that is really just fundamental.

The other thing that you mentioned that I think is very important is what I call liquidity reserves, or what happens when the hot water heater breaks and you have to go into your savings. These are the things that really need to be talked about as we enter and embark into homeownership because these unexpected expenses can certainly have an impact on households. And the more information borrowers, especially first-time homebuyers and first-generation homebuyers, have is going to be just crucial to the sustainability of the mortgage.

Ms. PRESSLEY. Thank you.

Chairwoman WATERS. Thank you. The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Madam Chairwoman, and welcome, Director Thompson. Thank you for being here. Are you familiar with the intern graduate opportunities that are available at the FHFA?

Ms. THOMPSON. We have interns at FHFA. I am not sure if that is an exact name of the program.

Mr. TIMMONS. Sure. I am looking on the website, and you have internships for, I guess, college-, and high-school-level students. You have a Recent Graduate program, a Presidential Management fellow program, and a Research Assistant program, with different levels of qualifications, and different pay structures, obviously, because some of them have more qualifications than others. That makes sense. Have you ever been involved with any hiring or recommendations for any of the positions I just talked about?

Ms. THOMPSON. No, I have not.

Mr. TIMMONS. Do you have any idea what they make?

Ms. THOMPSON. The High School Interns is a new program. We certainly work with the other regulators like the OCC, the SEC, and other financial regulators, but I am not sure what the exact pay is for those.

Mr. TIMMONS. But you would agree it is probably not more than $100,000 for any of those positions annually?

Ms. THOMPSON. For an internship?

Mr. TIMMONS. Yes.

Ms. THOMPSON. I have no familiarity with pay scale, and we actually work with our other regulators to figure out what our pay structure is going to be.

Mr. TIMMONS. If they did make over $100,000, do you think they should be subject to the ethics and disclosure requirements?

Ms. THOMPSON. I think everybody should be subject to ethics requirements.

Mr. TIMMONS. I like that answer. That is very helpful. So, you don't have any fellowship programs where you have, say, a couple dozen people making a quarter-million dollars a year working for you?

Ms. THOMPSON. I would have to take a look so I could give you an accurate answer.

Mr. TIMMONS. Okay. Probably not. Is that right? You would know about it if you did.

Ms. THOMPSON. I should know about it.

Mr. TIMMONS. I guess one last question. Would you allow any of your interns or graduate fellows to do interagency communications, kind of speak on your behalf in their capacity as an intern or a fellow? Probably not?

Ms. THOMPSON. I allow my direct reports to speak up. We speak on behalf of the Agency.

Mr. TIMMONS. Sure. That is fine.

Ms. THOMPSON. Yes.

Mr. TIMMONS. Okay. As you know, in November of 2015, Congress enacted the Equity in Government Compensation Act of 2015, which capped the compensation that the Chief Executive Officer of each GSE can make at the levels in effect at the start of 2015, which was $600,000 per year. Then in March of 2019, FHFA's Inspector General found that the GSEs had fought their compliance with that law by creating new executive level jobs, "acting to circumvent the congressionally-intended cap of $600,000 on CEO compensation."

Housing Subcommittee Ranking Member French Hill sent a letter to your predecessor, Director Calabria, about this issue in 2019. My question today is, beyond the Chief Executive Officers, to whom that law applies, are there any current employees at any level of either Fannie Mae or Freddie Mac who are currently making more than $600,000 in an annual salary?

Ms. THOMPSON. I don't believe so, but I would check with the Ks and Qs that are issued by the Enterprises. They do have at-risk compensation, but I don't believe that there is any individual within Fannie or Freddie who has a base salary of more than $600,000.

Mr. TIMMONS. Okay. I guess I will give you some homework. If there are any, could you tell us how many, and we will submit some questions. And then, could you supply a list of those positions and their rate of compensation, if anyone does exceed $600,000? And we will get you something in writing. It is okay. And would you agree that if anybody is making more than that while the GSEs remain in taxpayer-supported conservatorship, that would be a problem? I guess, to your knowledge, there aren't any that make more than $600,000, but if there were, would that be a problem?

Ms. THOMPSON. I want to be clear that the base salary—they can have bonuses—cannot be more than $600,000. They do have at-risk compensation, and I, again, would look at the public disclosures, and I would also get you the information that you wanted on that particular issue.

Mr. TIMMONS. Thank you so much. I really appreciate you being here today. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from North Carolina, Ms. Adams, is now recognized for 5 minutes.

Ms. ADAMS. Thank you, Madam Chairwoman, for hosting the hearing today. Director Thompson, thank you for your testimony, and congratulations on your confirmation. I am delighted to have an HBCU at the helm of FHFA, and I can't wait to see the great work that I know you will do.

Madam Director, I have three questions for you. Director Thompson, I would like to dive right into something that we both care deeply about, the affordable housing crisis in Charlotte and Mecklenburg County, which I represent. We need 30,000 units of housing to meet our community's need, and that is why I proudly introduced the bipartisan, bicameral LIFELINE Act with Representative David Rouzer, and Senators Leahy and Collins. Our bill would allow cities and States to use their already-appropriated Coronavirus State and Local Fiscal Recovery Fund (SLFRF) dollars to serve as gap financing for housing that utilizes LIHTC.

Director Thompson, do you believe that enabling local governments to use their SLFRF dollars as gap financing for LIHTC units could help ameliorate our nationwide housing shortage?

Ms. THOMPSON. Certainly, I would love to get more information on that so I can give you a more thorough and thoughtful answer, and I would be happy to work with you on this particular issue.

Ms. ADAMS. Okay. Thank you. We will make sure you get the information. I do know that FHFA has been evaluating a new credit score model for a number of years now, so I wanted to echo the sentiments that Mr. Gottheimer made earlier.

Ms. ADAMS. Director Thompson, can you provide a brief update on where the Agency is in that process and give us a roadmap on what the next steps might be?

Ms. THOMPSON. Sure. Thank you for the question. We have not made a decision on the update for the credit score model. We are currently analyzing the submissions that we received for the modelers that have submitted their applications. The Enterprises went through their oversight process, and we are now going over ours. And, again, I mentioned earlier that this is a very complicated decision, and is very impactful for all stakeholders in the mortgage industry. And we want to make sure that we get as much stakeholder input on this decision as possible, so we are actively engaged in overseeing and reviewing the applications that have been submitted.

Ms. ADAMS. Thank you. I have one last question. It is my understanding that FHFA's Office of Inspector General released a report on third- and fourth-party service providers, and FSOC recently published a similar report. Can you walk us through your safety and soundness concerns if those core providers of technology services to the Enterprises were to fail?

Ms. THOMPSON. Yes. Thank you for the question, and we have asked as an agency for third-party service provider oversight. We want to have the same regulatory authorities that the financial regulators have, the bank regulators in particular, over their regulated entities. And we believe that the persons or entities that provide services to our regulated entities, if there is an issue that could impact the safety and soundness of Fannie Mae and Freddie Mac or the Home Loan Banks, that we want to have the authority to go in and take a look and identify whatever the problem might be because it could be very impactful. And we would like to have those authorities so that we can really have parity with the other financial regulators.

Ms. ADAMS. Right. Thank you very much. Madam Chairwoman, I yield back.

Chairwoman WATERS. The committee stands in recess. We will return after the vote on the Floor.

[recess]

Mr. GREEN. [presiding]. The Chair now recognizes Mr. Norman for 5 minutes for questions.

Mr. NORMAN. Thank you, Chairman Green. I appreciate the opportunity. Director Thompson, thank you for taking the time to be here today. Let me ask your opinion. Why is it that someone can get a taxpayer-backed loan from Fannie or Freddie for a second home up to $1 million?

Ms. THOMPSON. Sir, thank you for the question. We have a statutory requirement for loan limits, and the Enterprises are allowed to purchase second homes, investor homes. And as long as they meet the qualifications, the loan limits are prescribed by statute for the different property types. We certainly would be happy to work with the committee on any adjustments they would wish to make.

Mr. NORMAN. Do you think that would be something that would really send a message, for a second home to be able to let the taxpayers on the hook to pay it off, if it doesn't work out, for a second home up to $1 million? Do you not think that sends a message to all Americans that something is not right about that?

Ms. THOMPSON. Certainly, there are requirements on how many second homes, how many investment homes and other property types that are different from single-family residential, which is the bread and butter of the Enterprises' portfolio. So, we do look at the volumes that come in, and we also look at the characteristics that come in. With regard to the million dollars and the pricing, again, that is a requirement that we have to follow the law and impose.

Mr. NORMAN. If you could use your influence on that, I think that would send a strong message. Secondly, Congressman Luetkemeyer's question on affordable housing—that is my line of work, I have been doing it for a long time, and I don't know what affordable housing is anymore. What is affordable? I would not start a project now. You can't get water heaters. You can't get pipes to put the utilities in. The supply chain issues on top of the inflation is out of control. His question was, have you had an audience with the President, and you said you had, but does he realize the severity of what he is doing with his policies, particularly with gas and energy?

One thing that would unlock this country would be to go to our natural resources and start producing our own oil and gas instead of buying it from OPEC, which is 15 countries that don't like us. And I can't tell you the number of projects that are stopped because truckers try to get somebody with a GDL to drive a truck. They can't price anything. They have a shortage of workers anyway. Anyway, all of the above, you need to be pounding on his desk saying, this is not right, and it is not right for the homeowners. As housing goes, so goes the economy. Would you agree?

Ms. THOMPSON. I would agree that housing is a very important component of the economy.

Mr. NORMAN. You realize housing, from footings to finished product, affects over 142 different trades. That is coming to a complete standstill. And I am from South Carolina. We have people coming there. I see more California tags, New York tags, New Jersey tags that come in because of our low regulations, and our low crime rates. And I would ask you, for the sake of the citizens of this country, to bang on his desk and say something has to be done sooner rather than later.

Ms. THOMPSON. Congressman, thank you so much for that suggestion.

Mr. NORMAN. Now on the GSEs, I heard you earlier going to the private sector—and I only have 52 seconds—trying to transfer the funds. What kind of discount rate do they normally buy these on?

They are not going to take risks that they can't recover. What is your take on that?

Ms. THOMPSON. Actually, Congressman, they have capital markets transactions that they sell, and they use a syndicated structure, similar to what they do for mortgage-backed securities, and they sell based on the market rate that is available at that time. And they sell different tranches of these securities, and sometimes the spreads are wider than others. But many times, some of these transactions are oversubscribed, which means that they can tighten the spreads. So, we are trying to preserve and conserve the assets of the Enterprises for the taxpayers.

Mr. NORMAN. Thanks for your service. You are one of the few who have a pleasant way. You answer the questions in an easy manner, and I appreciate that.

Ms. THOMPSON. Thank you.

Mr. NORMAN. I yield back, Mr. Chairman.

Mr. GREEN. The gentleman yields back.

I would like to thank our distinguished witness for her testimony today, and I would also like to thank her for her patience today because we did have votes interrupt our hearing, and you have been very gracious. So again, we thank you.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witnesses and to place her responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 2:51 p.m., the hearing was adjourned.]

A P P E N D I X

July 20, 2022

Written Testimony
Sandra L. Thompson, Director
Federal Housing Finance Agency

House Committee on Financial Services
"Housing in America: Oversight of the Federal Housing Finance Agency"

Wednesday, July 20, 2022

Chairwoman Waters, Ranking Member McHenry, and distinguished members of the Committee, thank you for the invitation to appear at today's hearing.

While this is not my first time testifying before Congress, it is my first time as the Director of the Federal Housing Finance Agency (FHFA). I recognize that it is rare for a career public servant to have the opportunity to lead a federal agency, and it is a great honor to appear before you today.

