

# FHFA OVERSIGHT: PROTECTING HOMEOWNERS AND TAXPAYERS

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## HEARING BEFORE THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTEENTH CONGRESS FIRST SESSION

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MAY 23, 2023  
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## **FHFA OVERSIGHT: PROTECTING HOMEOWNERS AND TAXPAYERS**

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**Tuesday, May 23, 2023**

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

The committee met, pursuant to notice, at 10:03 a.m., in room 2128, Rayburn House Office Building, Hon. French Hill presiding.

Members present: Representatives Lucas, Sessions, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Loudermilk, Davidson, Rose, Steil, Timmons, Norman, Meuser, Fitzgerald, Garbarino, Kim, Donalds, Flood, Lawler, Nunn, De La Cruz, Houchin, Ogles; Waters, Velazquez, Sherman, Meeks, Scott, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gonzalez, Casten, Pressley, Horsford, Tlaib, Torres, Garcia, Nickel, and Pettersen.

Mr. HILL. [presiding]. 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, "FHFA Oversight: Protecting Homeowners and Taxpayers."

I now recognize myself for a 4-minute opening statement

This morning, the committee will hold a hearing entitled, "Federal Housing Finance Agency Oversight: Protecting Homeowners and Taxpayers." This is our committee's second hearing on the government's role in and response to the housing challenges faced by too many Americans in as many weeks. We are fortunate today to have the FHFA Director, Sandra Thompson, as our witness for the second time in her 2 years as head of the Agency. Director Thompson has had a long career, with over 20 years' experience with the Federal Deposit Insurance Corporation, followed by 10 years at FHFA. Thank you for being here, Director.

Let's address the elephant in the room. Fannie Mae and Freddie Mac have been under government conservatorship for nearly 15 years, and to echo former FHFA Acting Director Ed DeMarco last week, we are asking a lot of our FHFA Director to act as both a regulator and a conservator for Fannie Mae and Freddie Mac, and continue to make what would otherwise be private business decisions while also regulating the Government-Sponsored Enterprises (GSEs). As long as the GSEs are under conservatorship, the Agency's primary focus should be raising on the Enterprise's capital and maintaining their narrow charter and mission.

In many respects, housing finance in this country looks dramatically different than it did back when the Agency was created in

2008. According to recent research, non-bank companies now originate 71 percent of Agency-backed loans and 86 percent of government-backed loans. Banks have all but retreated from the servicing and loan origination business because of bank capital and liquidity rules implemented in the Dodd-Frank Act regime. Meanwhile, back in 2008, the Federal Reserve started buying mortgage-backed securities for the first time as a temporary—repeat, temporary—response to the financial crisis, but now they own nearly a quarter—25 percent—of all 1- to 4-family residential mortgages in the country, and the Fed has only recently started trimming its \$2.7 trillion in mortgage-backed securities.

Generationally-high inflation and out-of-control government spending have made housing affordability worse, with mortgage rates hitting 20-year highs last fall, and the GSEs somehow becoming even larger. We have to realize that these outcomes are the result of actions taken in this very room over many years, and it is hard for me to see this as a good outcome, having lived through the Obama, Trump, and Biden Administrations with no serious collaborative reform to the GSEs.

Enter the FHFA, which has tremendous influence over our housing market and the American economy. Director Thompson has been active on a host of initiatives to revamp and expand the roles that Fannie and Freddie play. These include the questionable, politically-driven Equitable Housing Finance Plan lending mandates, to the technical, like improving the process for new product approval, and continuing to build Enterprise capital. Members can decide for themselves if these changes are good or bad, but it is clear that if you favor a more limited scope for the government's role in housing, as I do, you are probably out of luck, and we have been trending in the wrong direction for over a decade.

All that brings this hearing and the critical need for Congress to do its job and provide oversight and accountability to FHFA. In too many instances, it appears that the Agency has allowed safety and soundness to take a back seat to advancing a housing agenda through the GSEs. We saw earlier this month when the Agency rescinded its unworkable debt-to-income base fee and issued a request for input on the opaque process it uses to set GSE pricing adjustments. The Agency also has to be focused on the safety and soundness, not only of Fannie and Freddie, but of the 11 Federal Home Loan Banks (FHLBs). And given what has happened in the banking market, that is a critical issue.

I will now turn to the ranking member, Ms. Waters, for a 4-minute opening statement.

Ms. WATERS. Thank you very much. Good morning, all. I am pleased to welcome Director Sandra L. Thompson before our committee this morning. Earlier this month, the Federal Housing Finance Agency took a step in the right direction to adjust loan-level price adjustments (LLPAs) in a way that ensures that lower-income borrowers with great credit scores but not enough for a 20-percent down payment, particularly in today's housing market, are not unfairly penalized compared to similar borrowers with higher income and higher wealth. Unfortunately, Republicans are continuing to spread misinformation about the new pricing framework and are regurgitating alternative facts about what this actually means for

borrowers, even after their own witness debunked their claims last week.

Here are the facts yet again. These changes will not result in higher-credit-score borrowers subsidizing lower-credit-score borrowers. As former FHFA Director, Ed DeMarco, who was invited by the Republicans to a hearing last week, stated, these price changes, “are not focused on cross-subsidization. They are focused on making sure, across the grid, that we are making a rate of return efficient for the capital that has to be raised.” In fact, these changes follow through on capital rules enacted by the Trump Administration. More importantly, as our nation’s housing and homelessness crisis worsens across rural and urban communities, FHFA’s changes will correct for unfair subsidies that have benefitted wealthier individuals purchasing lavish vacation homes and investment properties for over a decade.

I would also like to point out that Director Thompson’s updates to the pricing framework will benefit constituents everywhere, including in Chairman McHenry’s district in North Carolina, and Housing and Insurance Subcommittee Chairman Davidson’s district in Ohio. Homebuyers will pay some of the lowest fees among all Enterprise borrowers. My colleagues on the other side of the aisle appear to be more concerned about protecting the wealthy, even if it comes at the expense of those with less generational wealth. I, for one, support FHFA’s effort to expand across to the American Dream of homeownership by every creditworthy borrower on fair terms.

Finally, I would like to close with this. Despite supporting a debt ceiling increase 3 times under President Trump, and despite President Biden making a generous offer of level funding the government next year, Republicans continue to threaten economic calamity, including chaos in the housing market that would raise market rates to well over 8 percent. Their plan also eliminates 100,000 jobs for teachers, puts millions at risk of homelessness, and undermines health insurance for 21 million Americans. The fact that Republicans are up in arms about FHFA’s modest pricing adjustments that their own Republican witness supports, while ignoring the devastating cost and harm of debt ceiling brinkmanship, shows everyone what they really care about: undermining President Biden by undermining America.

Committee and House Democrats will continue to support policies that help every family live affordably and with dignity, both through housing reforms and cleanly raising the debt ceiling. So, I look forward to Director Thompson setting the record straight today, and with that, I yield back.

Mr. HILL. The gentlewoman yields back. The Chair now recognizes the gentleman from Ohio, Mr. Davidson, who is also the Chair of our Subcommittee on Housing and Insurance, for 1 minute.

Mr. DAVIDSON. Director Thompson, thank you for joining us today. This hearing comes at a critical time as consumers are struggling with inflation, much of which can be attributed to high housing costs. The Federal Housing Finance Agency may not be the most well-known agency to average Americans, but your credit score redistribution plan has captured everyone’s attention. In re-

sponse to our letter and market feedback, I am pleased that you have withdrawn a portion of your LLPA changes related to debt-to-income ratios. Thank you for that. Nevertheless, I am confident you will hear that additional work remains to be done.

As both regulator and conservator, I will remind you that the conservatorship for Fannie and Freddie has lasted longer than Britney Spears' conservatorship did. Between that, the credit score redistribution plan bypassing traditional title insurance, limiting consumer credit information, and Federal Home Loan Bank oversight, there is much concern about FHFA's current focus. I am sure these will all be discussed today, and I look forward to hearing your answers.

Mr. HILL. The gentleman from Missouri, Mr. Cleaver, the ranking member of our Housing Subcommittee, is recognized for 1 minute.

Mr. CLEAVER. Thank you, Mr. Chairman. And thank you, Director Thompson, for being here with us today.

Housing is roughly 15 percent of the gross domestic product, 30 percent of inflation, and the largest source of wealth among American families. According to the Federal Reserve, the wealth of a homeowner is 40 times greater than that of a renter. Addressing the lack of housing supply and preserving the opportunity for homeownership for the average American requires deliberate and sustained action. Unfortunately, some of my colleagues in Congress have abandoned what I believe to be a very significant issue as it relates to housing, and we have not done very much discussion or action on housing since January.

Amid a lack of action in Congress, the FHFA has taken great strides in safety, soundness, and support for aspiring homeowners. I look forward to hearing from Director Thompson this morning, and I thank you again for this hearing.

Mr. HILL. The gentleman yields back.

Today, we welcome the testimony of the Honorable Sandra L. Thompson, Director of the Federal Housing Finance Agency. Director Thompson, we thank you for taking the time to be with us again today. You will be recognized for 5 minutes to give an oral presentation of 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.

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

Ms. THOMPSON. Thank you, Chairman McHenry in his absence, Ranking Member Waters, Mr. Hill, and distinguished members of the committee, I am pleased to be with you today to discuss FHFA's work and the country's challenges facing our housing market. When I last appeared before this committee in July, I spoke about my career as a Federal safety and soundness regulator. The safety and soundness of our regulated entities is a key component of all policy decision and other actions we take. The Enterprises and the Home Loan Bank System cannot achieve their missions without a continued and unwavering focus on safety and soundness.

As you know, home prices have soared in recent years, and mortgage interest rates are higher than they have been since the record-low interest rates experienced during the pandemic. In addition, the country is dealing with a housing supply shortage; there simply are not enough houses, especially for first-time homebuyers. Many young adults, people just starting out, college graduates, and people who have been renting for a while, along with members of our workforce whose professions require them to live where they work, such as teachers, policemen, firefighters, and other first responders, just can't afford homeownership, or if they can buy a home, they have to move far away from their place of employment to find a home they can afford. This is true for people across our country in both rural and urban areas.

Most first-time homebuyers cannot afford to put 20 percent down on a house, which would be \$40,000 on a \$200,000 house, and \$60,000 on a \$300,000 house. These are creditworthy people who are paying their rent, utility, and other bills on time. They simply cannot afford a large down payment. The pricing changes we have made will help most first-time homebuyers by eliminating the up-front fees. We were able to do this because the returns the Enterprises earned on second homes and vacation homes, investor homes, are more than enough to offset the first-time homebuyer up-front fee. But unfortunately, the reality is that even with no up-front fees, the first-time homebuyer still pays higher overall mortgage costs than most other homebuyers.

Pricing for loans is complex, so I would like to take this opportunity to provide more context and clarity so the public can better understand why we made changes to the outdated pricing grids. FHFA updated the pricing framework for three reasons: one, to update grids that had not been changed in almost a decade; two, to help creditworthy first-time homebuyers, limited by income and wealth across this country; and three, to enhance the safety and soundness of the Enterprises by building capital. This reduces the risk to taxpayers, who have borne the burden of supporting the Enterprises since they were placed into conservatorship in 2008.

The pricing grids in effect prior to these changes had not been updated in many years and were not fully reflective of the capital framework that governs the Enterprises' requirements. In fact, in the prior grids, many low- to moderate-income borrowers were overcharged, and some borrowers were undercharged, compared to the capital requirements. But most importantly, and I want to be very clear on this key point, which is one that bears repeating, in the new pricing grids, borrowers with strong credit profiles are not being penalized at the expense of borrowers with weaker credit profiles. Put another way, even with reduced fees, borrowers with lower credit scores and lower down payments will continue to pay higher overall mortgage costs than borrowers with higher credit scores and higher down payments.

The purchase of a home is a complicated transaction, and homebuyers should have accurate information to make the best decisions possible. Understanding how mortgage insurance is factored into pricing is critical to the fee calculation. By law, the Enterprises cannot purchase a loan with a loan-to-value (LTV) greater than 80 percent, which means that if someone puts down more than 20 per-

cent or less, they have to have credit enhancement to protect the Enterprises. Most of the time, this credit enhancement takes the form of mortgage insurance. Borrowers must pay for this insurance in addition to their guarantee fees. This does not show up on the pricing grids and is why many loans with loan-to-value ratios greater than 80 percent have what looks like lower fees, but you have to add the mortgage insurance premium to these loans to get a more complete picture of borrower costs. The less down payment you have, the more mortgage insurance coverage you need, and the higher the cost.

The recent focus on pricing brings needed attention to our housing affordability challenges. Housing makes up almost 16 percent of U.S. GDP, and for most Americans, their home is their largest asset. Owning a home is the primary way for hardworking families to build wealth and pass it on to their children and grandchildren. And for renters, their rent bill is usually the largest expense that they have every month. Every American deserves safe, decent, and affordable housing, and I would love to work with this committee to come up with ways to address the increasingly-unattainable American Dream of owning a home. I am sure if we work together, we can find other ways to make housing more affordable so that people who have had their dreams deferred or denied can one day soon be in a home of their own so they can start the wealth-building journey that will benefit not only their families—

Mr. HILL. Thank you, Director.

Ms. THOMPSON. —but also their communities.

[The prepared statement of Director Thompson can be found on page 72 of the appendix.]

Mr. HILL. Thank you, Director, for your testimony. It is now time to turn to Member questions, and I recognize myself for 5 minutes for questioning.

The Agency has a new activities rule, which you worked on mightily when you were first in office, which means there is transparency around any new products and activities by the Government-Sponsored Enterprises so that they don't displace private sector firms or crowd out capital. For this reason, I was glad to see the rulemaking finalized in December. Under this process, they are now to submit advance notice and get approval for new products and activities, including any pilot programs. Director Thompson, since the rules have gone into place, have you received any submissions for new activities or products?

Ms. THOMPSON. Thank you, Mr. Hill. The new activities rule, as you mentioned, was finalized last year, and we spent this year implementing processes for FHFA and the Enterprises to submit and for us to review. We deferred the implementation through April 28th, and we told the Enterprises if they had new products, they would have to wait until our processes were complete before they submit to the Agency for our review.

Mr. HILL. Are those processes complete—

Ms. THOMPSON. The processes are—

Mr. HILL. —and open to submission?

Ms. THOMPSON. Yes, the processes are complete, and we have not yet received, from my perspective, because they have to come

through our New Products Committee, which actually we are having a meeting tomorrow on some of the products that are coming.

Mr. HILL. Thank you. Would you commit to notifying Congress if and when the Agency makes any decisions on any of those future submissions?

Ms. THOMPSON. Sir, we are happy to work with the Congress, but I would mention that is part of the rule. We have a pilot transparency page so that any pilot that the Enterprises are undertaking is posted on our website, but we are absolutely happy to work with the committee.

Mr. HILL. I think that would be helpful. Thank you. Since you have been in your position over the last 2 years, is the capital higher or lower in the Enterprises than it was when you became Director?

Ms. THOMPSON. Great question. The Enterprises' capital rule was put into——

Mr. HILL. The capital itself or the——

Ms. THOMPSON. Oh, the actual capital? Yes.

Mr. HILL. Yes, the actual capital for Fannie Mae and Freddie Mac.

Ms. THOMPSON. Oh, the Enterprise——

Mr. HILL. Is it higher or lower than when you came into office?

Ms. THOMPSON. Oh, it is higher than it was when I came into office. The Enterprises are just now able to retain capital.

Mr. HILL. And does the capital mandate require more capital now, or was it higher when you took office? The rule itself, the requirement.

Ms. THOMPSON. The rule was changed to allow for credit risk transfer which, as you know, both Enterprises are the biggest holders of mortgage credit in the country, and we facilitated a credit risk transfer process by making nominal changes to the capital rule. When I came in to serve as Acting Director, the rule was penalizing, to some extent, the credit risk transfer, which moves the Enterprises' credit risk to the private sector.

We made changes, not to the requirements themselves, but to the leverage buffer. Instead of having a static buffer, we made it more dynamic and facilitated more credit risk transfer because the leverage ratio, as you know, Mr. Hill, would make it binding.

Mr. HILL. Thank you. That is helpful.

With high interest rates and high inflation, are you concerned about the impact of inflation and high interest rates on the health of the Enterprises, and if so, do you think their capital requirements should be higher right now?

Ms. THOMPSON. I am very concerned about the health of our country as it relates to——

Mr. HILL. No, I am talking about the GSEs, not the country at large.

Ms. THOMPSON. The GSEs, absolutely. We are very much trying to build capital so that they can continue to operate in a safe and sound manner. I don't believe that they need more capital. They right now need about \$300 billion between the two of them, and that is quite a lot of capital that is required based on the capital requirements.

Mr. HILL. Thank you. And with the remaining time I have, I want to switch subjects, and I encourage my colleagues on both sides of the aisle to ask questions on the subject of your oversight of the Federal Home Loan Banks. We have had just a colossal use of the Federal Home Loan Banks in this last 5 months due to the crisis in the banking industry for liquidity. Is it still your intent to provide administrative and legislative recommendations on the oversight of the Federal Home Loan Banks, and if so, when are you going to do that?

Ms. THOMPSON. Yes, Mr. Hill. We are undergoing a study of the Home Loan Banks, and the report should be published in the 3rd quarter of this year.

Mr. HILL. You think by September 30th or early in the 3rd quarter?

Ms. THOMPSON. We are working as quickly as we can. I will just give a September 30th deadline.

Mr. HILL. Thank you. I yield back, and I recognize the ranking member, Ms. Waters, for 5 minutes of questions.

Ms. WATERS. Thank you very much. I am going to continue with my questions based on where you started, dealing with the question of inflation. Director Thompson, I am concerned about adjustable rate mortgages, or ARMs, which have interest rates that change over the life of the mortgage. This was a major issue in the aftermath of the 2008 financial crisis when ARMs contributed to countless households losing their homes. I know that we made reforms to prevent some of the most-predatory features of the kind of ARMs that were problematic back then, but I remain concerned that some people are still choosing these products without fully being aware of the risk they are taking. Unless a homeowner knows how to refinance their mortgage into a fixed-rate loan and can afford to do so, they may see their monthly housing payment increase significantly. This is especially true in high-cost mortgages.

I have heard from constituents in my district with ARMs, who have seen their monthly payments increase by \$1,000 a month, which is a financial shock for their families. So, I wanted to talk about educating consumers about ARMs and how they are different from 2008, and what does the volume of ARMs purchased by Fannie Mae and Freddie Mac look like today. But what I really want to explore is the fact that with inflation, and with the Fed increasing the interest rates in order to contain inflation, it is causing these ARMs to be in a position where people are going to lose their homes.

Is there anything that can be done to say to the mortgage holders of the banks, you don't have to continue to do this, you may do it because you have this kind of ARMs agreement, but can we say, you have to stop at some point?

Ms. THOMPSON. Thank you for the question, Ranking Member Waters. I am very concerned about ARMs as well, but I am also happy to say that most of the mortgages that the Enterprises, Fannie and Freddie, purchase are fixed-rate mortgages. Many people took advantage of the low interest rate environment in and 2021 and 2022 to refinance their homes, and so the majority of the loans that the Enterprises own right now have very low interest



rates. But I do get concerned that because of the higher interest rate environment, many times the ARM offers a lower starting interest rate, but the nice thing about some of the changes that have been made since the Great Recession was that now, underwriters have to underwrite to the fully-amortized index of the loan.

So, instead of underwriting, can you make this payment at 2 percent or 3 percent, they have to add the margin and underwrite to the full payment of the loan so that borrowers are fully protected. And I do think that the rising-interest-rate environment contributes greatly to the purchase activity at both Enterprises because we have just changed from seeing record refinances at those low interest rates to very high interest rates in a very short period of time. And I do think that the underwriting provisions that are in place for mortgages, at least the ones that Fannie and Freddie buy, are well-suited to assess the borrower's ability to repay.

Ms. WATERS. I want to talk with you about that some more, Director Thompson, but let me just go to another question here. We are less than 2 weeks away from defaulting on our nation's debt, and my Republican colleagues are threatening a completely avoidable economic catastrophe that would have global impact. If we were to default on our national debt, the impacts on our housing market and on prospective homebuyers would be devastating. It has been reported that mortgage rates could rise by 8 percent. By comparison, the changes you made to LLPAs would have a very modest effect on the mortgage crisis for the average homebuyer.

Director Thompson, could you help us put your changes to the pricing framework in context? What could we expect to happen in the mortgage market and to the cost of a mortgage if we default on our nation's debt?

Ms. THOMPSON. Thank you for the question. I think mortgage interest rates will increase substantially. It will be even more difficult for borrowers or potential borrowers to enter into homeownership. There would be concern amongst the investor community because there are a number of investors—

Mr. HILL. Thank you, Director. And I thank the ranking member. The gentleman from Texas, Mr. Sessions, is now recognized for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much. Director, I am delighted that you are here. I began receiving letters as early as January, February, and March, and while I have not provided you a copy of the letters, which I will be pleased to do, people who are in appraisal services and in housing across the 17th District of Texas have written to me, and essentially, it is not just a concern about conservatorship, but it is specifically that, and I am quoting from a letter here, "Fannie Mae has grossly overstepped its authority during its conservatorship by moving to abolish appraisals for refinance purposes in its new Fannie Mae selling guidelines published on March 1st." Can you please discuss with this committee the effect of that and your thinking about that?

Ms. THOMPSON. Sure. First, let me say that appraisals are always an option, and there are alternatives to appraisals, which we discovered during the pandemic when we had the record number of refinances and people wouldn't let you in their homes for an appraisal, and nobody wanted to go do these appraisals. We have

what is called desktop underwriting, which allows an appraiser to input information about a property into a desktop system. And we also have, what you are talking about, appraisal waivers, but those are primarily for very low-risk loans and primarily used in refinances where the borrower has lots of equity, and they have to reach certain criteria.

It is not the goal of Fannie Mae or Freddie Mac to ever serve in any primary market capacity. Fannie and Freddie have come up with alternative tools to help the borrowers and the lenders move the loan along in the process, and I think that we have leveraged technology, which also helps with safety and soundness because it provides good risk management oversight on the whole mortgage process.

Mr. SESSIONS. So your testimony today is, essentially, this was used only in refinancing?

Ms. THOMPSON. Refinancing and limited purchase properties. It has to be very specific circumstances, but we are not trying to eliminate or abolish appraisals, and a borrower always has the right to have a full appraisal.

Mr. SESSIONS. Okay. I would like to offer my concerns over this conservatorship, and I think that it is important to note that this committee, as Mr. Davidson has outlined, really wants to know more about the ending of that conservatorship. Could you please take a minute and discuss that?

Ms. THOMPSON. Sure. Again, the Enterprises have been in conservatorship for 15 years. They first have to meet their capital requirements, which I mentioned earlier, about \$300 billion between the two of them. In addition, this isn't a decision that FHFA alone would have to undertake. As you know, there is a huge ownership interest that the Treasury has in Fannie and Freddie, and that has been longstanding, so we would have to have conversations with them.

And we would also have to figure out what the impacts and implications are for the Enterprises outside of conservatorship. There are lots of rules that would be impacted, for example, the single counterparty rule that the Federal Reserve has. If Fannie and Freddie are out conservatorship, what does that mean? Right now, we have uniform mortgage-backed securities. Do Fannie and Freddie securities count towards the single counterparty rule? There are risk transfer rules that have to be looked at. So, there are a number of rules that relate to capital markets activities that would have to be considered as well. But the main point is that the Enterprises have to meet their capital requirements, and those are minimum capital requirements.

Mr. SESSIONS. And you believe that is the linchpin about why this has not moved forward?

Ms. THOMPSON. I think, as was stated earlier, that is one component, but the Enterprises have been in conservatorship for 15 years, and there has been lots of conversation on proposed legislation and the like, on what to do with Fannie and Freddie, and that is a decision for the Congress to make.

Mr. SESSIONS. Thank you very much. It is obviously clearly within our purview also, and I appreciate the time. Mr. Chairman, I yield back.

Mr. HILL. I thank the gentleman. The gentleman from California, Mr. Sherman, is now recognized for 5 minutes.

Mr. SHERMAN. Those who do not remember history are doomed to repeat it. Many of us in this room experienced the meltdown of the GSEs during the 2008 Great Recession. That occurred, in large part, because you had Enterprises that were out to make a profit, so they participated in the upside when things were good, and there was an implicit, turned out to be explicit, Federal guarantee. So, the taxpayers took the risk, the private shareholders took the upside, and, of course, because they got the upside and didn't have the downside, the shareholders insisted upon excessively-risky policies.

Now, there are those who say let's free Fannie and Freddie from the conservatorship and return to what we had in 2007. I would say if it is not broke, don't fix it. These Agencies are doing a great job of helping homeowners who are borrowing at a just bit over what the U.S. Government borrows at, and they are making money for the Federal Government. I realize conservatorship may not have worked well for Britney Spears, but it is working out very well for us.

We are told that inflation hurts homebuyers, and it does, and that somehow the decisions made in this building caused that inflation. That is a remarkable conclusion, since inflation over the last year has been higher in Germany, or the U.K., or France than it is here, and COVID is worldwide. The policies made here in this Capitol are not.

I was going to ask that great question that the ranking member asked about the effect of a debt default on homebuyers. It would be disastrous, as you pointed out. You have talked about the high cost of housing and the low supply. Our friends making State and local government decisions have caved in to NIMBYs again and again, especially when it comes to apartments and condos. We need more housing, and we need to build it somewhere.

Director Thompson, Representative Luetkemeyer and I sent you a letter expressing concerns about the GSEs, saying that you don't need title insurance. You just get an opinion letter from a lawyer. I wrote a lot of lawyer letters when I was a lawyer. None of them came with a guarantee, for if somebody buys a home and it turns out that what they bought, they don't own, and all they have is an opinion letter, first, they have to prove that the attorney was negligent, and this is complicated stuff. I made a lot of mistakes back in my day that were not my fault. I also made some that were my fault.

And then, even if you can prove that the attorney is at fault, you have to hope you can sue that attorney and prove to a jury that it was their fault. And then you have to hope that they are adequately insured, and if you have one attorney making the same mistake in the same tract or neighborhood, two or three homes, blow a hole in the Arizona emissions policy, and the rest of the homeowners get nothing. All this said, don't homeowners and the Agencies need the protection of title insurance?

Ms. THOMPSON. Absolutely. I would say that the Enterprises require that the seller, whomever is selling the loans to them or lender, that they represent that the home that is being purchased has

a first lien, that there are no superior liens, and that the title is clear and the lender has to represent that that is true. And what has typically been the case is that people purchase title insurance.

And I think Freddie Mac has been allowing attorney opinion letters since 2008, but when we looked at the numbers last year, I think there were only 45 borrowers who used this attorney opinion letter. And it is an option, and certainly that is one——

Mr. SHERMAN. So, only 45 people in the country have used this.

Ms. THOMPSON. In the last year.

Mr. SHERMAN. For a whole year. I am going to go on to another question that, hopefully, affects more people, and that is Fannie and Freddie have talked about transitioning to a bi-merged credit report, relying on two credit agencies rather than a report where you need all three credit agencies. Now, there are only three credit agencies, so if you had a rule that requires all three credit agencies to be used, none of those credit agencies has to do a good job because you are guaranteed that you are 1 of the 3 participating in a three-factor formula. Would we benefit from increased competition for better accuracy among the credit reporting companies if we just go to two?

Ms. THOMPSON. Sure. Thank you for the question. When we started looking at——

Mr. HILL. If you could answer that question in writing, please, Director.

I thank the gentleman from California. The gentleman from Florida, Mr. Posey, is recognized for 5 minutes.

Mr. POSEY. Thank you, Mr. Chairman. Ms. Thompson, could you give us a brief summary of the status of the lawsuit against Fannie and/or Freddie by the investors?

Ms. THOMPSON. Which one?

Mr. POSEY. Yes, just——

Ms. THOMPSON. Oh, certainly. In, I think it was October last year, there was a lawsuit, a trial for Fannie against the investors, the junior preferred shareholders, not all of them but many of them, and there was a D.C. trial. It was FHFA versus the junior shareholders, and there was a hung jury. And there is going to be an upcoming trial in, I think it is July, that will further the issues with which the previous trial was dealing. And that was, one, the settlement or the actual amount of the benefits to some of the junior preferred shareholders. A prior judge had limited that amount to, I think it was \$1.8 billion, so we are trying to figure out what that amount is, and that is the premise of the trial that is coming up in July.

Mr. POSEY. Thank you. Can you tell me the amount in legal defense fees the taxpayers have paid so far?

Ms. THOMPSON. Sir, I will have to get back to you on that. The trial that I have mentioned was the first jury trial, but there have been a series of trials for the past 14 years that FHFA and the Enterprises have participated in, and I certainly would be happy to give you that number.

Mr. POSEY. Yes. I understand it was over \$100 million, many years ago. I would greatly appreciate if you could tell me the total amount of fees paid in defending Raines, et al.

Ms. THOMPSON. Sure. I would be happy to.

Mr. POSEY. Thank you.

What steps do you think policyholders should take to move a greater share of the secondary mortgage market and associated risk to the private sector?

Ms. THOMPSON. I think that is a great question, because I know that it is important to have a balance of both the private sector and the government. It helps competition, but it also helps homeownership because people are competing to get mortgage loans. And I have been through, for the past 30 years—I know the private-label securities (PLS) market and the challenges that had, which is not completely gone, but mostly.

I think that if there is any way to facilitate more participation in the private market, that would be helpful. But as Mr. Hill said in his opening remarks, it seems like many banks are getting out of the mortgage business, and many of the non-bank lenders are servicing that market. I don't know if that is good or bad, but at the end of the day, it just seems like there could be more participation in the mortgage market.

Mr. POSEY. Thank you. Does the Biden Administration have a plan to release the GSEs from conservatorship, and if so, what does that look like?

Ms. THOMPSON. Certainly. I actually don't know that we have a plan to release the Enterprises out of their conservatorship. I have not spoken with the Administration about that. FHFA is an independent regulatory agency, and I do believe that meeting the capital requirements is really important. I think that making sure that the Enterprises have appropriate capital, that they have appropriate pricing, and that they are able to meet commercially-viable returns is a critical component of that.

You have to make sure that people are sure about what they are investing in, both from the mortgage-backed security side and from investing in the company, so if they ever got out of conservatorship, they would likely have to have a huge capital raise. And there are a lot of questions that would need to be answered, but they also would have to have the capital requirements to make sure that they are in position to take care of any losses that they have.

Mr. POSEY. Thank you. Broadly speaking, what role should risk-based pricing play in setting borrower and lender prices for GSE-insured mortgages?

Ms. THOMPSON. Risk-based pricing is very important. After all of the concerns that were raised about the loan-level pricing adjustments, we have issued a request for input which asks that very question: What role should the capital rule play in terms of setting the prices? What role should loan-level pricing adjustments play? Should there be any? So, we are really looking for stakeholders to provide input on how we establish returns and pricing so that we can answer that question responsibly.

Mr. POSEY. Thank you, Ms. Thompson.

Mr. HILL. The gentleman's time has expired. The gentleman from New York, who is also the ranking member of the House Foreign Affairs Committee, Mr. Meeks, is recognized for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman. And thank you, Director Thompson, for the excellent job that you are doing at FHFA. I agree with the ranking member, and I don't think you got a chance

to answer this question: Our Republican colleagues are threatening to default on our debt, and as the ranking member asked, what effect would that have on the housing market? You started to answer, but you only had about 6 seconds to do so, and I think it is important for this committee and for America to hear what effect it would have.