For those of you who do not know me, I was born and raised on the South Side of Chicago by my extraordinary parents who came to Chicago from Mississippi as part of the Great Migration. I learned the virtues of hard work, determination, commitment, and perseverance from my parents and family, the Chicago Public School system, and my beloved Howard University right here in Washington, D.C.

Prior to joining FHFA, I worked at the Federal Deposit Insurance Corporation (FDIC) for more than 23 years in a variety of leadership positions, most recently as Director, Division of Risk Management Supervision, where I led their examination and enforcement program for risk management and consumer protection at the height of the financial crisis. I also led the FDIC's outreach initiatives in response to a crisis of consumer confidence in the banking system.

I've been at the Agency for just over nine years – eight years as Deputy Director of FHFA's Division of Housing Mission and Goals, and about one year as Acting Director of the Agency, after which I was sworn in as Director on June 22, 2022.

FHFA has a vital role in both protecting the safety and soundness of the housing finance system and promoting access to mortgage credit nationwide through the supervision of our regulated entities – Fannie Mae, Freddie Mac (together, the Enterprises), and the Federal Home Loan Bank System, which includes the 11 Federal Home Loan Banks (together, the FHLBanks) and the Office of Finance, totaling approximately $8.2 trillion in assets. The Enterprises and the FHLBanks serve a vital function to the American economy by providing liquidity and stability to the secondary mortgage market.

As a longtime financial regulator, I know that safety and soundness and equitable access to credit are not mutually exclusive. We at FHFA will continue to focus on our safety and soundness mission and on the mission that Congress gave the regulated entities under our supervision: providing liquidity across the nation, including underserved markets such as rural and tribal areas, manufactured housing, and the preservation of affordable housing, and other underserved populations such as communities of color. This mission extends not only to homeownership, but also to affordable rental housing across the country.

It has been a very busy year at FHFA. Throughout the last year, FHFA has appreciated the input and feedback from the members of the Federal Housing Finance Oversight Board in our quarterly meetings and in developing the Agency's annual report to Congress.[1] FHFA also engages with stakeholders, including industry, market participants, and advocacy groups, on key topics throughout the year. We have taken some important steps to advance FHFA's mission of ensuring the safety and soundness of the regulated entities and ensuring access to affordable and sustainable housing.

Housing and Mortgage Markets

The housing market has faced significant challenges in recent years, including a pandemic, rapidly rising home prices, and most recently mortgage interest rates rising dramatically in the last six months. Housing supply continues to be an issue, as are the rising costs of building homes, which includes the cost of labor and materials. This situation has made it difficult for homeowners to find an affordable home. At the same time, rents are increasing across the country, limiting safe, affordable rental options for some Americans.

FHFA has a specific mission, and the regulated entities do not originate mortgages themselves nor build homes. We can only act to improve access to credit and affordability within our authorities and functions, and we have been exploring the policies and programs to address the high cost of housing that can be implemented in a safe and sound manner.

FHFA's actions during the pandemic kept people in their homes

The onset of the pandemic was over two years ago, and it is still worth recalling the challenges and uncertainty we faced in those early days. Millions of Americans were facing temporary or permanent job losses as much of the economy came to a standstill.

At FHFA, we took decisive action to support the market and provide relief to borrowers and renters with mortgages backed by the Enterprises. We worked to ensure borrowers could temporarily suspend their mortgage payments if needed while developing programs for them to get back on track through the Enterprises' existing mortgage modification options, as well as creating temporary enhancements to address the crisis at hand. Our actions allowed millions of Americans to stay in their homes.

At the start of the pandemic, more than six percent of Enterprise loans went into Coronavirus Aid, Relief, and Economic Security Act forbearance. That represents 2.25 million homeowners. I am happy to report that today, 96 percent of the homeowners who relied upon forbearance relief have successfully exited the program, either by staying current on their payments, paying off

[1] Federal Housing Finance Agency, "2021 Report to Congress," https://www.fhfa.gov/AboutUs/Reports/Pages/Annual-Report-to-Congress-2021.aspx, June 2022.

their mortgages, or by benefiting from loss mitigation options such as payment deferral or a loan modification.

Today's housing market compared to the Great Recession

Despite these challenges, homeowners are in a better position to remain in their homes in part due to actions FHFA, the Enterprises, and other stakeholders have taken since the Great Recession. Regulatory improvements in mortgage underwriting standards, such as post-crisis ability-to-repay requirements, were important advances. Thankfully, toxic products such as negative amortization loans, and loans approved with stated income, stated assets, and weak underwriting, have largely been eliminated from the market.

Despite consumer costs having increased in recent months, today's mortgage borrowers are less weighed down by debt. Aggregate debt-service burdens of mortgaged homeowners are just starting to rise from their historical low points reached just last year.

Homeowners are in better financial shape than they were in 2007. In 2007, the share of borrowers with "mark-to-market loan-to-value ratios" (that is, loan-to-value ratios that reflect the latest home price values) that are above 90 percent was 9 percent, compared to 0.3 percent in 2022. Similarly, the median credit score of new originations in 2007 was 699, as compared to 742 in 2021.[2]

Challenges to the Mortgage Market

There is uncertainty about the long-term effects of the pandemic on housing finance markets. Prior to the pandemic, house prices were growing at a moderate rate and mortgage interest rates were stable, yet housing inventory was low. Two years after the onset of the pandemic, house price growth has been historically high, fueled in part by low inventories of homes for sale. In addition, mortgage interest rates have increased rapidly this year. For example, Freddie Mac's weekly survey of lenders nationwide indicated that the average rate for 30-year fixed-rate mortgages, including points, increased from 3.11 percent on December 30, 2021, to 5.51 percent on July 14, 2022, a rise of nearly 250 basis points.

We are seeing slowdowns in housing market activity owing to the rapid increase in mortgage interest rates:

- Home purchase applications were down 24 percent in June compared to one year ago.[3]
- Pending home sales were down 13.5 percent in June compared to one year ago.[4]

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[2] Federal Housing Finance Agency, National Mortgage Database (NMDB) data as of July 10, 2022. For more information on the NMDB, see https://www fhfa.gov/PolicyProgramsResearch/Programs/Pages/National-Mortgage-Database.aspx#NMDB.
[3] Mortgage Bankers Association, "Mortgage Applications Increase in Latest MBA Weekly Survey," https://www.mba.org/news-and-research/newsroom/news/2022/06/29/mortgage-applications-increase-in-latest-mba-weekly-survey, June 2022.
[4] Redfin, "Housing Market Update: Balance is Returning to the Housing Market as Competition Eases," https://www.redfin.com/news/housing-market-update-balance-returning/, July 2022.

- The median asking price of new "for sale" listings was down 2.1 percent in June compared to May.[5]
- Nearly 7 percent of active home sellers lowered their asking prices in June. That is more than double the rate of one year ago.[6]

While it is quite natural to see pullbacks in housing demand because of increases in mortgage interest rates, there are some positive factors for the housing market outlook:

- Many homeowners took advantage of the low interest rates in 2020-2021 and refinanced their homes using fixed rate mortgages, thus lowering their monthly mortgage payments while protecting themselves against rate increases.
- Those who were able to purchase a home or refinance their home are now saving hundreds of dollars each month, which may be helpful to families coping with the broader inflationary pressures they are currently confronting.
- Most homeowners have increased their equity position due to the rise in home prices in recent years. Thus, modest declines in the rate of home price increases, or even home price declines, should not increase default risk among these homeowners.

However, if economic conditions deteriorate, there will likely be negative implications for homeowners. We will, of course, continue to monitor the health of the economy and stand ready to assist borrowers through the Enterprises' loan modification programs.

Safety and Soundness of the Enterprises

As a seasoned financial regulator, I have always believed that safety and soundness and sustainable access to credit work together to strengthen financial institutions, families, and the economy. Indeed, sustainable access to credit requires prudent lending standards. FHFA's five-year Strategic Plan, released this spring, underscores the Agency's responsibility to ensure the regulated entities fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity.

FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program and housing mission functions. FHFA conducts supervision using a risk-based approach to identify existing and emerging risks to the regulated entities, to evaluate overall effectiveness of each regulated entity's risk management systems and controls, and to assess compliance with applicable laws and regulations. The housing mission functions establish policies affecting a broad range of areas, including credit underwriting standards, capital standards, loan pricing, mortgage insurer standards, and servicer eligibility standards.

The Enterprises continue to manage their portfolio risks. Credit risk management remains a priority for both Enterprises given the effects of the COVID-19 pandemic on borrowers, partially mitigated by many borrowers successfully exiting forbearance programs. Market risk exposures are low because of shrinking retained portfolios and effective funding and hedging strategies for

[5] Ibid.
[6] Ibid.

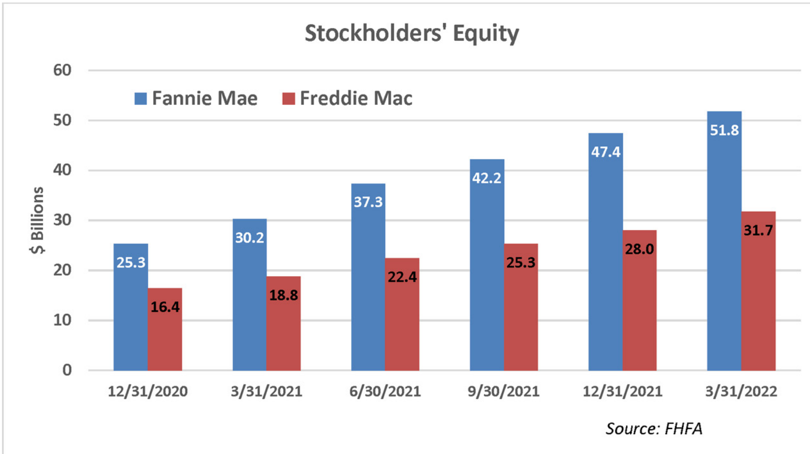
the single-family and multifamily business lines. Both Enterprises exceed FHFA guidance and expectations for liquidity by maintaining a large volume of high-quality liquid assets.

FHFA is continuing to take steps to strengthen the capital positions of the Enterprises so they can fulfill their responsibilities throughout the economic cycle. Following the publication of a proposed rule in 2021, FHFA finalized important enhancements to the Enterprise Regulatory Capital Framework in February 2022. These enhancements provide the Enterprises with the necessary incentives to transfer credit risk to private investors, which will help protect taxpayers from unexpected credit losses. Furthermore, in the Spring of 2022, FHFA finalized additional capital planning requirements to ensure the Enterprises properly assess their risks and maintain the appropriate level of capital, and disclosure requirements to provide market participants with more information to assess an Enterprise's risks and capital adequacy.

As conservator, FHFA has taken actions to improve the condition of the Enterprises. Since 2008, FHFA has directed reforms to their practices and standards, management and transfer of risks, underwriting and loss mitigation policies, and the Enterprises' securitization infrastructure:

- As mentioned above, the credit quality of mortgages purchased by the Enterprises is fundamentally stronger than prior to the onset of the 2008 crisis.
- Notably, the Enterprises have substantially transitioned away from the business models they used prior to the financial crisis of 2008.
- FHFA has overseen an unwinding of the Enterprises' retained portfolio holdings. It was those holdings, particularly investments in subprime and Alt-A securities, that helped to make the Enterprises vulnerable to economic shocks.
- We also have worked to ensure the Enterprises syndicate risk to the capital markets by creating and operating credit risk transfer (CRT) programs to ensure the private sector bears much of the credit risks the Enterprises previously assumed. During the past year, we have worked to ensure that the CRT programs remained a viable option by assuring adequate capital relief for the CRT issuances.