Ms. THOMPSON. Thank you. I do believe that mortgage interest rates would increase, and to the extent that homeowners are impacted and they are not getting paid, it would certainly impact employment, which would increase delinquencies for the mortgages that are owned by Fannie and Freddie. And to the extent that delinquencies are increased, we would have to start making sure that the investors get paid. And fortunately, at both Fannie and Freddie, there is \$100 million to cover losses, but I don't know how long something like this would last or how much would really be necessary to make sure that investors got paid.

And we lost a lot of confidence in the last Great Recession, through the PLS market and the mortgage-backed securities investors; while they are worldwide, we are just regaining the confidence back. So, making sure that we have homeowners who can afford these homes because, again, these interest rates would be really high, is really important. We want to make sure that investors also have confidence that they are going to get their return on investment.

I think there would be some confidence issues, both in the beginning with the borrowers and the homeownership, and then in the end with the investors and mortgage-backed securities.

Mr. MEEKS. Thank you, and that affects, as you were talking about earlier, the private market also getting involved, as well as the global market as far as confidence in what we are doing. It will be devastating, in other words, and people will lose their homes, and we know that. Those who are renting would be faced with losing rental assistance in the middle of a housing crisis. So, it actually is a default on America if, in fact, my Republican colleagues continue to move to hold the debt ceiling hostage.

Let me quickly, in the time that I have left, talk about appraisal bias. As you well know, the appraisal is a critical part of the homebuying process, and significant attention has been given to the bias and discrimination that has resulted in material loss, particularly for borrowers of color. Now, I understand that you hosted the second of two public hearings on appraisal biases just last week. Could you provide any key takeaways from the public hearing, including specific steps that FHFA and the Enterprises have taken or plan on taking to work towards more fair and equitable property valuations?

Ms. THOMPSON. Sure. Thank you for the question. We have actually issued over 43 million loans or data on 43 million loans—we had to anonymize the data—just to help with the discussion on appraisal bias. We published the data last October, and we update it every quarter, and we have provisions so that people can use tools to look at neighborhoods and pricing of homes in different neighborhoods. And in many cases, homes in minority neighborhoods are appraised at lower values than loans in non-minority neighborhoods.

When we started this conversation, most of the discussion was based on anecdotal data, and now we have actual data from the Enterprises, and people can go on our website, use the data, and come to their own conclusions. But I have seen a number of studies that do reflect that some of the appraisal numbers are much lower in minority neighborhoods across the country than they are in non-minority neighborhoods, but the data is on our website.

Mr. MEEKS. And what about in the appraisal profession? Can you tell us what outcomes or what initiatives have been taken, including how many people of color have entered into the profession?

Ms. THOMPSON. There are a number of appraisers, and it is our understanding that the appraisal industry is aging and that their—

Mr. HILL. The time of the gentleman has expired. I would invite the Director to respond to the gentleman's question in writing.

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

Mr. LUETKEMEYER. Thank you, Mr. Chairman. Ms. Thompson, I am just kind of curious, do you ever meet with the President at all or talk with him about how his policies are affecting homeownership and the ability of your Agency to function?

Ms. THOMPSON. I have met with the President to talk about homeownership, along with the Secretary, when we present a global perspective on homeownership.

Mr. LUETKEMEYER. Do you talk to him about what his policies are doing to homeownership, such as increasing rates, and now his unwillingness to meet until about 2 weeks before the deadline with regards to the debt limit bill? You have already delineated what you think is going to happen here: Higher interest rates could increase costs. Do you ever talk to him about that? Has your Agency talked to his people, or him personally?

Ms. THOMPSON. We have conversations with the White House. We have conversations with Treasury. We have conversations with other regulators—

Mr. LUETKEMEYER. Do they listen to you?

Ms. THOMPSON. Of course, everyone is—

Mr. LUETKEMEYER. They may hear you, but they don't listen, do they, because we continue to have this increased situation. I just read in the paper again yesterday where the Fed looks like they are going to raise rates at least once or twice more this year. That is going to have a dramatic effect on the ability of people to afford houses, is it not?

Ms. THOMPSON. Rising interest rates is a huge contributor.

Mr. LUETKEMEYER. I used to Chair the Subcommittee on Housing and Insurance here, and the statistics that I got from the National Association of Home Builders people was that for every 1 percent of increased costs to purchase or to finance a home, 100,000 people no longer have the ability to have a home. That is really, really significant, and that is devastating to the National Association of Home Builders. And it is devastating to homeowners to not be able to buy homes because of increased costs. Inflated interest rates that continue to go up are devastating to homeowners, are they not?

Ms. THOMPSON. High interest rates are very impactful to potential homebuyers.

Mr. LUETKEMEYER. What is the reaction you get from the Administration whenever you ask them about that or tell them about that? Do they care? Every time you raise interest rates like that or raise costs, 100,000 people don't have access to homes.

Ms. THOMPSON. Understood. Housing is a big part of our economy. It is a national issue.

Mr. LUETKEMEYER. So, you are telling me that they don't react at all?

Ms. THOMPSON. It is a national issue, and I think that people care about homeowners—

Mr. LUETKEMEYER. Yes, but you are giving me the 30,000-foot view. I am asking a very specific question about whether the Administration actually responds to you and says they are concerned about that. Do they ever say that?

Ms. THOMPSON. I don't know that we have talked about—

Mr. LUETKEMEYER. Now, you are saying you don't talk to them at all about this?

Ms. THOMPSON. No, no, no. What I said was that we do talk to the Administration about housing generally. I think everyone is concerned about homeownership, including the Administration, including people that I have talked to in this room.

Mr. LUETKEMEYER. It doesn't seem as though you are meeting with them on a regular basis and getting your message across. How can you not? It is your job to talk about housing. How can you not be forceful and say, I am an advocate for housing, I am an advocate for people to have homeownership, your policies are killing us right now, please listen to me? And I don't hear that from you.

Ms. Thompson, you had a career with the FDIC, is that right?

Ms. THOMPSON. Yes.

Mr. LUETKEMEYER. For about 20 years, you were in charge of the Examination Enforcement Program for Risk Management, correct?

Ms. THOMPSON. That is correct.

Mr. LUETKEMEYER. The FDIC enforces capital requirements on its banks, does it not?

Ms. THOMPSON. They do.

Mr. LUETKEMEYER. You talked a little bit this morning about how there needs to be about \$300 billion of capital to be able to move out of conservatorship, and you are at what level right now roughly with the two GSEs combined?

Ms. THOMPSON. About \$100—

Mr. LUETKEMEYER. About \$100—

Ms. THOMPSON. —loss.

Mr. LUETKEMEYER. And when I chaired the subcommittee, it was about, I think \$20 or \$25, which was about 6 years ago, so they are making progress toward that end. The problem is as long as the GSEs are undercapitalized, it allows a whole lot of other things to go on. Would you, in your position as a risk management officer, allow the banks to engage in new activities if they were undercapitalized like this?

Ms. THOMPSON. The banks would have to submit to their regulators—



Mr. LUETKEMEYER. You were the regulator, Ms. Thompson, so the question is, if you had banks that were severely undercapitalized, \$100 billion versus \$300 billion, so that they are only a third of where they should be, and they wanted to expand their services into new areas they had no expertise in, would you go along with that?

Ms. THOMPSON. I would have to look at the plan submission.

Mr. LUETKEMEYER. Ms. Thompson, you know as well as I do—I am a former examiner—that that wouldn't happen. They would not be able to expand, because they don't have the expertise or the capital to absorb the losses that are going to come because they don't know what they are doing in this area.

Ms. THOMPSON. They would likely be on a capital plan, and to the extent an activity would help increase their capital, we would thoroughly look at—

Mr. HILL. The gentleman's time has expired, and—

Mr. LUETKEMEYER. I yield back.

Mr. HILL. I thank the gentleman from Missouri, and the Director is invited to respond in writing.

And I now recognize the gentleman from Georgia, Mr. Scott, who is also the ranking member of the House Agriculture Committee, for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman. Director Thompson, back in October of 2022, FHFA announced the Agency's transition to a bi-merged credit report rather than a tri-merged credit report for GSE-backed mortgages. And I want to specifically focus on the portion that proposes to use an average borrower's two credit scores as the representative credit score for single-family mortgages instead of the lower of the two credit scores.

Under the current three-credit-reports system, lenders have access to all available credit history information about potential borrowers. My concern is that by removing one of the reports from a lender's review, FHFA is potentially leaving predictive and positive credit history out of the credit risk assessment. And while I agree that we need more competition between the three nationwide credit reporting agencies, I have concerns that this action could have serious implications for consumers planning to purchase a home.

And my understanding is that FHFA and GSE officials say that the proposal is more sustainable than the old regime of FICO classic reporting. Can you explain what your Agency means by, "more sustainable?"

Ms. THOMPSON. Sure. Years ago, there were three separate credit reporting agencies, and they had special information about certain parts of the country: one had information on the West Coast; one on the South; and one on the Northeast Regional. Having said that, we have made several advances in technology, and now there is national lending. We currently require the Enterprises to get credit scores from all three companies, and you have to pull a credit score for every borrower on the loan.

When we initially undertook the credit score model update review, which is a separate but related activity, one of the things that we did was we took a look at if you get credit scores from three credit reporting agencies, what are the differences if you get it from one or two? There were significant differences if you went

from three credit reporting agencies to data from one credit reporting agency, so that is bi-merged to one, but there was very little from three to two.

Mr. SCOTT. Let me ask you about the risk. Has there been a review of the risk that this change could have on the underwriting process, and is there a mechanism in the proposal to ensure that positive credit history is not left out of a borrower's credit risk assessment?

Ms. THOMPSON. Yes. We have done an assessment on the differences between moving from three credit scores to one credit score, and three credit scores to two credit scores. And again, the accuracy is not impacted very much, if at all, moving from three to two, and we do believe that would foster competition. With regard to including positive rental payments, that is something that is going to be and currently is included in the underwriting systems for both Fannie Mae and Freddie Mac. If people report these positive payments, they are included, and they get factored into the credit decisions.

Mr. SCOTT. Would you be willing to share this information with members of this committee so we can have a better understanding of the impact the bi-merged credit report proposal could have on our constituents?

Ms. THOMPSON. Sure. We would be happy to provide you a briefing with the information.

Mr. SCOTT. Thank you, and I think you are doing a wonderful job.

Ms. THOMPSON. Thank you.

Mr. HILL. The gentleman yields back.

The gentleman from Oklahoma, Mr. Lucas, is recognized for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman. Director Thompson, I would like to follow up on the concerns many of my colleagues have raised regarding the recent changes to the loan-level price adjustments. When you compare the previous pricing grids with the new pricing grids that went into effect this March, there are some perplexing changes.

For example, a borrower with a credit score between 760 and 709, with a down payment range of 15 to 20 percent, will have a significantly higher adjustment under the new grid, while a borrower with a lower credit score between 640 and 659 and the same down payment would have a significantly lower adjustment.

You discuss in your testimony that one of the objectives of the new pricing grids is to assist lower-income first-time homebuyers. Could you discuss how this policy objective is weighed alongside protecting the safety and soundness of the GSEs?

Ms. THOMPSON. Absolutely. The grids that are in place right now are calibrated to the new capital requirements to which the Enterprises are subject. The prior grid was outdated and had not been subject to any updates in over 8 years. In fact, the last time a change was made to the pricing grids was in maybe 2014. Since then, the Enterprises have had what we call the conservatorship capital framework, and the pricing grids were not changed to reflect that framework nor were they changed to reflect the new capital requirements. We believe that your income needs to cover your

expenses, and we do believe that these new pricing grids absolutely reflect the cost of capital and other administrative expenses.

Mr. LUCAS. You can see why several groups of borrowers with lower credit scores and lower down payments having their fees reduced, while some with higher credit scores and higher down payments having their fees increased, would be concerning to people looking at this.

The GSEs owned and guaranteed approximately \$7.4 trillion in mortgages at the end of last year. That is more than half of the \$13-trillion U.S. mortgage market. Is this why it is imperative that Congress play an oversight role in FHFA? Director Thompson, could you discuss what you view as the oversight role of Congress, particularly in identifying the risks and vulnerabilities within the housing finance sector?

Ms. THOMPSON. Sure. I think Congress has policymaking responsibilities for the entire sector. Whether it is housing or other, Congress certainly can do what it chooses to do, and we are happy to provide any information you need with regard to how we are managing and overseeing as conservator and regulator of the Enterprises and the Home Loan Banks.

Mr. LUCAS. But where do you see the risks and the vulnerabilities these days?

Ms. THOMPSON. I think one of the risks is building capital and making sure that we have capital so that the Enterprises can cover any losses. But there is also a dual mandate of making sure that liquidity is provided throughout the country to borrowers everywhere so that they can have access to homeownership. And I think that is a dual mandate for which we have to be responsible.

Mr. LUCAS. In our remaining moments, Director, Fannie Mae and Freddie Mac have been under a conservatorship since 2008 in which FHFA is charged with acting as regulator and conservator. Could you explain your approach to both of these different responsibilities and what you see is the greatest challenge facing each?

Ms. THOMPSON. Sure. We believe that safety and soundness and sustainable access to credit are our mandates. Everything that we do at FHFA is wrapped around safety and soundness. We have examiners onsite at the Enterprises. We conduct examinations at the Home Loan Banks each and every year. And we make sure that they are accomplishing their missions in a safe and sound manner.

We believe that both are attainable, and it shouldn't be either/or, it should be and/both, because we have the dual mandate to provide safe, decent, and affordable housing to Americans throughout the country, and that is how we approach our job.

Mr. LUCAS. Thank you very much. I yield back, Mr. Chairman.

Mr. HILL. The gentleman yields back.

The gentleman from Texas, Mr. Green, is recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the witness for appearing today as well, and of course, I thank the ranking member.

Mr. Chairman, you might recall that in the last Congress, the Oversight and Investigations Subcommittee held a hearing on the question related to rental markets and tenant protections. I see where a recent ProPublica investigation alleges that RealPage, a

company which provides a rent-setting algorithm to landlords and property management companies—it is being alleged that they have colluded with landlords to help inflate rental prices using private data.

The question becomes, Madam Director, of course, is this price-setting software, or is this price-fixing software? And does this pricing algorithm allow landlords to coordinate prices and provide rental pricing higher than competitive levels?

It is of great concern, because we want to make sure that we protect tenants from egregious rent hikes, and this looks like a very clever means by which this can occur. I am concerned about how the FHFA might play a role in protecting tenants. Can you give me some commentary on this, please?

Ms. THOMPSON. Sure. Thank you. The subject of tenant protections has been coming up quite a bit, and our Agency is preparing to issue a request for input to get stakeholder input on this very issue. I read that same article, and Fannie Mae and Freddie Mac in particular are secondary market participants. They provide the funding for financing to lenders.

So, we have asked them to talk to the lenders who, in turn, talk to the property managers to figure out, one, are they using this type of algorithm to establish rents? But, two, we want to make sure that we are balancing safety and soundness and tenant protections so that tenants certainly have rights and also the multi-family lenders that build these properties are part of this conversation.

So, we are really looking forward to getting input on our request for input on tenant protections for stakeholders, for loans that are backed by Fannie and Freddie.

Mr. GREEN. Thank you for looking into this. I am moved by this in part because when I was a neophyte lawyer, we were given a booklet that would give us suggested prices for various actions—divorce one price, DWI another—and this was found to be a violation of antitrust law when you start pushing prices so that you create a price level that is beyond what would ordinarily be a competitive price. And this smells very much of what I experienced when I was a neophyte.

And I am really concerned to the extent that I may give you a written request—I don't want you to get blindsided—as it relates to this because from the hearing that we had, it became very obvious to us that major corporations were buying up these properties and that somehow in buying them, prices were being elevated. This was immediately during the advent of the pandemic, that prices were being elevated.

And not only were the prices too high for renters, but they were also buying properties that first-time homebuyers could have acquired. So, they were cutting into poor people who don't have what rich people have, in various ways. Your final comment, please?

Ms. THOMPSON. We don't allow institutional investors to purchase these multi- and single-family rental properties. I think one of the Enterprises did one transaction in 2018, and we have not allowed that since.

Mr. GREEN. Thank you very much. I will yield back the remainder of my time.

Mr. HILL. The gentleman from Texas yields back.

The gentlewoman from Missouri, Mrs. Wagner, who is also the Chair of our Capital Markets Subcommittee, is recognized for 5 minutes.

Mrs. WAGNER. I thank the Chair, and I thank Director Thompson for joining us here today.

I just want to join my colleagues in their concerns with the recent changes to these home mortgage fees. I have heard from countless people in the housing community, as well as homebuyers young and old in Missouri's Second Congressional District who are adamantly opposed to this new Biden-era rule.

What you are essentially proposing or doing is taking money from those with good credit, who have spent years saving for a home, and transferring it to more-risky borrowers. We all agree that there is a housing affordability problem in this country, but it won't be solved by punishing those who played by the rules and did things right. And none of this will be solved by this unjust, socialist-style redistribution of wealth.

Director Thompson, on May 15th, you did announce a formal request for input, an RFI, on the broader pricing change initiative after significant stakeholder, as I just reflected, and congressional feedback and concern. Now, this is one step in the right direction. However, I believe that you are putting still the cart before the horse here by releasing a new pricing framework without proper input first.

Why did the FHFA neglect to formally request stakeholder input before releasing this new pricing framework?

Ms. THOMPSON. Thank you for the question. The FHFA reports on pricing every year to the Congress, and we also publish reports that discuss the pricing requirements.

Mrs. WAGNER. But what about the stakeholder input?

Ms. THOMPSON. Yes, what I would like to say is we published the changes—I really wanted to say that the new pricing grids do not punish people with high credit scores and higher down payments.

Mrs. WAGNER. Okay.

Ms. THOMPSON. That is not the case. What people forget to look at is the cost of mortgage insurance—

Mrs. WAGNER. Respectfully reclaiming my time, we couldn't see this, nor can the American people see this any differently.

Given all the backlash from the FHFA's rollout of the recent pricing changes, will you commit to increased transparency and stakeholder input for actions like this in the future?

Ms. THOMPSON. Yes. We will certainly commit to—

Mrs. WAGNER. Let me move on then. Lower-credit-quality borrowers are typically the first to default, and many experience extremely-early payment defaults during times of economic stress. If more borrowers with worse relative credit receive Fannie and Freddie guarantees, could that result in more systemic risk for these GSEs either, one, in the short term in an economy at risk of recession or, two, in the longer term as the credit quality of the GSEs deteriorates?

Ms. THOMPSON. That is one of the reasons that the Enterprises require mortgage insurance, because if there is a default, the mort-

gage insurance steps in front of and has the first-loss position and protects the Enterprises and limits the Enterprises' loss.

And as we said, any loan that has less than 20 percent down is required by law to have credit—

Mrs. WAGNER. Yes. We are all familiar with private mortgage insurance (PMI). Director Thompson, I am concerned with the FHFA's proposed actions related to the bi-merge, tri-merge transition, which would only require two credit reports instead of three to determine consumer credit scores. I am sure you would agree that relying on incomplete and imprecise data raises the possibility of another GSE policy-created mortgage crisis. Lenders cannot accurately price risk and manage their mortgage-related exposures if they are relying on a limited picture of borrowers' credit files. Ultimately, the taxpayers will pay the cost if mortgage defaults increase.

And like it or not, the most predictive of models, the single-most predictive one is credit scores. How would this change work, and who would determine which two reports to use, and at what juncture in the lending process would that decision be made?

Ms. THOMPSON. The decision would be made early on, and the lender would choose two of the three. We think it fosters competition, and it lowers the cost for the buyer. Instead of getting reports from three—

Mrs. WAGNER. Do all three have the same data?

Ms. THOMPSON. Some have more data than others.

Mrs. WAGNER. Yes. That is problematic.

Mr. HILL. The gentlewoman's time has expired.

Mrs. WAGNER. My time has expired. And ma'am, I have a multitude of questions in this arena that I am going to forward to you.

Mr. HILL. Director Thompson, you can respond to the gentlewoman in writing.

Mrs. WAGNER. Thank you.

Mr. HILL. The gentleman from Missouri, Mr. Cleaver, who is also the ranking member on our Housing and Insurance Subcommittee, is now recognized for 5 minutes,

Mr. CLEAVER. Thank you, Mr. Chairman.

And again, thank you, Director Thompson. And let me also express appreciation for your availability and your staff's availability to discuss these issues of significance to us. It is always helpful.

And particularly, I am now very much interested in the Federal Home Loan Bank (FHLB), which is in Des Moines, Iowa, about 175, 180 miles from me in Kansas City, Missouri. We ended up having a lot of concerns and questions around Silicon Valley Bank and Silvergate Bank because the FHLB had provided billions of dollars to both of those banks in the weeks that led up to their collapse.

And whenever that kind of thing happens, we are going to get questions, "I thought their priority was making affordable homes available. And if that is, in fact, their mission and if they are backed up by the Federal Government, implied or not, how can they justify giving billions of dollars to two banks that went under?"

Ms. THOMPSON. Yes. Thank you for the question.

The Home Loan Banks certainly are part of the greater financial ecosystem. And we are conducting a review of the Home Loan Banks and will, as part of the report that we issue, have a discussion about the Home Loan Banks' role in the failure of the two banks over the March 9th weekend.

What I would say is we work very closely with the primary Federal regulator, and they govern the permissible activities. But what we do is we try to make sure that the Federal Home Loan Banks are not the lender of last resort. That is supposed to be the Federal Reserve. And to the extent that the Home Loan Banks want advances, then we certainly work with them. We assess their credit and look at just their activities over the quarter. Because we don't get reports of examinations, we have to rely on our own member credit assessments.

We, again, based on the requirement of law, are required to provide advances, and these advances need to be used for homeownership, home lending. They can be in the form of loans or mortgage-backed securities that are purchased to fulfill some of the collateral requirements when they are requesting advances.

And so, we really keep a close eye on the Home Loan Banks. And as it relates to these failures, we are definitely going to incorporate the Home Loan Banks' role into the report that we publish by the end of the third quarter.

Mr. CLEAVER. Thank you. I look forward to seeing that.

The Federal Home Loan Banks have over \$1 trillion in assets, and we also are having a serious problem with homeownership, or the lack thereof. Is it reasonable that the Federal Home Loan Banks play a more active and aggressive role in responding to the affordable housing crisis?

Ms. THOMPSON. Yes, absolutely. We conducted numerous listening sessions around the country to talk about the role of the Home Loan Banks. And at almost every session, many participants said that there was more that the Home Loan Banks could do to be helpful in their affordable housing responsibilities. So, we will be, again, publishing a report that will list some of the suggestions that were made to really help the Home Loan Banks better focus and enhance the activities around affordable housing in their respective banks.

Mr. CLEAVER. I would hope that since the Community Reinvestment Act (CRA) is being looked at right now by these finance Agencies, this might be a really good time to look at that in terms of a more active role.

Thank you, Mr. Chairman.

Mr. HILL. I thank the gentleman. I now recognize the gentleman from Kentucky, Mr. Barr, who is also the Chair of our Financial Institutions Subcommittee, for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman.

Director Thompson, thanks for being here today. And I hear your argument that the FHFA's recent changes to loan-level price adjustments does not punish borrowers with higher credit scores and down payments and won't impact them. But I have to drill down a little bit on your argument that this doesn't undermine risk-based pricing.

Did the LLPAs assessed on any loans increase under the new pricing grid?

Ms. THOMPSON. Yes.

Mr. BARR. In terms of credit scores, were there any price increases assessed on any loan with a credit score of 679 or lower?

Ms. THOMPSON. I don't have the chart in front of me.

Mr. BARR. I think the answer is, no. But the next question is really more revealing. Is it correct to say that all increases in the LLPAs under the new grid were assessed on loans with credit scores of 680 or higher?

Ms. THOMPSON. I think the capital requirements for those loans, which the pricing grid is tied to, I think would reflect the risk distribution of those—

Mr. BARR. Yes. The answer is, yes.

Ms. THOMPSON. Okay.

Mr. BARR. Every one of these higher fees goes to borrowers with credit scores higher than 680. And this is the problem that Members of Congress have, because our constituents have a problem with this. It may advance a political agenda of equitable housing, but it doesn't advance the statutory mandate that you, as the FHFA Director, have to promote safety and soundness.

What we think you are doing here by assessing higher fees on higher-credit borrowers is you are actually contradicting the statutory mandate to advance safety and soundness, and you are putting taxpayers at risk. I want you to kind of take that feedback, evaluate it, and recognize that, yes, in fact, the borrowers with the highest credit scores are the ones getting the higher fees.

Let me follow up on Representative Cleavers' very good questions about the Federal Home Loan Bank System. One of the key lessons from the recent bank failures is how quickly deposit outflows can cripple a financial institution, and Federal Home Loan Banks do have an ability to respond almost instantly to their members' funding needs. This is particularly important for community banks and credit unions which otherwise don't have access to the capital markets.

I hear what you are saying, that the Federal Home Loan Banks (FHLBs) are not the lender of last resort, but considering this recent history, would you agree that any suggestion to limit access to Federal Home Loan Bank liquidity could have negative consequences for financial institutions and consumers if residential mortgage assets can't be effectively liquefied or pledged through FHLB borrowing?

Ms. THOMPSON. I think, first, I would like to say that even with these reduced fees, borrowers with high credit scores and high down payments will always pay less than borrowers with low credit scores and low down payments. That is FHFA's requirement, and we do believe that it is safe and sound.

With regard to the Federal Home Loan Banks, they have to issue debt. So when a member comes in, if they have a large requirement, the debt markets are not open 24-hours-a-day, so what typically happens for the Federal Home Loan Banks is the members come in, and they have staggered requests. And if they have a large request, then the Home Loan Bank has to plan for it, because they have to issue debt to meet the funding requirement.



So, we just think that planning, which is appropriate for the Home Loan Banks, which are the second—

Mr. BARR. Thanks for your feedback. Just remember the important liquidity provisions that Federal Home Loan Banks can provide here.

On credit risk transfer, the SEC's proposed conflict of interest rulemaking exempts the GSEs as long as they are in conservatorship. But whether or not the Enterprises are in conservatorship really should have no bearing on whether the transactions impacted create material conflicts of interest with investors.

I appreciate that you have restored capital credit for Credit Risk Transfers (CRTs), and the revisions you made to the Enterprises' regulatory capital framework, which supports ongoing issuance of credit risk transfer transactions that protect taxpayers, but is there any reason you can think of why the SEC should not simply write a rule that can apply to all issuers of CRT or similar risk-mitigating instruments rather than relying on these clumsy exemptions that undermine efforts at housing finance reform?

Ms. THOMPSON. The FHFA has no jurisdiction over what the SEC should or should not do. To the extent they issue a rule, we have a responsibility to respond on how it impacts our regulated entities, and that is what we have done.

Mr. BARR. I am just making the point. I appreciate it, and I yield back.

Mr. HILL. The gentleman's time has expired.

The gentleman from Illinois, Dr. Foster, is now recognized for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman.

Director Thompson, a variety of people come in front of our committee, and come to us individually for private meetings ahead of time. And I have to say, when I encounter someone with your breadth of experience, your deep understanding of business considerations, and the strength of your moral compass, I just want to say that I thank you for your years of service to our government and the people.

Now, I have long been concerned about the cybersecurity risk that third-party providers may pose to individual financial institutions as well as our entire financial system, given how interconnected the whole system is and the fact that many of these third parties are, in fact, core mission-critical providers to several important financial institutions. We have learned a number of painful lessons in the recent past about how cybersecurity attacks—well, about the effectiveness of supply chain attacks and third-party attacks on financial services and elsewhere.

I hope soon to reintroduce the Strengthening Cybersecurity for the Financial Sector Act, which this committee actually passed out of markup last session. This bill would give the FHFA the authority to examine and regulate third-party service providers of its regulated entities. This is, as you are probably aware, very similar to the existing authority that prudential banking regulators like the FDIC and others 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, continue

to have limited authority to regulate and supervise third-party providers.

So, Director Thompson, can you tell us the current extent of FHFA's authority over third-party service providers like Fannie, Freddie, and the Federal Home Loan Banks?

Ms. THOMPSON. Sure. Thank you for that. We have been asking for authority to examine third parties that are counterparties to the Enterprises and the Home Loan Banks for a number of years now. So, thank you for raising the issue.

Right now, we use our conservatorship authority, because the counterparties have contractual relationships with the Enterprises. But as a regulator, we think it is very important to have oversight or examination authority, similar to what the bank regulators have through the Bank Service Company Act, on their ability to oversee and examine third parties that are critical counterparties to their regulated entities. We would like the same thing.

Mr. FOSTER. I concur, and I hope the Congress moves on what I hope should really be a no-brainer on this.

Are you involved in Fed Vice Chair Barr's holistic review of bank capital and liquidity requirements? And in particular, will the report that you are generating, for which I think you set a due date in September, really have a timeline that is useful for input into that, given the importance of the Home Loan Banks in providing emergency liquidity?

Ms. THOMPSON. We are not directly involved with the bank capital review that the Federal Reserve and the other regulators are undertaking, but I have committed to Vice Chair Barr and the other banking regulators that we would share information from the review that we are undertaking on the Home Loan Banks because they are the primary Federal regulators. And it is really important for us to continue to work together and communicate because these are all entities in the larger housing finance ecosystem, so we will be sharing information with them along the way.

Mr. FOSTER. Yes. In your testimony, you mentioned the capital stress testing of the Enterprises. And we, I guess, had seen the biggest drop in house values in the last 11, 12 years in the last year. And that, fortunately, has not been accompanied by unemployment, which is the other thing that can really wipe out capital rapidly.

So, what can you say about the nature of the stress testing? Is the stress testing you do comparable to, say, a repeat of the 2007 to 2008 crisis or—

Ms. THOMPSON. Yes. Actually, we use much of the information that is published by the Federal Reserve in their stress testing of their regulated entities, and we modify it to accommodate our regulated entities. For example, we will look at high concentrations of a single counterparty. We will look at home price decline since we have a single asset in a way that maybe others do not.

And so, we take what is publicly available and we modify it just a little bit, and we publish the results of our stress tests every year. And we think that we want to be aligned where we can be with the other regulators and then make differences that are relevant to our counterparties, and then we publish—

Mr. DAVIDSON. [presiding]. The gentleman's time has expired.

Mr. FOSTER. Thank you. I yield back.

Mr. DAVIDSON. The Chair now recognizes the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you very much, and thank you, Director, for being here.

I am from Texas. I am a car dealer in Texas, and I own multi-family properties in Texas. And I know that the White House has been pushing the FHFA to enact rent controls where they are going to tell me what I am going to make. It takes away me wanting to do things, and multi-family property is part of their initiative to socialize the housing industry.

Now, the law is very clear. FHFA does not have the authority to enact these types of rent controls, and inserting yourself into the free market by enacting rent controls would have the opposite effect. It keeps people like me from wanting to build. It does away with competition. It keeps people from having places to live.

And we would see a reduced housing supply by you getting in the market and a lack of investment. You wouldn't see that. And rental costs being pushed onto other tenants. That is what happens.

And the focus should be shifted toward, I believe, increasing housing supply by reducing inflation, lowering interest rates, and getting the supply chain under control, and doing away with regulation for people like me who want to build and help people. And it is really hard to go borrow money when you have a cap on what you are going to make.

All of these factors will lead to an increase in home development and investment, driving the supply of housing up and the price down, if you do those things. Ms. Thompson, are you worried about the implementing of rent caps and other regulations? Do you think that could harm the housing market, like I am talking about, and make it even more difficult to develop housing, along with other economic challenges and discourage people like me from building?