Because of changes in the Senior Preferred Stock Purchase Agreements (PSPAs) between FHFA and the Treasury Department, the Enterprises are retaining more of their earnings and building capital. These PSPA changes, coupled with robust comprehensive income, have significantly boosted net worth for both Enterprises, although there is still a long way to go to meet regulatory capital requirements. Fannie Mae's stockholders' equity or capital reserves increased from $14.6 billion at year-end 2019 to $51.8 billion by March 31, 2022. In the same period, Freddie Mac's stockholders' equity increased from $9.1 billion to $31.7 billion.



Providing Liquidity in Underserved Areas

We continue to strengthen our core statutory mission programs such as Duty to Serve and the Housing Goals for the Enterprises, and the affordable housing and community investment programs of the FHLBanks. We will ensure that the FHLBanks serve each state in their district under the Affordable Housing Program (AHP) and that the FHLBanks' Community Lending Plans identify and seek to fulfill the needs of communities throughout their district, including tribal communities.

Through Duty to Serve, the Enterprises are required by law to serve three specific underserved markets: manufactured housing, affordable housing preservation, and rural housing.

They do this by increasing the liquidity of mortgage financing for low- and moderate-income families and creating new markets where the financing system is not meeting housing needs.

Under their Duty to Serve Plans for manufactured housing, the Enterprises are enhancing existing programs to expand financing and provide liquidity for new manufactured housing, and to help protect families living in manufactured housing communities (MHCs), such as only purchasing blanket loans on MHCs that provide all eight protections in the Duty to Serve regulation for 100 percent of residents. Fannie Mae is also enhancing an existing program to support MHCs with rental flexibilities to increase affordable, unsubsidized rental options in communities.

Both Enterprises also set higher targets for purchases of manufactured homes titled as real estate, which will foster greater liquidity for manufactured housing and could help increase delivery of manufactured homes throughout the country. The Enterprises set targets to purchase 47,000 of these loans between 2022 and 2024, including 15,800 loans in 2022.

The Duty to Serve Plan for the rural housing market focuses the Enterprises in part on support for rural areas with the greatest need. Last year, the Enterprises purchased more than 50,000 single-family loans in persistent poverty areas, one-third more than the year before and 145 percent more than the volume they were buying before Duty to Serve began.

Both Enterprises also made Low-Income Housing Tax Credit (LIHTC) investments in these same regions. And last November, Freddie Mac held its third annual rural research symposium, which focused on providing insights on the rural macroeconomy, community housing development, manufactured housing, sustainability, health and housing, and environmental justice. The fourth symposium is scheduled for this November.

Fannie Mae has committed to purchasing loans on small, 5- to 50-unit rental properties and is making improvements to its current product offering for high-needs rural regions. Freddie Mac has committed to developing a capacity building program for emerging rural developers and is planning to expand its Credit Building program to LIHTC properties in rural areas. The program provides incentives for multifamily borrowers to report on-time rent payments to credit bureaus.

Both Enterprises will continue to work closely with Native American Community Development Financial Institutions and statewide coalitions to support increased homeownership opportunities for tribal communities, including through technical assistance, homeownership education, and enhancing secondary market liquidity.

We also continue to strengthen our fair lending oversight. FHFA published a policy statement and advisory bulletin to communicate the Agency's positions, supervisory expectations, and guidance on fair lending compliance. In addition, FHFA completed targeted fair lending examinations of certain business areas of both Enterprises, and we will continue to build out our examination program. We have also made data about the Enterprises' fair lending performance available on our website. We have implemented a statutory requirement to analyze pricing disparities and notify our regulatory partners of lenders whose data may indicate fair lending pricing issues. We will fulfill this requirement annually as required in our statute.

With a historic Memorandum of Understanding on fair lending now in place between FHFA and the Department of Housing and Urban Development (HUD), our Agency will continue to collaborate with HUD and our other interagency partners to provide clear guidance and comprehensive fair lending oversight of the mortgage market.

The Enterprises are also taking steps to expand access to quality, affordable housing for minority and underserved communities. Years ago, many families were unable to purchase a home due to redlining, which often divided neighborhoods along racial lines. The racial homeownership gap between Black and White families is higher today than when the Fair Housing Act was passed. Last month, FHFA announced the release of the Enterprises' Equitable Housing Finance Plans for 2022-2024 to help narrow the homeownership gap in minority populations.

These strategic plans include activities for renters, aspiring homeowners, and current homeowners who may have different housing needs. The plans complement existing programs like Duty to Serve and the Affordable Housing Goals to help ensure the Enterprises provide broad access to sustainable mortgage credit. FHFA will oversee the Enterprises' implementation of their Equitable Housing Finance plans and ensure the Enterprises take meaningful actions to achieve their goals and objectives in a safe and sound manner while ensuring that all plan activities comply with the law and the Enterprises' charters.

FHFA supports the use of fair and accurate credit scoring models in considering a borrower's creditworthiness and is actively reviewing credit score models along with the Enterprises pursuant to the solicitation and approval process set forth by the law and our regulation. We are also pleased that the Enterprises are incorporating new payment information into their evaluations of credit risk to promote access to credit. Data that is generally not incorporated into the current major credit scoring models, such as rental payments, may be a helpful indicator of mortgage performance and a borrower's overall willingness to pay. Considering rental payment history in risk assessment processes is an innovative way to expand access to credit in a safe and sound manner.

Housing Supply and Affordability

While the Agency's ability to directly affect the supply of affordable housing is limited, FHFA is taking incremental steps to support the growth of our nation's housing stock. For example, FHFA recently increased the Enterprises' LIHTC equity investment caps, an important source of funding for new affordable housing. Within the $850 million annual investment cap for each Enterprise, half of the allocation is required to be in areas that have been identified by FHFA as markets that have difficulty attracting investors. This requirement increases Enterprise investments that are targeted toward transactions that support housing in Duty to Serve designated rural areas, preserving affordable housing, supporting mixed-income housing, providing supportive housing, or meeting other affordable housing objectives.

To ensure a strong focus on affordable housing and traditionally underserved markets, FHFA requires that at least 50 percent of the Enterprises' multifamily business be mission-driven affordable housing in 2022. FHFA is also requiring at least 25 percent of the Enterprises' multifamily business to be affordable to residents at or below 60 percent of area median income, up from 20 percent in 2021. In addition, the Agency is working with the regulated entities to ensure liquidity is available to respond to the supply shortage, such as increasing purchases for manufactured housing and accessory dwelling units.

Climate Risk and Natural Disasters

FHFA is ensuring that our regulated entities identify and manage emerging climate-related risks, and natural disasters in particular. The Agency has long worked with the Enterprises to develop effective disaster response loss mitigation toolkits to support borrowers and renters affected by natural disasters such as hurricanes, floods, and wildfires. The toolkit includes forbearance for borrowers, which servicers are authorized to provide without quality right party contact following a natural disaster, and other workout options.

At FHFA, we are committed to understanding and researching the risks associated with natural disasters and climate change so that we can continue to ensure that our regulated entities operate safely and soundly while continuing to achieve their housing mission responsibilities.

Earlier this year, we established an agency-wide working group to focus on identifying risks to our regulated entities, homeowners, and renters stemming from the consequences of not only natural disasters but the chronic consequences of climate change, such as sea level rise, droughts, and wildfires.

Our ongoing efforts include:

- identifying the channels through which climate events and natural disasters can lead to adverse financial effects for our regulated entities and homeowners;
- identifying the data that we and our regulated entities need to ensure that they make the right decisions to protect their own financial condition, while also considering the consequences of those decisions on homeowners and vulnerable communities;
- participating actively in the Financial Stability Oversight Council's Climate-related Financial Risk Committee and its working groups, along with other government agencies; and
- working with our regulated entities to ensure they adequately prioritize their work to adapt to the effects of natural disasters and climate change so that they remain safe, sound, and able to achieve their housing mission.

The Federal Home Loan Banks (FHLBanks)

As of March 31, 2022, the FHLBank System had $762.3 billion in assets and $374.6 billion in outstanding advances (that is, loans to their members). The COVID-19 pandemic market disruption in March 2020 resulted in a steep advance increase, followed by a decline due to increased liquidity from fiscal and monetary policy. On September 30, 2021, advances reached their lowest quarter-end level since 2001 but have recovered significantly in 2022, primarily from increased commercial bank member borrowing. Advance balances grew by $146.2 billion since March 31, 2022, to $523.4 billion on June 30, 2022, with every Bank experiencing an increase quarter-over-quarter. Net income at the FHLBanks, and their affordable housing program contributions (which are statutorily mandated at 10 percent of net income before affordable housing program assessments), tend to follow advances trends. FHLBank System year-to-date net income was $503 million through March 31, 2022, slightly down from $505 million over the same time period in 2021.

In 2021, the FHLBank System made available approximately $314.7 million in Affordable Housing Program (AHP) subsidies nationwide. From 1990, the AHP's first year, through 2021, the FHLBanks awarded approximately $7.3 billion in AHP subsidies, assisting more than one million households.

The FHLBanks' core function is to provide liquidity in times of stress. This support is critical for small and community banks that often do not have access to other sources of low-cost funding. When the pandemic began, the FHLBanks helped to maintain liquidity in the market, meeting unprecedented advance demand from their member financial institutions. However, as we approach the 100th anniversary of the FHLBanks, now is a good time to re-examine their approach. We want to make sure they are positioned to continue to serve the needs of today and tomorrow, so FHFA will conduct a 90-year lookback, as well as a forward-looking analysis of the FHLBank System. We plan to engage a variety of stakeholders in the coming months, in addition to holding public listening sessions throughout the country. We want this review to be an opportunity to examine everything from the FHLBanks' membership base, operational efficiency, and effectiveness, to more foundational questions about mission, purpose, and organization. We, of course, welcome the input of Members of Congress.

Moving Forward

In carrying out FHFA's statutory responsibilities, our decision-making process is to independently understand the parameters, goals, and risks of any initiative and ensure that appropriate risk management is a part of the equation before we take action. We will continue to follow the laws that guide our Agency's purview and mission and carry them out as a federal financial regulator focused on our statutory priorities.

Accordingly, FHFA will continue to promote sustainable and equitable access to credit in a responsible manner that does not compromise safety and soundness. We will focus our efforts on the financial health of, and on the mission Congress set forth for, the entities under our supervision: providing access to mortgage credit throughout the nation, which includes preserving affordable housing, and supporting underserved markets such as rural and tribal areas, manufactured housing, and communities of color.

Thank you again for the opportunity to testify before you today, and I look forward to working with the Members of this Committee and answering any questions you may have.

Credit Union National Association
CUNA

Jim Nussle
President & CEO

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July 19, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairwoman Waters and Ranking Member McHenry,

On behalf of America's credit unions, I am writing regarding the hearing entitled, "Housing in America: Oversight of the Federal Housing Finance Agency." CUNA represents America's credit unions and their more than 130 million members.

Credit unions are integral to achieving the Federal Housing Finance Agency (FHFA's) housing mission and goals. As member-owned, not-for-profit financial cooperatives, America's credit unions are at the heart of the Federal Home Loan Banks' (FHLBanks') and government-sponsored enterprises' (GSEs') statutory missions. The FHLBanks provide their credit union members with funding and liquidity, allowing them to effectively provide affordable credit to their communities. In 2021, credit unions originated $315 billion in first-lien mortgages, selling over 35% into the secondary mortgage market.[1] Accordingly, credit unions have a substantial interest in the effective functioning of the FHFA-regulated entities, so they meet their core missions to benefit low- and moderate-income borrowers and communities.

Access to the Secondary Market and the FHLBank System

CUNA has long-supported equal secondary mortgage market access to lenders of all sizes on an equitable basis as a core requirement of the housing finance system.[2] Smaller credit unions continue to report the existence of significant barriers in accessing the secondary market through the GSEs. Seller/servicer requirements dictate mandatory staffing requirements with specified experience levels, which price out smaller credit unions who are unable to get their staff the necessary experience in-house. These requirements apply regardless of an individual credit union's excellent record in making high quality loans and extremely limited exposure for the GSEs.

Credit unions that belong to the FHLBank of San Francisco are experiencing additional secondary market access barriers. The FHLBank of San Francisco discontinued its secondary market program, cutting off another access point to the secondary market. As no single financial institution can be a member of more than one FHLBank, smaller credit unions in the San Francisco region are simply out of luck.

CUNA supports the FHLBanks' mission to provide reliable liquidity to its member institutions to support housing finance and community investment. The individual FHLBanks must be able to exercise their own discretion, given that individual banks and their Boards of Directors have a more comprehensive understanding of the communities within their jurisdictions and their risks. However, where a FHLBank is not able or willing to provide a critical service to those within its region, the FHLBank System should consider permitted members to

[1] National Credit Union Administration (NCUA) 2021 Credit Union Call Report Data; CUNA analysis.
[2] See Credit Union Principles for Housing Finance Reform, available at https://www.cuna.org/content/cuna/cuna-org/advocacy/letters---testimonies/2018/cuna-letter-on-enterprise-capital-requirements-proposed-rule.html.

make discrete use of those services elsewhere in the system as a correspondent service. For example, by allowing credit unions which are members of the FHLBank of San Francisco to access secondary market programs at other FHLBanks at their discretion.

Addressing Racial Equity in Housing Finance

Credit unions are disturbed by the increase in reports of racial discrimination by appraisers reported by the Department of Housing and Urban Development (HUD).[3] It is well documented that diverse and often underserved communities face several barriers when it comes to access to financial services, and credit unions have a long history of serving underserved and diverse communities. Undervaluation of homes owned by people of color exacerbates the homeownership gap, the racial wealth gap, and, ultimately, harms the long-term financial security of our entire nation. It further discredits the reliability and value of home appraisals generally. Credit unions rely on appraisers for accurate and unbiased opinions on the market value of homes serving as collateral for mortgage loans. When racial prejudice is injected into that process, it prevents credit unions from meeting their mission to serve their members and introduces risk into the housing finance system. CUNA supports the commitments made by FHFA in the Property Appraisal and Valuation Equity (PAVE) Action Plan[4] to address this issue.

CUNA further supports the Housing Finance Equity Plans recently released by the GSEs.[5] In particular, both plans make use of special purpose credit programs (SPCPs).[6] Credit unions report significant interest in the creation of SPCPs to serve classes of borrowers in their membership that have been historically disadvantaged. However, credit unions also report significant concerns regarding the compliance, legal, and reputational risk of inadvertently making an error in the design of these programs. While the banking regulators have offered their blessing of these programs in theory,[7] the potential risk of rolling out a program in practice only to have it shut down by an examiner citing fair lending violations is significant. Compliantly designed SPCPs offered by the GSEs will go a long way towards closing this gap. Credit unions hope to see the GSEs' pilot SPCPs find tremendous success, experience a nation-wide roll-out, and be broadened to address additional classes of borrowers. Further, Freddie Mac's interest in buying lender-designed SPCP loans under established terms of business is a very encouraging idea.

Conclusion

We appreciate you holding this hearing and look forward to working with you and Director Thompson on these and other critical issues.

Sincerely,

Jim Nussle
President & CEO

[3] Remarks of Senior Advisor to the Secretary of HUD Alanna McCargo, *Virtual Home Appraisal Bias Event* (delivered June 15, 2021) available at https://www.consumerfinance.gov/about-us/events/archive-past-events/virtual-home-appraisal-bias-event/.
[4] Interagency Task Force on PAVE, *Action Plan to Advance PAVE: Closing the Racial Wealth Gap by Addressing Mis-valuations for Families and Communities of Color* (March 2022), available at https://pave.hud.gov/actionplan.
[5] Fannie Mae, *Equitable Housing Finance Plan* (June 2022), available at https://www.fanniemae.com/media/43636/display; Freddie Mac, *Equitable Housing Finance Plan: Our Commitment to Making Home Possible Equitably* (June 2022), available at https://www.freddiemac.com/about/pdf/Freddie-Mac-Equitable-Housing-Finance-Plan.pdf?_ga=2.128921482.742884043.1658236416-195136551.1653570617.
[6] Special purpose credit programs (SPCPs) are credit programs specifically designed to address credit inequities affecting classes of borrowers sharing common characteristics, such as race, ethnicity, national origin, and sex. Normally, under fair lending laws these characteristics cannot be considered in the lending. However, they can be considered under SPCPs established under the Equal Credit Opportunity Act and its implementing regulation. *See* 15 U.S.C. § 1691(c)(1)-(3); 12 C.F.R. § 1002.8(a).
[7] Interagency Statement on Special Purpose Credit Programs Under the Equal Credit Opportunity Act and Regulation B.

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National Association of Federally-Insured Credit Unions

Greg Mesack
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July 19, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing – Housing in America: Oversight of the Federal Housing Finance Agency

Dear Chairwoman Waters and Ranking Member McHenry:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) regarding tomorrow's hearing, "Housing in America: Oversight of the Federal Housing Finance Agency." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 131 million consumers with personal and small business financial service products. We thank you for holding a hearing on this important topic and would like to take this opportunity to share our thoughts on a few key issues related to housing and the Federal Housing Finance Agency (FHFA).

Capital Requirements and Guarantee Fees

NAFCU has been supportive of the FHFA's efforts to allow the government-sponsored enterprises (GSEs) to rebuild capital, and we believe strong liquidity and funding requirements are an important step toward preventing another government bailout in the event of an economic downturn, however, this should not come at the cost of increased guarantee fees. Excessive liquidity requirements that treat the GSEs like large banks and establish enhanced regulatory and supervisory requirements will likely increase compliance costs for the GSEs. This has the potential to lead to negative impacts on credit unions and their members in the form of higher mortgage costs.

Increased guarantee fees on the sale of loans should not be the trade-off for the short-term liquidity build-up and other changes at the GSEs as this will serve to limit access to credit to the communities that are most in need. Now is not the time to impose additional costs on borrowers who are relying on access to mortgage credit through a loan that will be sold to the GSEs. Accordingly, in the absence of legislative action, NAFCU asks the Committee to urge the FHFA to continue to transparently communicate its expectations regarding changes to guarantee fees or other fees on sellers during this difficult economic time and on a consistent basis as the GSEs move closer to a potential release from conservatorship. Ultimately, the FHFA and U.S. Department of the Treasury should reevaluate whether it may be more appropriate for the GSEs to retain a higher level of capital to be able to operate effectively and provide greater avenues for lenders to better serve their communities.

Secure the Safety and Soundness of the GSEs in the Face of Climate Risk

NAFCU has long supported a strong regulatory and supervisory framework that protects the safety and soundness of the GSEs and Federal Home Loan Banks (FHLBs) as credit unions rely on access to the secondary mortgage market for the liquidity they need to make more loans to their members. Accordingly, NAFCU supports the FHFA's goal of promoting safe and sound operations at the GSEs and FHLBs, as it is crucial to the continued safety and soundness of the credit union system and protecting American taxpayers. NAFCU supports the incorporation of climate change into the GSEs' governance and appreciates the FHFA's focus on improving climate data collection, analysis, and reporting, as well as evaluating the risks and effects of climate change on the housing finance system.

This data-driven, research-focused approach will allow the FHFA to gather the information necessary to determine the true extent to which the markets and the GSEs may be impacted by climate change risk. Regarding external impacts, NAFCU encourages the FHFA to continue to work with other regulators, including the National Credit Union Administration and others in the Financial Stability Oversight Council, on evaluating climate risk to ensure consistency across policies impacting mortgage servicers. The FHFA should adopt a risk-based framework for regulating and supervising the GSEs in the face of climate change and should avoid implementing any policies and requirements for the GSEs that will impede credit unions' ability to sell their mortgages as this may have a disproportionate impact on minority and low-income borrowers. Ultimately, the FHFA's actions to address climate risk at the GSEs should take care to not increase costs and burdens on lenders and borrowers.

Appraisals

The FHFA has a statutory obligation to ensure that the operations and activities of the GSEs and FHLBs foster liquid, efficient, competitive, and resilient national housing finance markets. NAFCU has recommended that the FHFA promote efficiency and cost savings in the mortgage process by streamlining and modernizing the appraisal process. In recent years, as a result of the pandemic, NAFCU's member credit unions have seen an increase in the price of appraisals, especially in rural areas. There is a lack of standardization between appraisers and throughout the appraisal process, and the effects of this are carried over to the borrower in increased costs.

NAFCU supports alternative appraisal processes such as appraisal bifurcation, desktop appraisals, and exterior-only appraisals. There is a need for consistent, reliable technology to simplify the appraisal process and make it more efficient. NAFCU suggests that the FHFA continue to permit the use of technology developed to modernize the appraisal process, as well as new and emerging technology, as an alternative to traditional appraisals. Desktop appraisals proved to be much easier and just as accurate for NAFCU's member credit unions to utilize to facilitate mortgage lending. In light of this experience, the FHFA and GSEs should consider additional improvements to the appraisal process through the utilization of technological advancements and capabilities.

Multiple studies have shown that biases in appraisals exist across the board. Freddie Mac[1] and Fannie Mae[2] have found that appraisal disparities exist for communities and borrowers of color. The Consumer Financial Protection Bureau and other federal regulators, including the FHFA, have also acknowledged that appraisal discrimination plagues the mortgage market.[3] Appraisal reform and modernization through the incorporation of new technologies, models, and practices is essential to address this widely recognized issue. NAFCU also recommends that the FHFA work with the GSEs, other federal regulators, and The Appraisal Foundation to diversify the appraisal industry by expanding participation of people of color in the appraisal industry, update standards to root out bias more clearly, and provide training for appraisers to understand and identify implicit bias.

Affordable Housing and Community Development Financial Institutions (CDFIs)

NAFCU appreciates the FHFA's commitment to fostering liquidity in the mortgage markets and ensuring equitable access to the secondary market by qualified institutions and borrowers. However, there are more opportunities available to the GSEs that can further close the racial homeownership gap and ensure that government-sponsored programs are benefiting the individuals and communities that most need them. For example, NAFCU has encouraged the FHFA to consider pilot programs for low- or zero-down payment mortgage loans that help borrowers build wealth. The FHFA should launch such pilot programs and consider additional programs targeted toward buying mortgages from CDFIs as this will help underserved borrowers and first-time homebuyers achieve homeownership while allowing credit unions to better support their communities. Collectively, such programs will go a long way in closing the racial homeownership gap.

NAFCU urges the FHFA to allow the GSEs to establish a Wealth Building Home Loan (WBHL) pilot program. A WBHL is structured as either a 15- or 20-year fully amortizing loan with either a fixed interest rate or a two-step rate structure, strong underwriting, and zero- or low-down payment. WBHLs provide a safer path to homeownership because borrowers generate equity at a faster rate. Traditionally, building equity faster meant high down payments, making it nearly impossible for underserved borrowers to attain wealth, but the WBHL is structured in a way that requires little to no down payment and potentially only a slight increase in monthly payment amounts. Originating safer, more affordable loans for borrowers will, in turn, create a safer housing finance system and close the racial homeownership gap.

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[1] Racial and Ethnic Valuation Gaps in Home Purchase Appraisals (Sept. 2021). https://www.freddiemac.com/research/insight/20210920-home-appraisals.

[2] Appraising the Appraisal (February 2022). https://www.fanniemae.com/media/42541/display.

[3] Federal Interagency Comment Letter on Appraisal Discrimination. (Feb. 4, 2022). https://files.consumerfinance.gov/f/documents/cfpb_appraisal-discrimination_federalinteragency_comment_letter_2022-02.pdf.