Ms. THOMPSON. That is a great question, and we really want to get all sides on this issue. And this is why we are going to issue this request for input because we want to make sure that the policies that we are undertaking make sense from both a safety and soundness perspective and for the tenants. And we are really looking forward to getting information that can address this very issue that you have raised.

We, FHFA, don't have a lot of input or influence on the supply chain. We do participate in the supply on the multi-family side through Low-Income Housing Tax Credit (LIHTC) investments. We have allowed both Enterprises to have \$850 million each of LIHTC investments, and half of that has to be in rural and manufactured housing in counties across the country.

Mr. WILLIAMS OF TEXAS. Caps and forbearance does not help people who want to live in a decent homestead.

Next question. When traveling back in Texas, which is where I live, I continuously hear about how the dream of homeownership is becoming more and more unattainable for individuals in my district. Now, it is critical that we support new innovation designed to create more choices for consumers.

One solution to reducing prices in the housing space could be through a new, innovative approach such as direct mortgage insurance, which I know you are familiar with, which brings new private

capital to the market and reduces risk for taxpayers. Unfortunately, due to political pressures and lack of action by the Biden Administration, this is a model that is ready to launch but has not been approved as a standard product offering.

My question is, why is the Biden Administration standing in the way of competition, which creates a lot of great things for consumers, and innovation that would lower costs for borrowers? And what are your thoughts on the direct mortgage insurance approach that could bring new capital to the market, and where does it stand with the FHFA currently?

Ms. THOMPSON. Thank you for that. The product that you mentioned would be considered, I think—we would have to make a determination as to whether it was a new activity or new product for the Enterprises and would warrant making sure that it was publicly available so people could have public comments—

Mr. WILLIAMS OF TEXAS. But if it lowers costs, isn't that a good thing?

Ms. THOMPSON. Well, lowering costs and improving risk management is always good. But our rules suggest that this might be a new activity or new product, and we wouldn't want to make a decision that would be impactful without getting input.

Mr. WILLIAMS OF TEXAS. Okay.

Ms. THOMPSON. We would have to.

Mr. WILLIAMS OF TEXAS. Big government wins again.

Okay. Lastly, the GSEs have been in conservatorship coming up on 15 years this fall since the financial collapse in 2008, and former FHFA Director Calabria 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 toward that ultimate goal.

However, since you have taken over serving as Director of the FHFA, it does not seem like there is a similar focus on working to get away from the conservatorship, so GSEs remain under government control and continue to be financially backed by the American taxpayers. FHFA must work to bolster the capital levels of GSEs to better protect taxpayers from undue risk. Quickly, what is the FHFA doing to build capital in hopes of eventually exiting conservatorship?

Ms. THOMPSON. We are implementing the new pricing grids that are—

Mr. DAVIDSON. The gentleman's time has expired, and I would ask the Director to respond in writing for the record.

The Chair now recognizes the gentlewoman from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman, and thank you, Ranking Member Waters.

And thank you for being here today, Director Thompson.

Mr. Chairman, let me make this statement, because my colleague from Missouri asked Director Thompson about her relationship and meetings with the President and the White House, and I heard a different response. I heard her say, yes, she meets with the White House, she has met with the President, and she has presented information. I did not hear her say that they did not listen.

And as Chair Emeritus of the Congressional Black Caucus, I can say that on housing, thanks to this Director and data and resources that she supplied to me during my tenure as Chair, along with information that came from Chairwoman Waters, we were able to present housing information to this President, unlike the last President.

Since it has been introduced about what Presidents do, the last President did not know who or what the Congressional Black Caucus was, although we represent 80 million Americans, 18 million Black Americans, and for the last 52 years, Democrat and Republican Presidents have met with us and housing has been an issue. So, thank you for that.

Let me continue with what Congressman Meeks brought up. We have held hearings in this committee led by Chairwoman Waters and others over the last two Congresses that dealt with looking at diversity, equity, inclusion, and some of the biases with appraisals. Your time ran out when Representative Meeks was starting to ask about representation of people of color and biases in this profession. Is there anything you would like to add to that?

Ms. THOMPSON. Yes, thank you.

In terms of appraisal diversity, Fannie Mae and Freddie Mac have worked with, I think 29 sponsors, to bring diverse clients, diverse persons into the appraisal industry because, again, it is aging out and it is less diverse than other industries. And that was one of the things that came out at the hearing that we had last week Friday at FHFA with the Appraisal Subcommittee.

Right now, there are 469 scholarships that have been given by these 29 sponsors to persons who are interested in serving in the appraisal industry. There is not a lot of knowledge at Historically Black Colleges and Universities (HBCUs) or community colleges about that. So, there is a lot of outreach that is being done.

But what has happened is when people hear about it, they want to find out more, so there has been a lot of interest in the appraisal industry by diverse persons and diverse organizations, and we are trying to make sure that we accommodate that in any way that we can through the private sector.

Mrs. BEATTY. Thank you. As the former Diversity and Inclusion Subcommittee Chair, I really appreciate that.

Certainly, we all know that the FHFA was created by the Housing and Economic Recovery Act of 2008, to restore the confidence and stability in mortgage markets in the wake of what we experienced in 2008 with that financial crisis. One of your Agency's primary goals is to ensure that the Enterprises and the Federal Home Loan Banks are operating in a safe and sound manner and serve as a reliable resource of liquidity in the housing financial market.

What is FHFA doing under your leadership to help ensure safety and soundness in the housing finance market? Is there anything you would like to add?

Ms. THOMPSON. Yes, thank you.

We are looking at the operations of the Enterprises and our regulated entities. We have examiners onsite, and we conduct regular examinations. We are also looking at ways for the Enterprises to build capital so that they don't have to rely on the taxpayer support should there be losses. We are looking at ways to both help

homeownership in a responsible way because one of the things that we learned from the crisis was it doesn't make sense to put people in a home if they can't stay in the home. It is a lose-lose situation, so we focus on sustainable homeownership, and safety and soundness is embedded in everything that we do at FHFA.

Mrs. BEATTY. If an economic crisis were to occur, do you think you have what you need at your disposal, or is there anything else Congress can do to help you?

Ms. THOMPSON. We would be happy to work with the Congress on any way to help with looking at ways to make homeownership more—

Mr. DAVIDSON. The gentlelady's time has expired.

Mrs. BEATTY. Thank you, Mr. Chairman, and thank you to the witness.

Mr. DAVIDSON. The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, for 5 minutes.

Mr. HUIZENGA. Director, thank you for being here, and I appreciate your testimony.

Director, do you believe it is appropriate for the FHFA to prohibit GSEs from varying their pricing solely based on the origination channel of a loan?

Ms. THOMPSON. I think the pricing grids are based on the capital and the performance of the different origination channels.

Mr. HUIZENGA. Okay. So, would you agree that one loan no more or no less risky than an equivalent loan, with identical characteristics, simply because it was originated through a third party, would be a bad idea?

Ms. THOMPSON. I would agree. I think one of the points that was made earlier is the transition from the retail channel, the banks, to non-bank mortgage servicers and lenders. And I think we need to get some data that would show the experience on loans originated by channel so that we could look at the losses associated with it and then have capital reflect what the performance has been so we could price them appropriately.

Mr. HUIZENGA. Okay.

Ms. THOMPSON. It would be helpful to have data.

Mr. HUIZENGA. So, while GSEs should be permitted flexibility to adjust their pricing frameworks to meet their mission and safety and soundness objectives obviously, I don't believe they should be permitted to implement pricing that violates the principle of equal access to the secondary market.

You noted in your testimony that FHFA's statutory mission of ensuring the safety and soundness of the regulated entities and promoting access to affordable and sustainable housing includes first-time homebuyers in underserved communities, and I applaud you for that. I am actually a former licensed REALTOR. And when I got my real estate license, I was taught one thing: Everyone is green. It doesn't matter where you are from, what language you speak, or what your religion might be or anything else, what matters is, can you afford it, or can you not afford it?

I am curious, do you believe the reports that disparities in pricing for third-party organization (TPO) loans are a departure from the core level playing field principle that FHFA has established?

Ms. THOMPSON. I would want to see data that showed by channel what the loss experience has been so we could appropriately account for the pricing—

Mr. HUIZENGA. Should there be a difference, though?

Ms. THOMPSON. I hope not, but the data would be helpful and more informative for me to answer the question.

Mr. HUIZENGA. Okay. Moving on, in your appearance before our committee last July, I submitted a question for the record concerning GSEs and perceived steps that were taken to limit acquisitions of mortgage loans sold through third-party originators. Your response was, shall we say, I would characterize it as lacking. You said that FHFA must account for appropriate risks, including those associated with loans originated through the third-party broker and corresponding channels. But TPO-underwritten loans provide an alternative competitive product that lowers costs and can actually reduce interest rates on low- and middle-income borrowers, driving the mission purpose of why you are there at FHFA.

Here is what I am hoping to hear from you. I would like you to commit that you will provide my staff and this committee's staff with the analysis that you and FHFA used to determine any of the price changing and the pricing frameworks, and I would like to know what kind of analysis you have conducted. You have been referencing getting more data, but you have taken some actions. What is that based on?

And I am especially concerned what this means for our low- and middle-income borrowers. In my district, we are wildly diverse in that we have urban, suburban, and rural areas, and there are very poor people in all of those areas. And I want to make sure that those borrowers are being treated equally. Will you commit to working with us and giving us that information?

Ms. THOMPSON. Absolutely. And I would also mention that many of the borrowers, if your area median income is less than 100, if you are a first-time homebuyer, your up-front fee was eliminated. And so, I really want that message to get out that for first-time homebuyers, the up-front fee was eliminated.

You do have to continue to have the mortgage insurance, and your costs are going to be higher than someone who has a higher credit score and a higher down payment, but the up-front fee for first-time homebuyers in rural and urban counties throughout this country—

Mr. HUIZENGA. In my remaining 3 seconds, many of us are concerned about that disparity and making others pay for it.

Mr. DAVIDSON. The gentleman's time has expired.

Mr. HUIZENGA. Thank you, and I yield back.

Mr. DAVIDSON. The Chair now recognizes the gentleman from California, Mr. Vargas, for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman. I also thank Ranking Member Waters for this hearing.

And I especially want to thank Director Thompson. I have to say that I want to join with my colleague, Mr. Foster, in thanking you for the service that you have given, and for your deep knowledge. I have to say that I think you are doing a great job, and I have enjoyed your performance today in the sense that a few times they tried to put words in your mouth, especially with respect to the

President and what you said and what you didn't say, and you corrected the record very graciously.

So, again, that normally doesn't happen in here. Normally, there is a tit-for-tat, and instead, you handled it better than anyone I have ever known to do it.

Now that I have praised you, I do want to ask you some questions that you probably don't know the answer to, and and that are not in your bailiwick, but because the other side brought it up at the beginning, I have to ask, do you know what the inflation rate is of the EU and the UK?

Ms. THOMPSON. I'm sorry. I don't know.

Mr. VARGAS. That is right, and there is no need for you to know. But President Biden was blamed for the inflation rate that we have in the United States, which is lower than it is in the UK, which is over 10 percent. We are at 4.9 percent. And it's also lower than it is in the European Union. And yet, Biden's policies are not the European policies, and not the UK's policies.

We have inflation all over the world because of the pandemic, supply chains, all sorts of issues. And yet, each and every time, my colleagues want to blame Biden, Biden, Biden. It didn't work. They used it in the last election. They didn't get the wave that they thought. They are trying that old trick again. The reality is that it is a worldwide phenomenon. We are doing better than the rest of the world. That is the reality.

Now all that being said, I do have a problem with prices of homes. That is the real issue, and I will give you a good example. I just went on an inflation calculator, I have two of them here, and I took a look at—I bought my home in 1993 with my wife. We paid \$176,000 for it, it's a modest home, but it is unique. It is an historic home.

Today, it would be worth \$369,000 in the U.S. inflation calculator. Under the asset calculator, it would be worth \$355,000. That is reasonable. So if somebody, again, wants to buy a house for \$369,000 in California, that would be very reasonable. I think that would be fine, and people could afford it.

The problem is, the median home in San Diego is over \$800,000 now. And in my neighborhood, it is over \$1.5 million. People can't afford those prices.

What can you do about that? That is the real issue. It is supply, and that people want to live in California. People say they don't want to live in California, but every time a house goes up for sale, there are all sorts of people trying to bid on it.

So, what can we do about the supply? That is the issue.

Ms. THOMPSON. We would be happy to work with the committee on anything that we could do to help address the supply issue. We don't directly have an impact on that, but we certainly have some ideas on things that could be done and we would love to work with the committee to try to address those issues. There is a huge housing shortage, as you mentioned, across the country.

Mr. VARGAS. It is across the country, different types. In California, I think we need more tax product, which becomes a little more tricky because we are not used to that product, but we have to have it if it is going to become affordable.



Ms. THOMPSON. No, that is a great point. One of the things that the Enterprises have done is they have changed the underwriting requirements to allow more accessory dwelling units (ADUs); sometimes, they are called, "granny units." And they allow income to be used in part of the calculation. But just looking at manufactured housing and just different ways to think about different types of homes that can really help at the affordable level throughout the country.

Mr. VARGAS. Okay. And with the last few seconds that I have here, you were asked about the Fed Funds Rate, and do you have anything to do with the Fed Funds Rate? Do you call up Chair Powell and say, hey, lower it, or raise it?

Ms. THOMPSON. No, I do not.

Mr. VARGAS. Of course not. That was put on your bailiwick earlier, and it is ridiculous. Some of the things that my colleagues come up with on the other side of the aisle sometimes surprise me.

With that, I yield back. Thank you, Mr. Chairman.

Mr. DAVIDSON. Thank you, Mr. Vargas.

The Chair now recognizes the gentleman from Georgia, Mr. Loudermilk, for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman.

And thank you, Director Thompson, for coming in and speaking with us today.

I want to echo some of my colleagues' concerns over the loan-level price adjustment changes that took effect earlier this month, but I would also like to echo some of what my colleagues from Georgia and Missouri discussed on the bi-merge, tri-merge transition. As Mrs. Wagner pointed out, I don't think anyone would argue that all three credit reporting bureaus reflect the exact same information about a borrower, and thus, they aren't interchangeable. Excluding a single trade line could move borrowers up a credit score band, increasing risk for lenders. Additionally, there is an element of hazard. If only two scores are used, how do you plan to prevent lenders or borrowers from gaming the system and using the two most-favorable scores?

Ms. THOMPSON. That's a great question. We have a proposed rule out for our capital rule, and one of the questions in that rule is related to the bi-merge, tri-merge, and how we should calculate it, because right now, it is a two-step process. You take the median and then the lowest of the lowest score based on the two borrowers, and should we move from median to average? And just how do we make sure that if the lender doesn't like two scores and if they pull a third one, that they are not using that?

And one of the things that we are talking about is making sure that if lenders pull three scores, they have to use all three scores. But if they pull two and don't like the two, then they have to make that submission.

But we are doing a request for comment on that in this new capital rule, and the comments just closed on May 12th. But that is a question.

Mr. LOUDERMILK. So, this is something you are still working on? You really haven't come up with a conclusion of how are you going to do this?

Ms. THOMPSON. We are getting input from the people who are going to be using this.

Mr. LOUDERMILK. What about in the reverse situation? Just as it could move borrowers up a band, missing critical information or a trade line could force millions of credit-worthy consumers down to a lower credit score band. Wouldn't this reduce access for borrowers who would otherwise be deemed creditworthy?

Ms. THOMPSON. In addition to the credit score, the Enterprises both have their own underwriting engines that they use, and this is an input to that, so they try to take as much information as they can to make a good underwriting decision.