CDFI is a designation given by the CDFI Fund to privately-owned financial institutions that focus on providing services to local communities that are underserved and lack access to financing.[4] CDFIs promote financial inclusion and focus on serving the needs of very-low, low-, and moderate-income communities. Further, CDFIs' vision is for all communities to have access to the financial services needed to prosper. The CDFI Fund offers programs for CDFIs that provide awards to institutions to allow them to help their communities by financing mortgage lending for first-time homebuyers and being able to provide flexible underwriting for community facilities. Typically, CDFIs provide educational services such as credit counseling and homebuyer classes to help their borrowers use credit effectively and ensure they are able to keep up with their loan obligations. However, many of the mortgages originated by CDFIs are considered non-conforming and the GSEs are unable to purchase these loans.

NAFCU urges the FHFA to create a separate pilot program, or incorporate this effort into the other pilot program described above, to allow the GSEs to buy such non-conforming loans from CDFIs because they are serving the communities that the GSEs are Congressionally mandated to help. CDFIs put their communities first and they measure their success through their impact on the communities they serve, and not their profits. Inclusion and social responsibility are other main focuses of CDFIs. Despite serving predominately low-income and underserved communities, CDFIs are most times found to be more efficient than mainstream financial institutions.[5] Research shows that nationwide, CDFIs manage more than $222 billion, contributing to affordable housing, financial health and job creation.[6]

Credit unions that are classified as CDFIs are best situated to originate loans to the communities most in need, but those loans are often non-conforming as they do not meet the loan-to-value, debt to-income, and FICO score requirements to sell to the GSEs. Recent studies have found that Black and Hispanic borrowers were more likely to be denied conventional mortgages than white borrowers.[7] The homeownership gap is widening because minorities lack access to credit, in part due to stringent regulatory requirements. The FHFA should permit the GSEs to purchase mortgages like the ones made by CDFIs to their communities through new pilot programs with less stringent purchase criteria in order to facilitate a secondary market. This would mean CDFIs could make more of these loans to support their communities and help resolve some of the access and equity issues currently impacting many borrowers.

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[4] CDFI Certification.https://www.cdfifund.gov/programs-training/certification/cdfi.
[5] Brian Thompson, Impact Investing Through Community Development Financial Institutions (CDFIs) (Jan. 31, 2021). https://www.forbes.com/sites/brianthompson1/2021/01/31/impact-investing-through-communitydevelopment-financial-institutions-cdfis/?sh=1f3f015b7b75.
[6] *Id.*
[7] Jennifer Streaks, Black families have 10 times less wealth than whites and the gap is widening – here's why, (May 18, 2018), https://www.cnbc.com/2018/05/18/credit-inequality-contributes-to-the-racial-wealth-gap.html.

Conclusion

We thank you for the opportunity to share our thoughts in advance of tomorrow's hearing on FHFA oversight. Should you have any questions or require any additional information, please contact me or Jake Plevelich, NAFCU's Associate Director of Legislative Affairs, at jplevelich@nafcu.org.

Sincerely,

Greg Mesack

cc: Members of the House Financial Services Committee

NATIONAL MULTIFAMILY HOUSING COUNCIL
NATIONAL APARTMENT ASSOCIATION

July 20, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairwoman Waters and Ranking Member McHenry:

The National Multi Housing Council (NMHC) and the National Apartment Association (NAA) are writing to thank you for holding a hearing entitled, "Housing in America: Oversight of the Federal Housing Finance Agency." As conservator and regulator for Fannie Mae and Freddie Mac, FHFA Director Sandra Thompson is twice responsible for a critical source of capital for the multifamily industry. The Enterprises are uniquely able to support stability in our capital markets, help address housing affordability challenges across our nation, and encourage a focus on housing equity within the diverse communities where they participate.

For more than 25 years, NMHC and NAA have partnered to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry including ownership, development, management and finance. NMHC represents the principal officers of over 1,700 of the industry's largest and most prominent firms. As a federation of more than 145 state and local affiliates, NAA encompasses over 91,000 members representing nearly 11 million apartment homes globally. The apartment industry today plays a critical role in housing and the health of the broader U.S. economy by providing apartment homes to 40.1 million residents and contributing $3.4 trillion annually to the economy.

Our organizations believe that appropriate oversight of FHFA and the Enterprises they steward must have housing affordability and access to capital as central themes of the discussion. The connection between economic opportunity and housing is well documented. Having a roof over one's head and where it is located is the single most essential element impacting equity. Having access to decent housing impacts health, education, employment and a person's ability to build individual wealth. Addressing our nation's housing challenge, in general, and more specifically this nation's housing affordability crisis, is crucial to promoting economic opportunity in our country. To the extent FHFA remains focused on this mission and provides evidence through oversight hearings, they can help build paths to better opportunity in neighborhoods, with access to better schools, services, jobs and transportation.

Today's housing supply is insufficient to meet our nation's housing needs; and while we need housing at all price points, the most pressing is the need for housing for low- and middle-income populations. For decades, America has witnessed the escalating challenge created by demographic shifts, public policy decisions and economic factors culminating in the inability of families to rent, buy or maintain stable, affordable and safe homes. This marketplace reality should provide context in which the Committee conducts oversight of FHFA in today's hearing and in the future.

Those at the lowest end of the income spectrum are especially vulnerable to these problems—one in three renter households (33.6 percent) earns less than $24,000 annually. For these households an affordable unit means one with a monthly rent of under $600. However, the number of low-cost units renting for less than $600 per month fell by 3.1 million between 2012 and 2017.

Housing for this population is also the hardest segment to build for without subsidy, given the costs associated with development. For many families, the shortage of rental housing that is affordable creates significant hurdles that make it even more difficult to pay for basic necessities like food and transportation. Ultimately, this also negatively impacts their future financial success. In June, Fannie Mae and Freddie Mac submitted housing equity plans to FHFA highlighting the ways in which they can assist in the production of affordable housing, which we hope the Committee will monitor going forward for progress toward this goal.

However, housing affordability challenges are not unique to lower-income households. The total share of cost-burdened apartment households (those paying more than 30 percent of their income on housing) increased steadily from 42.4 percent in 1985 to 53.9 percent in 2017, while more than 25 percent paid more than half of their income on housing in 2017. Consider that the median asking rent for an apartment constructed in 2017 was $1,550. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $62,000 annually.

Oversight of FHFA & Housing Finance Reform

Federal policymakers must recognize that any discussion of housing finance reform is inherently a discussion of housing affordability. As FHFA continues in its conservator role and Congress considers housing finance reform, ensuring a stable future for rental housing is a critical component to addressing housing affordability for all income levels. One of the foremost priorities of federal policy makers should be getting multifamily right in any housing finance reform effort by recognizing its unique characteristics; it is the single most important factor to ensuring that the apartment industry can meet the nation's growing rental housing demand.

The GSEs', Fannie Mae and Freddie Mac, multifamily businesses are an important provider of debt capital for the apartment industry. The GSEs serve all markets and all income levels and have been particularly effective at providing capital to multifamily properties that serve low- and middle-income renters. For over a decade more than 80 percent of their business has served that class of renters. Preservation of the mortgage liquidity currently provided by the GSEs in all markets during all economic cycles is critical. NMHC urges lawmakers to recognize the unique needs of the multifamily industry. We believe the goals of a reformed housing finance system should be to:

- Maintain an explicit federal guarantee for multifamily-backed mortgage securities available in all markets at all times;
- Ensure that the multifamily sector is treated in a way that recognizes the inherent differences between the multifamily and single-family businesses; and
- Retain the successful components of the existing multifamily programs in whatever succeeds them.

These principles should be the focus of any oversight effort by Congress along with steps taken by FHFA as conservator, toward a reformed structure that preserves the high quality and value of the current multifamily secondary mortgage market's activities.

During today's hearing, we hope the Committee will explore the elements of the Enterprise multifamily businesses within FHFA's purview, to understand what the Agency is doing to continue the positive loan performance metrics resulting from adherence to prudent underwriting standards, sound credit policy, effective third-party assessment procedures, conservative loan portfolio management and, most importantly, risk-sharing and risk-retention strategies, which collectively result in strong taxpayer protection and stable capital markets for multifamily borrowers. We believe further topics for oversight include management of the multifamily lending caps at both Enterprises to avoid market disruptions, efforts to address housing affordability for the rental market, and efforts to engage on housing equity.

FHFA has guided the Enterprises through a tumultuous chapter and helped set them on a course for a bright future. Going forward, Congress should hold FHFA to its word when it commits to supporting the needs of the multifamily marketplace, and together pursue a shared goal of healthier housing markets for renters across the country.

Sincerely,

Cindy V. Chetti

Cindy Chetti
Senior Vice President, Government Affairs National Multifamily Housing Council

Gregory S. Brown
Senior Vice President, Government Affairs
National Apartment Association

United States Senate
WASHINGTON, DC 20510

July 19, 2022

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Thompson:

We write to convey our many significant concerns with the Equitable Housing Finance Plans announced on June 8, 2022 that were developed by Fannie Mae and Freddie Mac (the GSEs) at the direction of the Federal Housing Finance Agency (FHFA). These plans contemplate race-based housing subsidies that, according to FHFA, "will meaningfully address the racial and ethnic disparities in homeownership and wealth that have persisted for generations." Freddie Mac may decide to make these subsidies "accessible to anyone who self-identifies as Black, Latino or American Indian/Native American." Fannie Mae, on the other hand, contemplates that "[t]he initial focus . . . will be on the needs of Black homeowners and renters."

The administration's proposal seems intent on repeating the mistakes of the recent past. It is worth recalling the GSEs' central role in the 2008 financial crisis. In the lead up to that crisis, the GSEs were encouraged by their regulators to acquire more and more risky mortgages with an aim to increase homeownership rates. The GSEs were able to finance their rapid growth in part due to the market's perception that the federal government would not permit a GSE to fail. This perception of an implicit guarantee kept the GSEs' borrowing costs low despite their aggressive risk taking. Subsidized risk taking helped homeowners take on more taxpayer-subsidized mortgage debt. While this scheme to subsidize excessive risk taking led to huge profits for GSE shareholders, it left behind massive damage for the taxpayers and homeowners. The lasting legacy was the GSEs' eventual insolvency, their $190 billion in taxpayer bailouts, and a wave of foreclosures that wiped out millions of homeowners, hurting many minority families that were beginning to accrue generational wealth.

Against this backdrop, we urge FHFA to reconsider these affirmative action housing subsidy plans for the following reasons:

First, the plans are manifestly unfair and should be unconstitutional. Discrimination on the basis of skin color is simply wrong. That remains true even when intended to benefit minorities.

Second, the plans risk setting up another generation of minority borrowers for failure. Black and other minority homeowners lost significant wealth as a direct result of lax underwriting by the GSEs before the crisis. These plans would yet again relax underwriting by, for example, lowering down payment requirements for more borrowers and testing unspecified and not-necessarily predictive "expanded credit criteria." After the last few years of very significant house price appreciation, plans that push minority and low-income families into highly-leveraged home purchases are concerning and seem to blatantly ignore the lessons of the last housing crisis. As housing markets are cyclical, it is a question of when, not if, the next downturn begins.

Third, the plans raise significant legal concerns. By statute, FHFA's mandate as conservator is to conserve and preserve each GSE's assets and restore it to a sound and solvent condition. No law authorizes FHFA to use a GSE's assets to pursue affirmative action in housing. Moreover, the use of taxpayer funds to provide race-based subsidies poses grave questions under the Equal Protection Clause. These constitutional defects cannot be sidestepped if geographic or other proxies are used to focus subsidies on minority borrowers, as the plans themselves state a clear discriminatory intent.

Fourth, the plans are a return to GSE mission creep. The GSEs' charters limit them to supporting the secondary market. These plans, however, contemplate that the GSEs would push into the title insurance market (through bulk purchases and attorney opinion letters), the appraisal market (through new valuation options), and even the lending market (through GSE-funded down payment assistance). Primary market participants should be concerned about the GSEs seeking to return to their pre-crisis endeavors at evolving into full-service mortgage companies.

Finally, the plans needlessly politicize the GSEs. The administration is conscripting the GSEs as instrumentalities of its progressive racial equity agenda to achieve outcomes it cannot achieve legislatively or even legally. The resulting expenditures of taxpayer funds will occur without congressional approval or oversight, and we are particularly concerned that the nonprofit and other GSE partners in implementing these plans will misuse these funds on lobbying, other political activities, or advancing liberal priorities. If the GSEs' 13-year-old conservatorships do not come to an end, future administrations will also succumb to the temptation to use the GSEs and their $7 trillion balance sheets as slush funds to finance policies that otherwise lack congressional authorization or appropriations.

Given these concerns, and in anticipation of litigation challenging the legality of these plans, we ask each GSE to retain all correspondence with FHFA and other records relating to these plans. In the meantime, we urge FHFA to abandon these plans and re-focus on the safety and soundness of the GSEs.

Sincerely,

Thom Tillis
Thom Tillis
United States Senator

Pat Toomey
Pat Toomey
United States Senator

Richard Shelby
Richard Shelby
United States Senator

Mike Crapo
Mike Crapo
United States Senator

Tim Scott
United States Senator

M. Michael Rounds
United States Senator

John Kennedy
United States Senator

Bill Hagerty
United States Senator

Cynthia M. Lummis
United States Senator

Jerry Moran
United States Senator

Kevin Cramer
United States Senator

Steve Daines
United States Senator

PETE SESSIONS
17TH DISTRICT, TEXAS

COMMITTEE ON FINANCIAL SERVICES

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May 19, 2022

The Honorable Marcia Fudge
Secretary of Housing and Urban Development
451 Seventh Street SW
Washington, D.C. 20410

Dear Secretary Fudge,

Attached, please find 2 letters that have been vetted by the Fort Worth office of the Department of Housing and Urban Development. They have come to me from an organization in Texas that, after reviewing this information, has a good and reasonable answer that will expand access to affordable housing and save consumers millions of dollars.

As a senior member of the House Committee on Financial Services, I believe this is a good idea that needs to be vetted by your office in Washington. I believe this could be quickly implemented once the waiver request is approved.

We are interested in having a meeting with your team in mid-June with our team and the appropriate subject matter experts. The contact for my office on this is my Legislative Director, Ryan Young. He can be reached at Ryan.Young@mail.house.gov. My Email address is eagle@petesessions.com ,cell phone is 202-322-4933, and office line is 202-225-6105.

Thank you for your time and we look forward to meeting with you.

Sincerely,

Pete

Pete Sessions
Member of Congress

CC: Peter Hunter, Deputy Assistant Secretary for Congressional Relations

DH

Housing Solutions for North Texas

dha

April 28, 2022

Mr. Byron Gulley, Director
U.S. Department of Housing and Urban Development
Office of Public and Indian Housing
Region VI Fort Worth Field Office
307 W. 7th Street, Ste. 1000
Fort Worth, TX 76102

SUBJECT: *Waiver Request - 24 CFR 983 Project-Based Voucher (PBV) Program*

Dear Mr. Gulley,

Pursuant to notice PIH 2018-16, DHA requests regulatory waiver associated with 24 CFR 983, Project Based Vouchers (PBV) Program, subpart D – Requirements for Rehabilitated and Newly Constructed Units §983.152 (d)(ii) Description of Housing , 983.51 and § 983.57.

Background

The Dallas real estate market is experiencing record increases in rents and in home purchase prices. Dallas continues to experience major corporations entering the Dallas-Fort Worth area relocating their headquarters, operations and their workforce. Additionally, many are relocating to Dallas in search of good employment opportunities. This migration has created upward pressure on the housing market and is spawning major investment in historically underserved Dallas neighborhoods. These market forces are expanding the affordability gap for low-to-moderate income families. Sharp price hikes in rental rates as well as home prices are resulting in a vanishing supply of available afforable housing. At the same time, there are significant investments occuring in hisoricaly underseverd communities with the influx of infill single-family homes gentratifying entire neighborhoods, pricing lower income families out of their homes and out of their neighborhood.

(x)

To address these affordability and gentrification challenges, the city of Dallas approached DHA and private developers to create a unique afforable housing solution strategy. The city of Dallas activated its Land Bank/Trust program as one tool to create affordable housing as well as stave off the negative impacts of gentrification. This action is designed to open readily available city-owned land to private developers to build single-family home rental units for low-to-moderate income families on acquired sites with private equity. For developers, this model only works if they are abile to develop at scale. Herein lies the challenge and opportunity. To build at scale, the developer's require financing. Understandibly, lenders want assurance of a revenue stream demonstrating how the loan will be repaid.

Dallas presents a unique opportunity where a group of developers established a mission to create affordable housing by building (1,500 to 3,000 square feet) single family homes on infill lots acquired from the city of Dallas Land Bank / Land Trust and other sources, dedicating the completed homes to families who qualify for the HUD Project-based Housing Voucher (PBV) program.

- Developers have responded to DHA's Request for Proposals for the development of PBV's with single family units.
- DHA has conducted its due dilligence and approved two applications from developers who intend to develop single family homes using city of Dallas infill lots and lots in other locations to create affordable housing utilizing the HUD PBV program.
- In the PBV program, for units to be constructed (new construction), site control, a site neighborhood standards review and an environmental review are required before HUD will provide authorization for the PHA to enter into an Agreement to Enter into a Housing Assistance Payments contract (AHAP) with the developer.
- The lender requires specific details about the income stream which in this case will include tenant rent and housing assistance payments.
- Lenders require assurance of a revenue stream that demonstrates how the loan will be repaid.
- An executed AHAP is the missing link that would satisfy the lender as to the income stream, and facilitate financing for development.
- With financing secured, the Developer can acquire site control for parcels of land and infill lots as well as labor and materials to build single family homes
- When the lots are identified and site control acquired, the Developer can submit the property locations for completion of the required reviews

- Absent the Developer's identification of the lots, DHA is currently unable to perform the required review and subsequently unable to authorize DHA to execute the AHAP.
- DHA understands and agrees with the need to complete all stated HUD requirements i.e., site control, site neighborhood standards and environmental review.
- DHA seeks a waiver to adjust the sequencing of the steps in the existing review process as an accommodation to enable the creation of affordable housing in the single-family rental market.

Program Design

Below is a brief disception of the major program design elements with the roles and responsbilities of each party:

City of Dallas Role & Responsbility:

1. The city through its normal announcement and competitive bid processes will make land available (Land Bank/Trust) to private developers for the construction of afforable housing.
   a. Status:
      i. On-going

DHA Role & Responsbility

1. Publish RFP – Project Based Vouchers for New Construction Single Family homes (Exhibit A)
   a. Status
      i. Completed
2. Rank/Rate Proposals received and request DHA Board of Commissioner conditional approval of PBV respondents to the RFP subject to HUD regulatory Waiver of elements of CFR 983 (Exhibit B)
   a. Status
      i. Completed
3. Request Secretary Waiver of applicable regulation requirements 24 CFR 983
   a. Status
      i. In Progress

4. Enter into an Agreement to Enter into a Housing Assistance Payments contract (AHAP) with Developer for the production of a specified total number of new construction single-family homes (24 CFR 983.152)
5. Review individual parcels of land for approval when developer provides site control/ proof of ownership – Site Neighborhood Standards (24 CFR 983.57)
6. Monitor construction housing units developed
7. Develop and maintain PBV site based waiting list for this project
8. Refer qualified applicant families from the waiting list to fill available vacancies

Developers Role & Responsibility

1. Submit Proposal in response to DHA's RFP-Project Based Vouchers (PBV) for New Construction Single-Family homes. (Exhibit C)
   a. Status
      i. Completed March 2022
2. Enter into AHAP with DHA for the production of a total number of single-family homes
   a. Status
      i. Pending HUD Waiver Approval
3. Secure private debt financing to develop the units
   a. Status
      i. Conditioned upon execution of AHAP with ability to amend the agreement with additional units when parcels of land are identified, approved by DHA, and constructed as part of phased AHAP development schedule
4. Submit required city of Dallas Application for open solisitations offered by City of Dallas Land Bank/Trust lots
   a. Status
      i. Submit formal applications upon issuance of City Public Notices – Ongoing
5. Seek additional land acquisition options
   a. Status

i. On-going

6. Provide DHA with landholdings under contract for site neighborhood review/approval and to add approved land to the phased development of the AHAP

7. Develop site

8. Manage assets.

Rationale for the Waiver Request

DHA discovered through its Request for Proposals (RFP) seeking developers interested in developing Single-Family homes utilizing the Project-Based Voucher (PBV) program two respondents with a mission to develop both clustered and scattered site single family homes to assist families with PBVs. Each of the respondents propose to acquire land and build newly constructed single family homes. While the respondents have strong development plans, they do not currently have site control of the lots.

Understandibly, relevant factors preclude the developers from acquiring site control at the time of their submission of a proposal to DHA for review.

Applicable Factors:

- Developers are interested in utilizing land previously accumulated in the city of Dallas's land bank. They must adhere to the timing of the City's public solitiation for available land and bid on the lots as they are made available by the City.
- The financial institutions who will provide financial resources to the developer's require evidance of the PBV revenue stream before they will pledge captial stack financing necessary to develop at scale i.e., the financial institutions need an executed Agreement to enter into a Housing Assistance Payments Contract (AHAP). HUD regulations require ownership of the property prior to authorization to enter into an AHAP.

DHA Proposal.

- DHA seeks to increase the supply of affordable housing for qualified families. HUD's PBV program offers a unique and welcome opportunity to create affordable housing for communities especially those in rental markets such as Dallas where rental rates are rapidly rising.
- DHA proposes to expand its use of the PBV program to the single family rental market.

- Following a solicition for proposals and a careful review of proposals received, DHA seeks to enter into an AHAP with selected Developers for the development of a predetermined specific number of single-family homes 'subject to' the completion of conditions required by HUD and DHA.
- The lots on which the single family homes will be built will be made availalbe through the city of Dallas Land Bank / Land Trust and other sources.
- The Developers plan to use private equity needed for site acquisition and development costs; no public funding. As a result the subsidy layering review will not be necessary.
- With financing in place, the Developers will gain site control of specific lots and submit their list of lots to DHA
- DHA will facilitate the completion of the Site Neighborhood Standards and Environmental Review for identified lots
- DHA will require:
  - The Developer to submitt individual lots for DHA approval after they obtain site control
  - The Developer to submit a timeline for phased development schedule subject to DHA approval.
  - DHA reserves the right to reduce AHAP if developer does not meet agreed upon timeline / construction schedule

DHA is requesting waiver of specific requirements in 24 CFR 983:

1. To enter into an AHAP without specific land parcels identified, or ownership of specific land parcels by the developer(s) however; a specific number of PBV units will be assigned to developers who are approved to develop single family homes for participation in the PBV program.
2. To perform the site neighborhood standards review and environmental review as the parcels are submitted to DHA for review, and accept or reject the parcels based on the review completed by DHA. DHA will amend the AHAP to include actual unit physical addresses as the land parcels are identified.

Timeline for this process:

- It is anticipated that upon approval of the waiver by HUD, DHA will execute the initial AHAP contracts with selected developers for a specific number of units within 30 days of receiving the waiver approval.
- Developers will then be able to finalize their financing and start the acquisition of the land – 60 days after AHAP.
- Developer to submit all necessary documents and information to DHA to complete the site neighborhood standards review – 30 to 45 days after acquiring the land / site control
- DHA to complete the required reviews and either provide acceptance or rejection of the chosen land parcel – 30 days
- Following completion of the review and approved site selection, DHA to amend the AHAP to record the actual physical property address
- Construction planning, permits etc. – within 120 days after DHA's approval
- Construction – 180 to 240 days
- City of Dallas Building Inspections, Certificate of Occupancy and Final inspection by DHA
- Execution of PBV HAP contract, upon the unit passing inspection
- Applicant selection from waiting list, eligibility determination, owner screening, offer of unit and occupancy by qualified applicant

We are requesting your approval of this waiver request and submit the same to the Secretary for approval.