I know Fannie Mae uses trended data, and I think Freddie Mac either is or does, which doesn't just talk about what gets paid, it talks about how it gets paid as well. So, there is just a lot of information that is available that goes into the underwriting decision, and based on the analysis that we did, we thought that moving from three credit scores to two did not detract from accuracy of the borrower's final credit score at all.

Mr. LOUDERMILK. What credit score models did you use for validation studies? The FICO 8, FICO 10? VantageScore?

Ms. THOMPSON. The two models were validated by the Enterprises, FICO 10T and VantageScore 4.0, and we are working on a multi-year implementation process to change from classic FICO, which is over 30-years-old, to these new credit scoring models. Updating the credit scoring models has been a priority for the Agency for years, so FICO 10T and Vantage 4.0 were validated by the Enterprises and FHFA.

Mr. LOUDERMILK. Are you planning on validated bi-merge across all the models before implementation to evaluate the impact of the average scores?

Ms. THOMPSON. The bi-merge, tri-merge process is outside of the credit score model update. The credit reporting agencies generate the score, and they send it to FICO, or they send it to Vantage. They also send it to the lender. So, the lender would have the two scores, and they would either take the lower of the median or the lower of the average.

Mr. LOUDERMILK. We all know that if a lender misses information, and makes a loan to someone who can't or doesn't pay it back, that affects every consumer across-the-board. Is it a good idea to limit any information to lenders, when a house is the largest purchase most people will make in their lifetime, and it is the most critical? Are you concerned at all about the adverse effects this might have if lenders become more risk-averse due to incomplete information?

Ms. THOMPSON. We think that this would increase competition. Again, when we looked at moving from three scores to two, there was really no difference in accuracy that would be cheaper for the borrowers.

Mr. DAVIDSON. The gentleman's time has expired.

Mr. LOUDERMILK. Thank you.

Mr. DAVIDSON. The Chair now recognizes the gentleman from Nevada, Mr. Horsford, for 5 minutes.

Mr. HORSFORD. Thank you, Mr. Chairman. And to the ranking member, I thank you as well.

Director Thompson, I want to start by commending your diligent work to expand opportunities for homeownership to hard-working Americans while never sacrificing the safety and soundness of the Government-Sponsored Enterprises. I would also like to applaud your thoughtful decision to rescind the proposed loan-level pricing adjustment fee on borrowers with debt-to-income ratios greater than 40 percent.

We heard just last week from experts such as National Association of REALTORS President Kenny Parcell, who reiterated the increased uncertainty that low-wealth homebuyers would face if these carried that additional fee. The new price matrix will help lower-wealth borrowers and increase access to homeownership for first-time homebuyers.

I represent Nevada, and my district is 50,000 square miles. I have rural areas and urban areas, and I am particularly concerned with the rural communities who have lower home prices than some of the ballooning housing market in Las Vegas, but who fit the profile of high credit, but low wealth. And I look to these rural areas as an opportunity for entry-level homeownership. So, thank you for making them a priority.

I also find it interesting when I hear this debate about creditworthiness. We just had bank executives here the other day who won't even take accountability for their lack of performance and governance of the banking institutions that they have responsibility for, but yet, we will target individuals and question their creditworthiness based on formulas that, in my opinion, are out-of-date, and antiquated, and I am glad that you have decided to look to more updated models.

Particularly after the housing collapse of 2008, and the pandemic we have endured that people are coming out of, it is time that we allow people the ability to show their worth is in investing in themselves and their families, and one part of that is through homeownership.

Now, Director Thompson, as you are aware, there has been renewed debate around how credit scores may bake in a history of discrimination. Could you please discuss your view on the impact that overreliance on credit scoring could have for majority-minority communities? And additionally, I noticed a recent announcement from the FHFA that validated the use of additional credit scoring models, so could you discuss how this potential change will help equitably expand access to credit?

Ms. THOMPSON. Sure. Thank you.

The Enterprises have been using the classic FICO credit score model for years. Classic FICO is almost 30-years-old, and it was time to update the models. We had a process that the Enterprises went through where they validated applicants. So we said, we are updating the credit score models. Anybody who wants to be the new credit score model can submit an application. We had an extensive validation process. And what we found was that both FICO 10T and VantageScore 4.0 met all of the tests of accuracy and reliability, but they also were more inclusive. What is different today is these new models include positive rent payment. They include payments for utility bills. They include payments for things that weren't in place 30 years ago.

Mr. HORSFORD. That is the point.

Ms. THOMPSON. Yes.

Mr. HORSFORD. I previously served on the House Ways and Means Committee, and this is the inequity that is inherently baked into some of the structural inequities. A homeowner can be treated one way and get credit, but a renter who pays on time gets no credit. But now, you are accounting for that in your new methodology. Someone who is paying their utilities on time and their phone bills on time can now use that as a sign for creditworthiness.

Ms. THOMPSON. That is correct.

Mr. HORSFORD. I appreciate that. I am going to just turn quickly to another issue that I am concerned about, and that is the role that the Enterprises have in stopping subsidizing home purchases, particularly by out-of-State corporate speculators that are buying up a bunch of properties. And I do believe the Federal Government has a vested interest in this because of FHFA's role.

I have introduced a bill, H.R. 702, the Housing Oversight and Mitigating Exploitation (HOME) Act, which would crack down on these corporate speculators, and I would like to work with you and your Agency—

Mr. DAVIDSON. The gentleman's time has expired.

Mr. HORSFORD. —to ensure that there is the accountability in place to protect the homeowner.

Mr. DAVIDSON. As I said, the gentleman's time has expired.

Mr. HORSFORD. Thank you, and I yield back.

Mr. DAVIDSON. I now recognize myself for 5 minutes for questions.

Director Thompson, thank you for being here today. Thank you for your testimony.

You and I have spoken about the loan-level price adjustments that have drawn quite a lot of attention lately. At some level, the RFI that you announced after you implemented the price indicates that there is some openness to more input. Do you feel like there is a way to get more transparency upfront so that this is better understood?

Ms. THOMPSON. Absolutely. I think that we do, again, publish every year what the pricing is and compare it to what it was because when the Enterprises were first put in conservatorship, they were given pricing discounts to larger sellers versus smaller sellers, and we want to make sure there is a level playing field for both large banks and community banks as well. So, we are very conscientious about what they are paying, and who is paying what, and we have the report by loan-to-value (LTV) ratio and debt-to-income (DTI) ratio.

Mr. DAVIDSON. As we have discussed, there are a lot. We could fill up my 5 minutes trying to talk about it. But I appreciate you taking the time to do the RFI now.

Just last week, when our Subcommittee on Housing and Insurance met, we noticed a bill called the Middle Class Borrower Protection Act. I introduced that with colleagues yesterday, and the bill reverts to the old LLPA prices and freezes those prices for a year pending a GAO review of the current process.

It would require FHFA to conduct a notice-and-comment procedure for future LLPA periods and, frankly, that probably would

have dealt with some of the transparency challenges, I think anyway, and it mandates that FHFA use risk-based pricing principles.

Lastly, it prohibits future fee changes based on debt-to-income ratios. So, thank you for withdrawing that effort. Do these proposals seem reasonable to you?

Ms. THOMPSON. I haven't looked at the proposals in depth, but we would be happy to work with your office on any proposed legislation that you have.

Mr. DAVIDSON. Thank you, Director. I appreciate that.

And I want to turn now to the Federal Home Loan Banks. You recently finalized a review of the Federal Home Loan Bank System at 100. What can you provide in terms of a timeline on when to expect your findings and can you go into more depth as to what FHFA will recommend from a legislative standpoint?

Ms. THOMPSON. Thank you. We hope to have the report by the end of the third quarter, and we will include in that report what we heard at the various listening sessions we had across the country, as well as an overview of the Home Loan Banks' role in the bank failures. What we heard across the country was that the Home Loan Banks certainly served their mission, especially for community banks, and I think that was evidenced during the most-recent few weeks with the bank failures.

But what we also heard was that there is a lot more they can do to be helpful in affordable housing and community development, and we also heard that people had views on the number, and they had views on membership. So, we are going to consolidate all of that information and talk about kind of what we heard.

Mr. DAVIDSON. Are you going to address liquidity? Because I think that is one of the big things. It has been a key part of liquidity for, in particular, community banks.

Ms. THOMPSON. Absolutely. We will discuss liquidity and, again—and I think the Members know this—the Home Loan Banks have to issue debt to meet liquidity requirements, and the debt markets are not open 24/7, so if they have these large requests, we need to plan them out, because the Home Loan Banks are not the lender of last resort.

Mr. DAVIDSON. Thank you for that point.

And then, lastly, as you talk about the Enterprises, Fannie and Freddie, their retained earnings have been higher in spite of not necessarily the same top line revenue.

When you look at the goal that has been set, \$300 billion, what is that in relation to the size of the portfolio and how is that determined? At the rate they have been retaining earnings, how long until they reach that?

Ms. THOMPSON. It will be a long time. The capital rule was established in 2020 and that established the requirements for capital for both Enterprises. They just started having the ability to retain capital in 2021. So, to come to almost \$100 billion in 2 years is quite interesting. But it is going to take a while to get to \$300 billion, quite frankly. The mortgage pipeline is much lower than it was 2 years ago and the earnings are down.

Mr. DAVIDSON. Thank you, Director Thompson. My time has expired. I now recognize the gentlelady from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you so much, Director, for being here.

Is FHFA looking at improving access to small-dollar mortgages?

Ms. THOMPSON. Yes.

Ms. TLAIB. It is particularly hard for my community in Wayne County, Michigan. According to HUD, we have the largest share of the nation's lower-priced homes.

My colleagues have heard me talk about small-dollar mortgages consistently for the last 5 years that I have been on this committee, and I can't believe it is actually harder to get a mortgage for less than \$100,000 than one for over \$100,000.

It is my understanding that Freddie Mac and Fannie Mae provide lenders a higher fee, they call it the origination fee, for small-dollar mortgages to encourage lending. Is that correct?

Ms. THOMPSON. Yes. Small-dollar mortgages have been a huge impediment to try to either originate or refinance. What we have found, especially during the refinancing boom, is there were a number of borrowers who had really high-interest rate mortgages but their balances were under \$100,000, and the cost of closing was really impactful to them.

And so, we wanted to make sure that we included small-dollar loans because, in our view, there are communities around this country where this issue is very impactful.

Ms. TLAIB. Could such subsidies be increased or expanded?

Ms. THOMPSON. I would have to take a look at that, and we would be happy to work with your office on this issue.

Ms. TLAIB. Do you think it could possibly be implemented through the Federal Housing Administration (FHA) as well?

Ms. THOMPSON. I would have to have a conversation with them. But I do know that this is a very—

Ms. TLAIB. Could you at least commit to talking to them about it?

Ms. THOMPSON. Absolutely.

Ms. TLAIB. Another option for making small-dollar mortgages more viable for small lenders is to leverage the secondary market by pulling some of these small loans. The Government-Sponsored Enterprises, for example, have proposed pilot programs to secure personal property loans on manufactured homes. What are your thoughts on such efforts? Have either of the Enterprises taken steps to establish such pilot programs?

Ms. THOMPSON. The Enterprises have looked at and are able to purchase manufactured homes, and they have the requirements in their selling guides, and we have seen an increase in the number of manufactured homes and manufactured home communities that both Enterprises have purchased, and we are happy, again, to work with your office on this very important issue.

Ms. TLAIB. I would love to work with you on this.

Are there other ways to leverage secondary markets to encourage small-dollar loans? I am genuinely interested.

Ms. THOMPSON. We certainly would want to talk to some MBS investors to see what kind of information they would need to help facilitate the liquidity for these types of mortgages. But, again, we would love to talk further and in depth with you about this.

Ms. TLAIB. During the crisis in 2008, the Enterprises were taken into conservatorship by your Agency and, ultimately, you have au-

thority over them. Right now, technically, maybe legally, could FHFA require the Enterprises to do a pilot program to facilitate small-dollar loans?

Ms. THOMPSON. Certainly. The Enterprises have a number of pilot programs and, again, we try to be very transparent about the pilot activities.

Ms. TLAIB. On small-dollar mortgages?

Ms. THOMPSON. I think in some of the equitable housing finance plans, there are references made to some of the small-dollar loans, because they do impact underserved communities. But I will have to take a look and just be more specific with you.

Ms. TLAIB. I think it needs to be more targeted and more intentional, truly. We lost more Black homeownership, Director, in Michigan than any other State in the country, and we haven't truly recovered after the 2008 recession, and we now have neighborhoods that were thriving in the City of Detroit and even neighboring communities like Inkster and other places where we now have more renters than homeowners, because private equity firms have been able to gobble them up, not even on mortgage foreclosures, on tax foreclosures, which we have been working with Secretary Fudge on, and working with using American Rescue Plan Act (ARPA) dollars to help those families. But I think it needs to be much more intentional.

I know there was a report that came out, and that is great. But I think my residents are tired of studies and reports and want us to do much more and actually implement something.

The last thing is, I want more credit through the Community Reinvestment Act for small-dollar mortgages, something to incentivize more of these lenders to do that. Again, I know it is not going to be as profitable as the over-\$100,000 mortgages, but communities across the country are suffering because of that. So, I want you to look into that as well.

Mr. DAVIDSON. The gentlelady's time has expired. The Chair now recognizes the gentleman from Tennessee, Mr. Rose, for 5 minutes.

Mr. ROSE. Thank you, Mr. Chairman. And thank you to Chairman McHenry and Ranking Member Waters for holding this hearing.

And thank you to Director Thompson for being with us today and thank you for meeting with our team last week and talking about the industry, including mortgage insurance, and I think we clearly share the goal of trying to make the dream of homeownership as attainable and affordable for as many Americans as possible.

But, of course, you understand we also have to protect the taxpayers of this country, and so thank you for spending time with me.

Last October, the FHFA announced that it approved 2 new credit scoring models for conventional mortgages, FICO 10T and VantageScore 4.0.

FHFA recently announced its proposed implementation timelines whereby the Agency would: first, begin delivering and disclosing historical data for both scores to support credit model updates in the first quarter of 2025; and second, incorporate credit score model updates into its capital and pricing by the fourth quarter of 2024.

As you know, this is a complex undertaking that will have a broader impact on the GSEs' capital rule. The rule says, "The Enterprises currently rely on classic FICO for product eligibility, loan pricing, and financial disclosure purposes, and if the Enterprises were to begin using a different credit score for these purposes, or multiple scores, the grid for new originations would need to be recalibrated."

Director Thompson, can you expand on the ways FHFA is preparing to recalibrate, given the two new credit scores, and how do you think moving to the two-score model impacts the Enterprises' capital rule?

Ms. THOMPSON. Thank you for the question. We are engaging with stakeholders and there are lots of stakeholders that use the credit score model; it is not just the Enterprises or lenders. Credit scores are used for underwriting. They are used for pricing. They are used for pooling. The mortgage insurance companies use them. Investors use them.

So, it is going to be a multi-year effort. We are working with the Enterprises to make sure that we talk to and provide data to stakeholders who are going to be impacted by this change. What people will want to know is, for the credit score that is associated with a particular loan, how does that calibrate or tie into these new scores?

So, we are really looking at publishing data so that stakeholders can make those assessments so that they can be comfortable, and we are not wedded to timelines, particularly. We just want to make sure that everybody has the information they need so they can make a credible decision because it is so impactful in the mortgage market.

We did think it was important to update the credit score model because, again, the Enterprises had been using classic FICO, which hadn't been updated—well, it has been updated, but it has been around for almost 30 years and doesn't take new ways of doing things into consideration. So, we want to be very careful with the update. We want to be very inclusive and we want to provide data so that people can make really good decisions about this.

Mr. ROSE. Thank you.

Following up on some of my colleagues' concerns about the recent tri-merge credit score changes, Director Thompson, what impact, if any, do you think the tri-merge to bi-merge changes will have on FHA loans and VA loans?

Ms. THOMPSON. Again, we have done some analysis and we don't think that moving from tri-merge to bi-merge has material impact. We know that moving from three scores to one score has huge impacts, so we did not recommend that.