Please contact me if you need any additional information at 214-951-8301 or email at Troy.Broussard@dhantx.com.

Sincerely,

Troy Broussard

Troy Broussard
President & CEO

Cc. Steven Durham

STALCUP LAW

April 17, 2022

Via email:
Terdema Ussery amedret@gmail.com
Ron Lusk ron@rlusk.com
Terdema Ussery
Ron Lusk
3811 Turtle Creek Blvd. Suite 175
Dallas, Texas 75219

RE: *Confidential Position Paper on 24 CFR Part 983 and Need for Administrative Waiver*

Dear Terdema:

Please allow this to serve as a confidential position paper focusing on the need for an administrative waiver for HUD requirement of owning the sites before approval by DHA or HUD. Let's start by pointing out that this regulation is so old, and we need to be the pioneers for amended legislation to match policy with current state of housing affairs. The 1937 Housing Act (Wagner-Steagall Act) which created Title 24 CPR is now 85 years old. One interesting historical fact is FDR was President when this Act was written.

The Act required that for each new public housing unit created, a unit of substandard quality must be removed. This one-to-one policy ensured that the federal program would increase the quality of housing, but not the quantity. They didn't face near the problem that we currently encounter.

Operational decisions were left to local authorities, ensuring that communities that did not want public housing could avoid it and those that did could determine the project's location, virtually guaranteeing that housing projects would remain racially segregated. It was an old way of thinking. Our mission is to concentrate on integration and not segregation by forming a healthier community for all.

The federal government has always intended for the ownership and operation of the housing be the responsibility of the local housing authority. The purpose was to make sure local authorities could segregate and place the homeless only in isolated areas. Our plan is an opportunity for local authorities to break the cycle and create a new wave of ownership through all communities to improve the community standard of living.

Terdema Ussery
Ron Lusk
Page 3
April 18, 2022

behind the Wagner-Steagall Act that "every family has right to a decent home" is continued eighty-five years later.

Please feel free to make any additions or changes you deem necessary.

Sincerely,

Brett B. Stalcup

Brett B. Stalcup

BBS:pdp

Representative Emanuel Cleaver, II
Questions for the Record
Full Committee Hearing on Housing in America:
Oversight of the Federal Housing Finance Agency
U.S. House Committee on Financial Services
July 20, 2022

Appraisals

Question:
Fannie and Freddie have recently updated their respective underwriting policies to include the increased use of desktop appraisals and appraisal waivers. Appraisal modernization tools, when executed prudently and at the appropriate time, can be useful in broadening credit availability and reducing costs and frictions in the housing transaction.

Some have argued that appraisal flexibilities should only be extended as everyday tools once they have been subject to more extensive analysis and testing. There are reports of consumers that get into a home that lacked an on-site physical appraisal or home inspection in which the home turned out to need more extensive repairs suggesting the home may have been valued incorrectly. Incorrect appraisals, whether desktop, traditional or otherwise, inflict harm upon the homeowner and exposes the taxpayers to risks.

What data has FHFA relied upon in making the decision to broaden and make permanent the use of desktop appraisals and what are its limitations?

Response:
This decision was the result of a thorough review of the data collected during the temporary appraisal flexibilities exercised during the COVID-19 pandemic, as well as input received from the Request for Input (RFI) and public listening session on appraisal-related policies, practices, and processes. Fannie Mae's and Freddie Mac's reviews of desktop appraisals delivered during the pandemic found them to be of acceptable quality.

To further improve the quality of appraisals, appraisers can leverage Multiple Listing Service (MLS) photos or virtual tours when assessing the quality and condition of a property. Appraisers must certify that there is sufficient data to determine a credible opinion of value; otherwise, a traditional appraisal must be done.

Adoption has generally been low as mortgage volumes have declined and appraiser capacity issues have subsided, resulting in more timely delivery of traditional appraisals.

Question:
Is there any loan performance data testing the appraisal flexibilities through a credit cycle or a depreciating housing environment?

Response:
Since the implementation of the appraisal flexibilities, there has not been a complete credit cycle or a significant depreciating housing environment. The Enterprises continuously monitor the performance of loans delivered with all collateral valuation methods and submit quarterly reporting to FHFA. Since implementation, these reports indicate that loans delivered with desktop appraisals reflect similar performance data when benchmarked against loans of similar characteristics delivered with traditional appraisals. FHFA is dedicated to promoting safety and soundness through its oversight of Enterprise collateral programs and will continue to monitor appraisal performance.

Question:
What inputs from market participants including credit risk takers and independent analysts did FHFA seek in making this decision?

Response:
On December 28, 2020, FHFA issued an RFI on appraisal-related policies, practices, and processes. A total of 198 responses were received from trade associations, lenders, appraisers, researchers, vendors, and other market participants. Feedback from the RFI and the related public listening session helped to inform this policy decision. FHFA's on-going engagement serves to connect us with the thoughts and concerns of industry stakeholders.

Question:
Will FHFA be directing the GSEs to share frequent analytics around the performance and usage of the new appraisal processes with market participants and policy makers? Will FHFA please share the data and analytics considered when reaching the decision to make desktop appraisals permanent?

Response:
The information used by the Enterprises to evaluate the performance and reliability of desktop appraisals is confidential, proprietary information and unable to be made public. FHFA monitors and reviews desktop appraisal information to minimize the risk associated with the adoption of new appraisal policies, practices, and technologies.

Question:
Have these flexibilities and technology-reliant methodologies been proven to reduce bias compared to traditional appraisals?

Response:
Findings in FHFA's review indicate that desktop appraisals limit opportunities for disparate treatment by eliminating direct contact with homeowners, homebuyers, and neighborhood residents. FHFA is committed to careful fair lending testing and monitoring of desktop

appraisals, as well as other valuation alternatives to ensure the Enterprises are taking appropriate steps to further mitigate bias in the appraisal process.

Capital Rule

Question:
I would like to ask about the Preferred Stock Purchase Agreements (PSPAs) in place with Treasury. Specifically, Section 5.15 of the PSPAs reference the Enterprise Capital Rule finalized in November 2020 and thus does not incorporate recent changes that were finalized in February of this year.

Has the FHFA initiated conversations with the Treasury Department about making the requisite amendments to this portion of the PSPA to reference the updated rule or have a plan to do so?

Response:
FHFA has initiated discussions with Treasury to amend various sections of the PSPA including Section 5.15.

Loan Level Price Adjustments

Question:
Building on President Biden's Executive Order 13985 from early last year on equitable initiatives for those who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality, I am very encouraged by your work with the GSEs on the Equitable Housing Initiatives announced on June 11, 2022.

Both plans have the promise to make meaningful strides addressing the gaps in underserved communities and providing affordable, equitable and sustainable housing. I am encouraged that both plans call for changes with Loan Level Price Adjustments (LLPAs). Some stakeholders have argued that LLPAs are essentially double-charging borrowers for the same risk for lower down payment mortgages with credit enhancement, typically in the form of private mortgage insurance.

What does FHFA data indicate about the relationship between borrowers of color and the disproportionate impact of LLPAs?

Response:
The grids underpinning LLPAs have a unique cross-subsidy built into their design that distributes pricing benefits to borrowers with lower credit scores and higher loan-to-value ratios. When we examine the distribution of borrowers of color throughout the grid, we find that borrowers of color benefit from the LLPA design, resulting in lower guarantee fees.

Question:
Can you share data on the breakdown of LLPAs on borrowers of color and how that impacts the competitive relationship of conventional v. non-conventional choices?

Response:
Last year, FHFA instructed the Enterprises to begin updating their pricing frameworks to increase support for lower-income borrowers and borrowers in who live in underserved areas, including underserved borrowers. Providing consumers with competitive pricing and solutions that meet their needs is critical to providing opportunities that further equity. We believe revisiting the Enterprise pricing frameworks will support FHFA's mission to improve equitable access.

Question:
To what extent does the FHFA see LLPAs as a barrier to closing the racial homeownership gap?

Response:
The racial homeownership gap is driven by a myriad of diverse policies, choices, and actions by many actors throughout the housing finance system over many years. We do not believe there is a single solution to leveling the playing field but believe there is a need for interventions across the mortgage process to ensure that all borrowers have as much knowledge and information, and as many opportunities as possible. Relative to other factors impacting the homeownership rate, such as the availability of down payment funds and non-housing factors such as labor market disparities, LLPAs, in general, have a much smaller impact on the racial homeownership gap. However, any racial disparity is very concerning, so we monitor pricing practices continuously to identify opportunities for improvement.

FHFA and the Enterprises closely monitor and analyze potential disparities across the mortgage cycle and take them into account when considering any possible policy change, including pricing. In addition, FHFA monitors pricing through the implementation of the Mortgage Interest Rate Disparity program. Under this statutorily-authorized program, FHFA analyzes potential patterns of pricing disparities by lenders doing business with the Enterprises and refers preliminary findings to the appropriate regulatory or enforcement agencies for further action. FHFA began making referrals in 2021.

Question:
Has FHFA considered eliminating LLPAs, and considered how certain homebuyers could benefit from the change?

Response:
FHFA has an on-going project to develop a revised pricing framework. For example, in October, FHFA announced the elimination of upfront fees for certain first-time homebuyers, low-income borrowers, and underserved communities to promote sustainable and equitable access to affordable housing. Considerations around borrower subsidies are a major factor in this initiative.

Question:
Reviewing the Equitable Housing Plans, it looks like both GSEs intend to experiment within the confines of Special Purpose Credit Programs ("SPCPs"). Could you explain the scope and rationality of this approach?

Response:
The Equitable Housing Finance Plans acknowledge that, in addition to broad-based initiatives, additional focus is needed on the specific needs and barriers faced by underserved communities. The activities in the Plans were developed to reduce or eliminate barriers that are particularly troublesome for underserved homebuyers and renters.

FHFA believes that the identification of specific barriers, combined with solutions for removing and reducing those barriers, will allow FHFA, the Enterprises, and the public to assess what works and what doesn't; will ultimately produce better results; and will function as a more holistic approach to tackling this difficult, persistent issue.

The Equitable Housing Finance Plans include Enterprise proposals for Special Purpose Credit Programs (SPCPs), which provide opportunities to target credit to disadvantaged groups without risking non-compliance with federal fair-lending laws. It is important to note that SPCPs can be place-based, targeting borrowers in specific geographic areas, such as formerly redlined neighborhoods and majority Black neighborhoods. This opportunity makes SPCPs a potentially powerful tool to provide targeted interventions where they are needed the most.

Representative Lance Gooden
Questions for the Record
Full Committee Hearing on Housing in America:
Oversight of the Federal Housing Finance Agency
U.S. House Committee on Financial Services
July 20, 2022

Questions:
Director Thompson, I understand you are looking at a pilot program centered around direct mortgage insurance that looks like it could really help both taxpayers and consumers.

Can you describe that initiative and where it stands?

Also, as with every pilot program established by a government agency, I want to make sure it remains within the Congressional Charter of the agency. Can you explain how this fits within your charter?

Response:
Fannie Mae and Freddie Mac (the Enterprises) do not have ongoing direct mortgage insurance pilot programs at this time. Previously, the Enterprises administered pilot programs related to mortgage insurance known, respectively, as Enterprise-Paid Mortgage Insurance and Integrated Mortgage Insurance. These have since been discontinued, and I am unaware of any new direct mortgage insurance pilot program proposals. However, the Federal Housing Finance Agency (FHFA) is always interested in learning more about ways to reduce costs for borrowers and mitigate counterparty risk for the Enterprises, consistent with FHFA's authorizing statute and the Enterprises' charters. I welcome any input you or other stakeholders might provide.