We do work with and talk to our colleagues from FHA, VA, USDA, and HUD, and we are constantly engaged with them on this and other housing-related issues because we want to make sure that we are coordinated. We are going to be working with them, and they are going to be one of the stakeholders that is included in all of this outreach that we are doing, because they are going to have to make those assessments as well if that is the direction that they choose to take.

Mr. ROSE. Thank you.



Quickly, with my last remaining moments here, 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. I believe in capital and not just the quantity, but the quality of capital, so there ought to be loss absorption ability, first and foremost.

Mr. ROSE. Thank you. My time has expired. I yield back.

Mr. DAVIDSON. The gentleman from New York, Mr. Torres, is now recognized for 5 minutes.

Mr. TORRES. Thank you, Mr. Chairman.

Even though the Federal Home Loan Bank System exists for the purpose of housing finance, as you know Federal Home Loan Banks made \$30 billion in advances to Silvergate, Silicon Valley, and Signature Banks for reasons that appear to have nothing to do with housing finance. Silvergate specialized in banking the crypto industry. SVB specialized in banking the tech industry. Neither one had a particular focus on housing that would justify a massive liquidity injection.

Do you think the \$30 billion in advances to Silvergate Bank and SVB are an example of mission creep on the part of the Federal Home Loan Bank System?

Ms. THOMPSON. I think that the activities of the bank itself are, certainly, up to the primary Federal regulator. When an institution that is a member of the Home Loan Bank System comes to the Home Loan Bank for advances, they have to provide collateral and we haircut the collateral so that the advances are protected.

When we provide advances or when the Home Loan Banks provide advances to the member, they should be using those funds to either buy mortgage-backed securities or increase community lending or home lending in their respective communities. Many of these institutions—

Mr. TORRES. So, it sounds like you would agree that it was mission creep?

Ms. THOMPSON. I don't know. Their mission is up to their primary Federal regulator. Our role is to make sure that they tie their advances to homeownership, whether it is through MBS—

Mr. TORRES. Do you have any reason to think that those liquidity injections were related to homeownership?

Ms. THOMPSON. We are doing a review of that—

Mr. TORRES. You would be the only one who believed that, if that were true.

Ms. THOMPSON. Excuse me?

Mr. TORRES. You would be the only one who believed that, if that were true. I am not sure if anyone thinks that was related to—

Ms. THOMPSON. We will find out the facts and put them in our report.

Mr. TORRES. The banks that received the \$30 billion were at imminent risk of failing and ultimately did fail, and if the Federal Government had never intervened to insure the deposits of SVB and Signature Bank, those FHLB funds would have been permanently lost.

Do you think it was responsible for the Federal Home Loan Banks to inject \$30 billion into failing banks?

Ms. THOMPSON. The advances are covered by collateral, so the Home Loan Banks don't lose funds at all, and 9 times out of 10, they are overcollateralized. So, it is not a loss for the Home Loan Banks.

Mr. TORRES. Are you investigating whether these injections were related to housing finance or—

Ms. THOMPSON. We are taking a holistic view of everything that happened that weakened the—

Mr. TORRES. What is the timeline for the review?

Ms. THOMPSON. September 30th.

Mr. TORRES. Fox News had a headline that read, "New mortgage rules favor buyers with bad credit." The implication of the headline is that it disfavors buyers with good credit.

And according to an Urban Institute analysis of the new pricing matrix, those with the lowest credit scores and down payments would pay as much as 2.2 percent in LLPA fees, whereas those with the highest credit scores and down payments would pay nothing in LLPA fees.

Does that strike you as a pricing model that, in the words of Fox News, favors buyers with bad credit?

Ms. THOMPSON. Our new pricing grid in no way allows persons with high down payments and high credit scores to pay more than low. It just doesn't work that way.

Mr. TORRES. Quite the opposite?

Ms. THOMPSON. Yes.

Mr. TORRES. So, the reporting on FHFA has not been fair and balanced?

Ms. THOMPSON. Correct.

Mr. TORRES. According to the Republican memo, the GSEs are private corporations chartered by the Federal Government with special benefits to help make homeownership more available and affordable for lower- and middle-income Americans.

Given that description, is it fair to say that the FHFA, as both a regulator and a conservator of GSEs, has a statutory obligation to break down barriers to affordable homeownership for lower-income Americans?

Ms. THOMPSON. Yes.

Mr. TORRES. And those barriers include high fees, correct?

Ms. THOMPSON. Many. We actually have equitable housing finance plans that look at what the barriers are and provide suggestions on how to remove those barriers for underserved areas.

Mr. TORRES. Reducing fees for lower-income, lower-wealth borrowers is not an act of radical redistribution on your part. It is a fulfillment of the mission conferred upon you by Congress. Is that a fair assessment?

Ms. THOMPSON. Yes, and we did eliminate the up-front fees for first-time homebuyers throughout the country, and the way we were able to pay for that is through the fees charged on second and vacation homes, investor homes, that are much more than the fees that were eliminated for first-time homebuyers who are credit-worthy but are struggling to have a down payment.

In the Enterprises' affordable programs, the average credit score for many of these borrowers—I think for Fannie, it is 743, and for

Freddie, it is 742. So, we are talking about creditworthy people. They just don't have a down payment.

Mr. TORRES. Thank you.

Mr. DAVIDSON. The gentleman yields back.

The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman.

The FHFA has been unusually aggressive in pursuing changes to the traditional role of title insurance in many mortgage transactions. Title insurance is an important tool to protect homebuyers from damages or losses due to issues with the title.

As it stands today, the title insurance company, not the homebuyer, pays to resolve any title issues that arise in a real estate transaction. It surprised me to find out that Fannie Mae is preparing to develop a way to waive the title insurance requirement for loans purchased by the GSEs.

Director Thompson, no doubt you are aware of this reported pilot program that would allow Fannie Mae to effectively provide title insurance on its own mortgages. I join a good number of my colleagues on both sides of the aisle who are highly skeptical of this latest mission creep by one of the GSEs. Title insurance is a primary market activity that is well outside of Fannie Mae's mission, and this is the clearest example to date of Biden Administration overreach.

But as I dug deeper into this Fannie Mae pilot, I found some troubling aspects in the arrangement itself. Are you aware of the company partnering with Fannie Mae on this pilot?

Ms. THOMPSON. That pilot has not been brought to my attention. We have a process for the Enterprises to bring decisions to FHFA for decisioning and I just have not seen that. I have read about it in the same way that you have.

Mr. TIMMONS. Okay.

Ms. THOMPSON. FHFA has not made that decision.

Mr. TIMMONS. Well, they have partnered with a company named Doma Holdings. Are you aware that Doma is on the verge of bankruptcy? Just today, analysts again further downgraded the outlook for the company. Its stock has dropped from \$10 to less than \$.30 since its initial public offering last year, and early investors have been selling off their shares, driving the share price into decline and putting in question the long-term viability of this company.

So, here is a company on life support, that the free market is putting out of business, and along comes Fannie Mae to throw it a lifeline. How could something like this happen? And then, I looked to see who sits on its board of directors, and I suspect you know who I found—Larry Summers, the 71st Treasury Secretary under President Bill Clinton and Director of Obama's National Economic Council.

Here is what I see, a company that is essentially out of money but politically-connected receiving a no-bid contract to do a pilot program with Fannie Mae, which is overseen by your Agency and the Biden Administration. Is that a problem for you? Do you think that raises red flags?

Ms. THOMPSON. I have not seen that proposal come before me and—

Mr. TIMMONS. I am just describing to you a contractual relationship. Does that cause problems, a company that is filing bankruptcy, that is buddies with Biden, getting a lifeline and getting a no-bid contract from your Agency? Does that generally raise a problem?

Ms. THOMPSON. We did not give a no-bid contract.

Mr. TIMMONS. It was not bid. It was—

Ms. THOMPSON. Whatever it is has not been approved by FHFA. And it should not be undertaken until such approval is given.

Mr. TIMMONS. It has been reported that Doma Holdings has the contract for the pilot. So, is that not true?

Ms. THOMPSON. I have not seen that proposal.

Mr. TIMMONS. Okay. Let us just say that it is true, because that is what is being reported. Is it a problem that a company that is on the verge of filing bankruptcy is receiving a no-bid contract and it just so happens that Biden is buddies with the board of directors? Is that a problem? Would that be a problem if it is true? Let me put it that way.

Ms. THOMPSON. I think it would be a problem for any company who was filing bankruptcy to have that issue.

Mr. TIMMONS. Okay.

Ms. THOMPSON. We look at safety and soundness. That doesn't sound safe or sound.

Mr. TIMMONS. You are speaking my language. Thank you.

Have you had any contact with Larry Summers regarding this? Have you had any contact with anybody in the Biden Administration regarding Doma Holdings?

Ms. THOMPSON. I have not.

Mr. TIMMONS. No? Okay. So, it surprises you to know that all of these things have allegedly occurred. Could you look into this and follow up to maybe give me more information about whether other companies were considered, and how this all came about?

Ms. THOMPSON. Absolutely.

Mr. TIMMONS. Thank you so much.

One final follow up. Did FHFA consider that while nominally decreasing closing costs, a lack of title insurance for homebuyers may leave consumers financially unprotected from false claims against their home for the life of their loan? Was that a variable that was factored into these decisions?

Ms. THOMPSON. The variable that the Enterprises care about is making sure that the lender reps that the home is free and clear and has no superior liens and that there is a clear title, and the lender decides whether or not the title insurance is a mechanism.

And I would say, and I have said this earlier, that Freddie Mac has allowed attorney opinion letters since 2008. But there haven't been many people who have used that.

Mr. TIMMONS. I think sticking to the main mission and not trying to take on title insurance would be the best path forward for this. Mr. Chairman, thank you. I yield back.

Mr. DAVIDSON. The gentleman's time has expired. The gentleman from Texas, Ms. Garcia, is now recognized for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman, and thank you, Director Thompson, for being here with us today.

And let me just say that you have been a breath of fresh air as a witness and I appreciate the time that you spent with us and your candor in answering all of our questions.

Last week, as has been noted by a couple of my colleagues, the Subcommittee on Housing and Insurance had a hearing on the Federal Housing Finance Agency's recent loan-level price adjustment changes. As I learned from the witnesses in that hearing, the recent FHFA pricing changes have the potential to protect low- and moderate-income homebuyers, a priority that I believe we should share.

Further, in that subcommittee hearing, I expressed my concern surrounding the Republicans' lack of action in the housing space, especially because we were in the midst of a major housing crisis.

As you said in your opening statement, simply put, there are just not enough homes, especially for first-time homebuyers. This can be said in the Houston area, that I represent. We were always considered a good place to find a home and that it would be affordable. But in the past decade, home prices have nearly doubled and about half of the residents now spend more than 30 percent of their income on housing costs alone. Housing inventory in Houston has decreased and the affordability gap has widened, especially for buyers and renters of color.

Given our nation's worsening racial wealth and homeownership gaps, we know that people of color are more likely to be renters and homeowners hold well over 40 times the median net worth of renters.

When it comes to evictions, and this is also true in Houston, Black and Latina women are twice as likely to be evicted than their White counterparts, while people of color make up over 60 percent of the homeless population, which is more than their share of the total population.

So, Director Thompson, the FHFA has a duty to dismantle inequities in housing and community development and it is prohibited from discrimination, including through disparate treatment.

How is FHFA ensuring that the operations and activities of the Enterprises are affirmatively furthering fair housing opportunities for renters, including through tenant protections?

Ms. THOMPSON. Thank you.

FHFA has an Office of Fair Lending Oversight and they examine both Fannie Mae and Freddie Mac to ensure that they are in compliance with the Fair Housing Act and that there isn't disparate treatment in any of the policies or applications of those policies. They are examiners, and they have reports of examinations that they share with both Enterprises.

That is one of the ways. The other way is—I mentioned earlier that we are going to issue a request for input to try to figure out what good tenant protections are just in terms of—during the pandemic, one of the protections that was instituted by Fannie and Freddie and any organization that had a federally-backed mortgage was that there needed to be notice of eviction, there needed to be notice of a rent increase, just basic things, and most of these things are dealt with at the State and local level. But just making sure that people have an opportunity to understand what their rights are and make sure that they are enforced.

Ms. GARCIA. Thank you. One essential component to supporting homeownership for all Americans is expanding access to credit in lending. Disparities remain in mortgage access, as only 4.7 percent of Fannie Mae- and 4 percent of Freddie Mac-backed mortgages for home purchases were from Black homebuyers in 2021, and research from the Urban Institute suggests that more than 1 million mortgages are missing from the U.S. financial market each year, and a disproportionate percentage of those are by borrowers of color.

What can FHFA do to make sure that young Americans, low-income Americans, and Americans of color can purchase homes to build wealth for future generations?

Ms. THOMPSON. Sure. We noticed that same statistic and one of the things that we are requiring the Enterprises to do is put forth an equitable housing finance plan that identifies what the barriers are, and they also have to identify solutions for these underserved communities. One of the barriers is just the financial literacy in terms of homeownership—

Mr. DAVIDSON. The gentlelady's time has expired. Director Thompson, you may answer in writing for the record.

And the gentleman from South Carolina, Mr. Norman, is now recognized for 5 minutes.

Mr. NORMAN. Thank you, Director Thompson. I appreciate you being here today.

My constituents that I talk with back home are outraged about the government involvement, not just with the LLPAs but just as a whole in the housing market. In your mind, and in your role as Director, where does the private sector come in? Do you support the private sector getting more involved?

Ms. THOMPSON. It would be nice to have a balance of private sector and government in the housing market as it has previously existed.

Mr. NORMAN. When the LLPA was adjusted, the RFIs went out after it was raised. Whom did that go to and why wasn't it done prior to just going into effect?

Ms. THOMPSON. Historically, every FHFA Director, including me, has made pricing changes and we report on those changes every year. We send the reports to the Congress and we publish them on our website.

We also published the RFI because it was—the misunderstanding that was spoken that high-credit-score borrowers were paying for low-credit-score borrowers—

Mr. NORMAN. No. No. Let me ask you now. Tell me if I am right or wrong that a buyer with a higher base credit score doesn't pay an added fee that went up to subsidize those who may not have a—

Ms. THOMPSON. No. The fee that was eliminated for first-time homebuyers is paid for through second mortgages and vacation homes, investor properties—

Mr. NORMAN. Through a higher fee? Through a higher closing cost fee?

Ms. THOMPSON. Yes, they have higher fees. That has always been the case.

Mr. NORMAN. And that is where the money goes?

Ms. THOMPSON. And that is where the money goes. Yes.

Mr. NORMAN. Okay. So, that is subsidizing those with the lower credit scores.

Ms. THOMPSON. Yes.

Mr. NORMAN. The money is going somewhere.

Ms. THOMPSON. The Congress allows us to get a lower return for certain mortgages.

Mr. NORMAN. Okay. I want to get my questions in, but I think you have answered my question. Now, regulations are all over housing at every level. Rent controls—is this something that should be expanded by the Federal Government, in your opinion?

Ms. THOMPSON. Our Agency has not gotten involved in that.

Mr. NORMAN. As Director, what is your general opinion? Are rent controls a great thing?

Ms. THOMPSON. We are actually issuing a request for input to the public to get information on rent controls and tenant protections to see what all stakeholders have to say.

Mr. NORMAN. Okay. On appraisals, I have heard going from three to two. Are the government Agencies given the appraisals or the credit reports' varying information that they can include in the credit report and what they can't include?

Ms. THOMPSON. The credit reporting agencies each have basic information and some companies report to one and smaller community banks may report to one—

Mr. NORMAN. But it is left up to them. They don't have to—there is no guidance that—

Ms. THOMPSON. It is up to them.

Mr. NORMAN. And I think it is good to put—if somebody pays their utility bill, pays the rent, but it is also good to know those who don't pay, the different groups. Would you agree with that?