Representative Bill Huizenga
Questions for the Record
Full Committee Hearing on Housing in America:
Oversight of the Federal Housing Finance Agency
U.S. House Committee on Financial Services
July 20, 2022

Questions:
Director Thompson, I have heard reports that the GSEs are taking steps to limit acquisitions of mortgage loans sold through third-party originators – loans arranged by mortgage brokers or originated by small community lenders that do not sell directly to the GSEs. In the case of at least one GSE, these actions are reported to take the form of inferior pricing relative to similar loans delivered through other channels.

Can you share whether FHFA has reviewed this practice? If so, how do you reconcile this pricing policy with the core principle I think we all subscribe to – that the GSEs' pricing should not vary based on size, volume or business model? Do you plan on addressing this?

Response:
As part of the Federal Housing Finance Agency's (FHFA) ongoing holistic review of Fannie Mae and Freddie Mac's (the Enterprises) single-family pricing framework, the Agency will consider potential changes to all aspects of the framework, including third-party origination fees.

FHFA, as the regulator and conservator of the Enterprises, is statutorily required to ensure the safety and soundness of each institution it regulates. In setting capital requirements for these firms, which have assets of more than $7 trillion, FHFA must account for appropriate risks, including those associated with loans originated through third-party broker and correspondent channels ("third-party originations").

FHFA also closely monitors fees charged by the Enterprises. Each Enterprise has its own business strategy to set single-family guarantee fees and other pricing, subject to pricing guidance from FHFA. Each Enterprise accounts for the risk of third-party originations within its single-family pricing framework, including fees for specific types of loans as appropriate.

Importantly, FHFA is continuing to conduct a wide-ranging review of the Enterprises' single-family pricing framework to meet several different priorities articulated in the 2022 Conservatorship Scorecard, including: increasing support for core mission borrowers, ensuring a level playing field for small and large sellers, fostering capital accumulation, and achieving commercially viable returns on capital.

Representative Bill Posey
Questions for the Record
Full Committee Hearing on Housing in America:
Oversight of the Federal Housing Finance Agency
U.S. House Committee on Financial Services
July 20, 2022

Questions:
During the last financial and housing crisis, we saw the devastating effects on taxpayers of GSEs being directly exposed to residential mortgage credit risk. Because of this, we should support the development of any innovative new approach like Direct Mortgage Insurance that I firmly believe is within the scope of congressional charters and that would utilize private capital to create more protections for American taxpayers. Director Thompson, do you agree with my statement that this type of innovation designed to lessen the burden of GSEs to taxpayers is in line with their charter?

Director Thompson, as the Biden Administration and Congress continue to spend more and more money that we don't have, can you talk specifically about ways new approaches like those that utilize Direct Mortgage Insurance would reduce risks for GSEs on the nation's taxpayers?

Response:
Fannie Mae and Freddie Mac (the Enterprises) do not have ongoing direct mortgage insurance pilot programs at this time. Previously, Fannie Mae and Freddie Mac administered pilot programs related to mortgage insurance known, respectively, as Enterprise-Paid Mortgage Insurance and Integrated Mortgage Insurance. These have since been discontinued, and I am unaware of any new direct mortgage insurance pilot program proposals. However, the Federal Housing Finance Agency (FHFA) is always interested in learning more about ways to reduce costs for borrowers and mitigate counterparty risk for the Enterprises, consistent with FHFA's authorizing statute and the Enterprises' charters. I welcome any input you or other stakeholders might provide.

Representative Pete Sessions
Question for the Record
Full Committee Hearing on Housing in America:
Oversight of the Federal Housing Finance Agency
U.S. House Committee on Financial Services
July 20, 2022

Question:
As you know, with interest rates rising – we are beginning to see the cost of homeownership increasing and becoming even more difficult for many people to achieve. I believe we have a shared goal of trying to find ways to reduce the costs associated with buying a home – but this must be done in a way that also protects the taxpayers who still financially back the GSEs.

I believe one way to do this would be to perhaps fully utilize new innovative approaches like the Direct Mortgage Insurance pilots currently in operation. Direct Mortgage Insurance significantly reduces borrower costs by eliminating unnecessary administrative expenses. Direct Mortgage Insurance also greatly reduces risk to the U.S. taxpayers by providing additional private capital to the market as well as increasing the GSE's counterparty diversification.

At this point, it seems clear to me that the Direct Mortgage Insurance pilot is compliant with the charter and that is has the potential to provide significant savings to both borrowers and taxpayers.

Will you agree to fully utilize this important market-based innovation?

Response:
Fannie Mae and Freddie Mac (the Enterprises) do not have ongoing direct mortgage insurance pilot programs at this time. Previously, the Enterprises administered pilot programs related to mortgage insurance known, respectively, as Enterprise-Paid Mortgage Insurance and Integrated Mortgage Insurance. These have since been discontinued, and I am unaware of any new direct mortgage insurance pilot program proposals. However, the Federal Housing Finance Agency (FHFA) is always interested in learning more about ways to reduce costs for borrowers and mitigate counterparty risk for the Enterprises, consistent with FHFA's authorizing statute and the Enterprises' charters. I welcome any input you or other stakeholders might provide.

Representative Brad Sherman
Questions for the Record
Full Committee Hearing on Housing in America:
Oversight of the Federal Housing Finance Agency
U.S. House Committee on Financial Services
July 20, 2022

Questions:
Director Thompson, first I'd like to commend your staff for the excellent technical assistance supplied to my office regarding Property Assessment Clean Energy (PACE) loans. We very much appreciate the time and responsiveness of your team.

I am concerned about Fannie Mae's and Freddie Mac's (GSEs) exposure to PACE loans. As you know, these home improvement loans masquerading as tax liens create additional credit risk because PACE loans, and their super lien priority, gets money before Fannie Mae or Freddie Mac even if originated years after the mortgage.

Do Fannie Mae and Freddie Mac know their exposure to PACE loans in mortgages they guarantee? If not, what are the technical and operational issues preventing the GSEs from quantifying this risk?

If yes, what is the total number and current balance of GSE insured mortgages, by company, which have exposure to PACE Loans? Additionally, what is the number and balance of PACE loans that are on properties for which there is a GSE guaranteed mortgage (broken out by each GSE)?

Response:
There are significant technical and operational issues hurdles to tracking Enterprise exposure to PACE assessments. PACE assessments are created, documented, and recorded by local jurisdictions, subject to state and local laws. There is no central, national repository of PACE assessment information. Because state, county, and local tax laws governing lien-granting and recordation vary, the Enterprises cannot conduct periodic title searches, or inspect hundreds of local tax records for the many thousands of single-family mortgages in mortgage-backed securities that the Enterprises guarantee, without incurring significant costs far in excess of the expected risk posed by PACE liens.

Consequently, the Enterprises cannot calculate the number of mortgages in MBS they guarantee that are currently exposed to PACE assessments. Nor can they quantify the UPB of mortgages that might have been subordinated to PACE assessments following the purchase of the mortgage by an Enterprise.

The Enterprises nevertheless estimate that their exposure to PACE assessments is low, resulting in part from public statements by FHFA and the Enterprises that have increased market awareness that a homeowner who obtains a PACE assessment having priority over a single-family mortgage guaranteed by an Enterprise would be violating the terms of the homeowner's mortgage. In recent years, seller/servicer inquiries to the Enterprises related to PACE liens have decreased substantially, and the Enterprises have not identified any recent significant repurchase or indemnification trends resulting from PACE assessments, further indicating that the Enterprises' exposure to PACE assessments is low.

Several other factors also make it difficult for the Enterprises to quantify their exposure to PACE assessments. Although single-family mortgages subject to PACE assessments are not eligible to be purchased by an Enterprise (which helps minimize the Enterprises' exposure to such loans), it is possible for a borrower to obtain a PACE assessment after an Enterprise purchases their mortgage (even though doing so would be a default under the borrower's mortgage). Jurisdictions that have authorized PACE typically do not require a lender or homeowner to notify existing lien holders when the homeowner obtains a PACE assessment after they obtain their mortgage. Consequently, the Enterprises are not notified when a homeowner obtains a PACE assessment secured by a lien on a property that is subject to an Enterprise-owned or guaranteed mortgage. As noted, variations in different jurisdictions' recording requirements make it difficult for the Enterprises to search for these liens systematically on mortgages they guarantee. For an Enterprise to quantify its exposure to PACE assessments obtained after the Enterprise has purchased a mortgage, the Enterprise or its servicer would need to conduct a comprehensive and costly manual review of local tax and property records; even then, such a review might not yield complete data because some localities may have limited information available, or their records might not be current.

Representative Bryan Steil
Questions for the Record
Full Committee Hearing on Housing in America:
Oversight of the Federal Housing Finance Agency
U.S. House Committee on Financial Services
July 20, 2022

Question:
Director Thompson, Fannie Mae recently announced it would begin accepting attorney opinion letters instead of traditional title insurance.

Some have raised concerns that attorney opinion letters do not provide the same level of protection as insurance.

Do you believe these letters provide homeowners and lenders the security they need? Do attorney letters provide the same level of protection to homeowners and lenders?

Response:
Both Fannie Mae and Freddie Mac have decided to accept attorney opinion letters under certain narrowly-defined circumstances when the lower cost of an opinion letter could facilitate access to homeownership for borrowers who otherwise might not be able to afford it. The primary benefit of an opinion letter is identical to that of a title insurance policy: both reflect the search of title records to identify liens and other adverse claims against title so that the lender and the borrower can solve those problems or make an informed decision not to accept the title in its then-current condition. Both forms of title evidence (title insurance and opinion letters) rely on title searches of identical records performed by the same search professionals. Thus, the title evidence, itself, is identical under both structures.

Question:
What recourse do homeowners have if an attorney opinion is wrong?

Response:
When a lender obtains a title insurance policy, only the insured lender (or its assignee – Fannie Mae or Freddie Mac) is entitled to file a claim against the insurance company if the title insurance policy fails to cover a lien or other claim against title. The homeowner has no coverage unless a separate owner's title insurance policy is purchased. The attorney title opinion, on the other hand, covers the lender and the homeowner. An attorney title opinion is insured by an errors and omissions liability insurance policy, and both the lender and the homeowner can file claims against the errors and omissions insurer directly. In contrast, when the loan is covered by title insurance, the homeowner has no recourse against the title insurance company. The attorney title opinion letter, on the other hand, provides the homeowner recourse against the liability insurance company that backs the opinion letter.

Question:
How does that differ from the remedies available to those with title insurance?

Response:
Neither Enterprise requires title insurance for the borrower, so if the lender purchases title insurance for the loan, the borrower will have no protection unless the borrower purchases a separate policy. The title opinion provides identical title protection to the homeowner automatically.

Question:
Are you confident that Fannie and Freddie would be significantly protected in the event of a housing downturn if more transactions relied on attorney opinion letters instead of title insurance?

Response:
Both Enterprises rely on the loan seller's representations and warranties for recourse if they discover a title issue after a loan is purchased. If no mortgagee title insurance policy is provided with the loan, the loan seller is required either to cure the title defect or to repurchase the loan if the title problem cannot be cured. Both the title insurance policy and the title opinion letter can help the loan seller offset the costs of cure or repurchase. During an economic downturn, the Enterprises would continue to rely upon their recourse rights against their loan sellers and would rely upon the sellers' financial strength to protect against losses caused by title issues. Both Enterprises monitor the financial strength of their seller/servicers continuously to ensure that this recourse will be available when it is needed, regardless of whether there is a housing downturn and regardless of which type of title evidence protects a loan.