Ms. THOMPSON. Yes, I do.

Mr. NORMAN. So, it ought to be all-inclusive. They ought to make the decision?

Ms. THOMPSON. It is opt-in if the tenant wants it, and I think the negative information is reported.

Mr. NORMAN. It has to be. It is part of the record.

Ms. THOMPSON. The positive information needs to be reported, too, so if we have people paying their rent on time, that needs to be included.

Mr. NORMAN. Okay. What is your opinion on this with the title insurance, an attorney's opinion letter versus getting a full title?

Ms. THOMPSON. The lender has to represent to Fannie and Freddie that they have clear title and that there is no superior lien to that property. The lender can say, here is the title insurance policy, and in the case of Freddie Mac, which has been accepting attorney opinion letters since 2008, it would be either/or, not one is supplanting the other.

Mr. NORMAN. Okay. And that is up to the Agency to decide which ones they accept?

Ms. THOMPSON. The lender.

Mr. NORMAN. Right. The lender decides.

We have had affordability issues come up. Have you ever asked those who are in the business why houses aren't affordable? Could it be that gas prices are sky high? Could it be that at every level,

people are paying more for supplies? Could it be that all of it is brought on by this Administration, which wasn't the prior case?

I yield back. I am out of time.

Mr. HILL. [presiding]. The gentleman from South Carolina yields back.

The gentleman from North Carolina, Mr. Nickel, is recognized for 5 minutes.

Mr. NICKEL. Thank you so much. And thank you, Director Thompson, for being with us here today.

Over the weekend, I hosted a town hall in my district, and one of the top issues I heard about was the high cost of housing and the lack of affordable housing options. I have one of the fastest-growing congressional districts in the country, so this is a very important priority for my constituents.

The high cost of housing is the single-biggest squeeze on household budgets and a major drag on our economy. Access to safe and affordable housing is essential to the well-being of working families and individuals in North Carolina and throughout the country.

As Vice Chair of the new Democratic Affordable Housing Task Force, I am working to lower housing costs and increase the supply of affordable housing. Unfortunately, if we are unable to find viable bipartisan pathways forward on addressing the debt ceiling, housing prices in my district would skyrocket.

According to data compiled by the U.S. Census Bureau, defaulting could cause mortgage costs in North Carolina's 13th District to increase by \$159,000. On a national scale, over half-a-million households nationwide could lose rental assistance, and mortgage rates could surpass 8 percent.

Director Thompson, can you please share what defaulting on our debt would mean for our nation's housing finance market?

Ms. THOMPSON. Sure. Thank you for the question.

Extremely-high mortgage rates would probably prevent or limit persons from purchasing a home. Also, making sure that the mortgage-backed securities investors will know that they are going to get paid for the investment that they made, so if there are borrowers who could be impacted by unemployment or issues related to employment, that could create delinquencies, and it would just not be a positive thing for the mortgage market.

Mr. NICKEL. Thank you.

Defaulting on our debt could also send our economy spiraling into a recession, which I worry would have even broader impacts on housing costs for my constituents.

How would a recession impact Fannie Mae and Freddie Mac, the Government-Sponsored Enterprises created to help provide reliable and affordable access to homeownership?

Ms. THOMPSON. It would be prohibitive, again, because the interest rates would probably be so high that no one could afford a home, and I think Fannie Mae and Freddie Mac, in terms of protecting borrowers who couldn't make their payments, if they have \$100 million that they have accumulated over the last 2 years that can cover losses or it—but it just would not be a good outcome, honestly.

Mr. NICKEL. Thanks. I want to shift gears here. My wife is an attorney and she handles real estate closings, so I certainly under-



stand the importance of title insurance and the protection it provides to homebuyers and lenders. I want to touch on this proposed pilot from Fannie Mae to become a de facto title insurance company. It really concerns me what I have heard reported on that as consumers could lose critical protections for their homes.

I have heard your answers on this from my other colleagues. But just generally speaking, Director Thompson, do you agree that protecting consumers and their homes should be a top priority and that Fannie Mae replacing title insurance probably is not the best way to do that?

Ms. THOMPSON. Yes, I do think that protecting consumers is critically important, especially on the largest asset purchase they will make. But I do not believe that Fannie Mae is going to be in the primary market or the activities in the primary market at all.

Again, the attorney opinion letters are acceptable only on Freddie Mac, and, again, that has been since 2008. But those are really to protect Fannie and Freddie from—the seller has to represent that they have clear title and that there are no superior liens. And the lender can decide what is acceptable.

Mr. NICKEL. Thanks. Will you commit to conducting an open process with public input for any new program under consideration as called for by the prior approval for Enterprise products rule?

Ms. THOMPSON. We have a new products rule that we finalized in December and we have been working out how that new products rule will work both internally at FHFA and at Fannie and Freddie, and we are committed to making sure that pilots are public and people know. There is more transparency in what is going on at Fannie and Freddie.

Mr. NICKEL. Thank you.

Mr. Chairman, I yield back.

Mr. HILL. The gentleman yields back.

The gentleman from Wisconsin, Mr. Fitzgerald, is now recognized for 5 minutes.

Mr. FITZGERALD. Thank you, Mr. Chairman.

Director, thanks for being here.

When Fannie and Freddie were taken into conservatorship in 2008, Treasury received warrants that give it the right to buy common stock in each of the GSEs equal to 79 percent, I guess, of the total outstanding shares, and those warrants expire in September of 2028.

And in August of 2020, the Congressional Budget Office issued a report that estimated Treasury could receive \$190 billion for its senior preferred shares, in addition to the \$110 billion from exercising its warrants in the GSEs.

So while the conservatorship has gone on for far too long, I am concerned that, given the Biden Administration's record, these warrants could be used as kind of a slush fund or piggy bank to advance any of the partisan housing agenda. Do you have any comment on that or is that something that you have identified and are worried about at all?

Ms. THOMPSON. Thank you for the question, and I think these conversations need to take place with Treasury in terms of what their plans are for the warrants since they own them, and we have not had those conversations with them.

Mr. FITZGERALD. Okay. So, no conversations with Secretary Yellen at all about this topic so far?

Ms. THOMPSON. Secretary Yellen is on our oversight board and we talk about all things related to FHFA and their activities. But on this specific topic of the warrants, we have not had that conversation.

Mr. FITZGERALD. Okay. Very good.

The Securities and Exchange Commission recently repropose the conflicts of interest rule, which could unintentionally impair the ability of private mortgage insurers to procure reinsurance through the capital markets.

As the Director, obviously, you have firsthand knowledge that the private mortgage insurance companies are subject to stringent regulation and requirements at both State and Federal levels from the GSEs, and that they use reinsurance through the capital markets to manage risk and capital.

By taking a first-loss position, private mortgage insurance reduces the risk for the GSEs, thereby protecting taxpayers. Can you tell me if FHFA is currently working with the SEC on the final rule to ensure it does not really have any harm, I guess, on the mortgage insurance?

Ms. THOMPSON. I can't talk about open rules, but the Enterprises have provided comments on the impact of this particular rule on their credit risk transfer activities.

Mr. FITZGERALD. Okay. And with the last couple of minutes I have here, I just thought that maybe—you justified the LLPA changes partially by saying that they are needed to protect the GSEs' capital buffer from losses. However, GSEs would have more capital if the FHFA did not lower fees for riskier borrowers and use the capital from less-risky borrowers to make up for it. But the larger problem with these fees is that they act as kind of a political hedge against the Fed's interest rate hikes. Would you comment on that or do you agree with that?

Ms. THOMPSON. I think that is true, that the changes that we made in the pricing grid actually help with safety and soundness because they are calibrated to the capital rule that is in effect and they also cover some of the administrative costs that the Enterprises have. That is what the guarantee fee does and the up-front fees are part of that.

And I do think that, at the end of the day, the risk-based fees that we have in place are doing the two jobs of: one, safety and soundness by building capital; and two, we were able to offset the fees for first-time homebuyers throughout the country by those fees that are charged for the second and vacation homes and investment properties.

So, we were able to figure out a way to achieve the dual mandate that the FHFA has in overseeing Fannie and Freddie by updating these out-of-date pricing grids.

Mr. FITZGERALD. I am going to run out of time, but maybe you could still answer one more question and it is more a thought that continues to come up in financial services.

There is this bracket or group of adults between ages 25 and 35 right now who have been completely frozen out of the housing market, and I am wondering how you look at that?

Mr. HILL. The gentleman's time has expired. If you would submit that question in writing, I am sure the Director will respond promptly.

Mr. FITZGERALD. Thank you. I yield back.

Mr. HILL. The gentlewoman from Colorado, Ms. Pettersen, is recognized for 5 minutes.

Ms. PETERSEN. Thank you, Mr. Chairman.

Director Thompson, thank you so much for being here. You have a difficult job of making very complicated decisions, and I appreciate the time that you spent with me walking me through exactly why you all made the changes, and I think that you have done a good job in communicating the impacts of that and the intention and, unfortunately, not every American can sit with you and hear that.

I think that is the difficulty with politics, is taking these complicated things and trying to create simple messages. So, thank you for your work and thank you to everybody in your Agency for the work you do every day.

The FHFA serves a critical role in ensuring that Americans with different incomes, levels of personal wealth, and credit scores are able to purchase homes, and we all know that we are in the midst of an historic housing crisis and the dream of homeownership remains out of reach for many.

Home prices in Colorado have skyrocketed throughout the last 20 years, but especially during the pandemic when people were able to work remotely and come to a place where they have always wanted to live. Some communities in my district have seen their home values increase threefold in just a few years, and people are being forced to leave the communities in which they grew up.

The increase in the cost of housing has also made it difficult for our small businesses to hire and retain workers, and our public servants are far too often unable to stay and work in these communities.

One thing that this committee must address is how we can help incentivize building more housing. We know we have a supply issue. There are numerous reasons why, but one significant contributor is our failure for decades to provide a legal pathway for people who want to work in the U.S. to do so. Our workforce shortage and inability to address our failed immigration system has crippled our economic growth and has significantly increased the cost of building homes and has stalled our progress in meeting our housing needs.

We have also seen the unfortunate impact of failed tax policies in the U.S. that have increased the inequities in this country and have made it harder for regular people like me to have a chance to get ahead and build a better life.

We are seeing the impacts of these policies in every area, but especially in housing. Homelessness is on the rise in every community. Middle-class families are having difficulty getting ahead to buy their first home, and in rural parts of my district, the housing supply is being bought up for vacation homes while people who have lived there their entire lives are being forced out.

I know you can't solve our failed tax policies and immigration system, but you do oversee the financing of most housing, and I

would like to know what programs and incentives you are currently providing to help low- and middle-income individuals buy a home, that our constituents should know about, and what Congress should consider to reduce the likelihood of houses being bought up for third, fourth, and fifth homes.

Also, what can we do to support our public servants in buying homes so they can stay in the communities that depend on their services?

Ms. THOMPSON. Great. Thank you. We did eliminate the up-front fee for first-time homebuyers for the reasons that you have articulated. The housing supply shortage is very real. There aren't enough houses, and people who live and work in communities can't afford to live there, so we eliminated the fee for mostly workforce housing people and first responders, our policemen and firefighters and teachers, as well as first-time homebuyers, people just out of college or people who have been living in apartments for a while. They just can't afford these down payments, and so they are required by law to have the mortgage insurance, which is added to their fee, which makes our pricing grids make sense from a risk-based perspective.

But we really believe that we are able to eliminate these fees for first-time homebuyers because people are getting second and third homes and those fees kind of offset the fees that were eliminated.

We just believe that homeownership is important. It is important to communities around this country, and whatever we can do to be helpful in that way in a safe and sound manner is what we are going to do.

Ms. PETTERSEN. Thank you. We have very little time left. But one of the problems that I constantly see is we have great ideas, great programs at every level of government, but nobody knows about them.

Do you have an outreach program, and are there things that we can do in Congress to support your work?

Ms. THOMPSON. I think the Enterprises have outreach programs, but I really do wish the message about the first-time homebuyers would reverberate throughout the country so that people would know that the up-front fees for first-time homebuyers are eliminated.

Mr. HILL. The gentlewoman's time has expired.

The gentleman from Pennsylvania, Mr. Meuser, is recognized for 5 minutes.

Mr. MEUSER. Thank you, Mr. Chairman. And thank you, Director, for being here with us.

There is, as we all know, a significant decrease in housing affordability in our country from supply issues largely due to inflation in building costs, and rising interest rates.

In Pennsylvania, the price appreciation is nearly 50 percent just over the last several years. Hopefully, the Administration is not planning on making this worse with new regulations and unnecessary government meddling.

The government entities such as Fannie Mae, Freddie Mac, the FHLB system, HUD, VA, and USDA represent a large share of the mortgage loan market. There obviously should be a coordinated approach to housing policy across the government to ensure that Fed-

eral programs do not compete for market share. In the past, when FHA has reduced rates, it incentivized borrowers to move to the FHA, which is supposed to be a safety net, not a first choice.

Can you describe briefly how you coordinate with other Federal Agencies to ensure there is no duplication?

Ms. THOMPSON. Of course. We have quarterly meetings with the other Government Agencies—we call it the, “housing govies.” But we meet every quarter to talk about the policies that we are each undertaking, and this has been going on for many, many years.

We meet regularly. The Secretary of HUD is on our oversight board as well as the Secretary of the Treasury. We meet every quarter to have conversations about FHFA policies and we also have our teams work together on issues that affect housing in this country. There is lots of communication.

Mr. MEUSER. Sure. Okay.

When the FHA announced a premium cut of 30 basis points in February on the premium charged to mortgage borrowers, did the FHA consult with you?

Ms. THOMPSON. They did not consult with us. Certainly, the reduction in mortgage insurance premiums has been widely speculated. They did let us know that they were going to move forward on that.

Mr. MEUSER. What effect do you think it had on the private mortgage insurance market?

Ms. THOMPSON. The FHA has a different market than the FHFA. I get this question all the time, and we have looked at the Enterprises’ acquisitions and, again, for the affordable programs, the credit score for most of the Fannie and Freddie borrowers is over 740. That is not the case for many borrowers who have FHA-backed loans or VA-backed loans.

Mr. MEUSER. Do you feel it had a minimal effect?

Ms. THOMPSON. Excuse me?

Mr. MEUSER. Okay. So, you feel it was a minimal effect since it was two different marketplaces more or less, as you stated.

In the questioning with Mr. Cleaver and Mr. Barr, you did not mention the liquidity mission of FHLBs. You said that you are also working on a report to provide new guidance for Federal Home Loan banks. Do you agree that providing liquidity to the members of FHLB is a primary mission of the Federal Home Loan Banks?

Ms. THOMPSON. Absolutely. That is in the statute, yes.

Mr. MEUSER. Okay.

Now, regarding the guidance, can you offer any details on what you might be planning?

Ms. THOMPSON. We did a study to figure out what was working and what was not. We had 17 listening sessions around the country and 3 days of sessions here in Washington, and one of the areas for improvement was the Home Loan Banks’ contributions to affordable housing throughout the country.

And we will be culminating our report with what they have done correctly, which is a lot, as evidenced through their most recent bank failures, and then some areas for improvement. Some things we can do and some things we will ask the Congress to do.

Mr. MEUSER. Was the action of moving fees higher for those with better credit, if you will, versus those with lower credit—did you get much feedback related to that?

Ms. THOMPSON. Sure. I would say that under no circumstances do borrowers with high credit and high down payments pay more than borrowers with low credit and low down payments, and what we did was we took an outdated pricing grid that actually was so outdated that it overcharged a lot of the borrowers with low credit, and it overcharged other borrowers.

So, we took the current capital rule, which really looks at, on a loan by loan basis, the risk associated with each loan, and we calibrated the pricing grids to accommodate the new capital.

Mr. MEUSER. A lot of people felt that was—

Ms. THOMPSON. I would be happy to walk everybody through that.

Mr. MEUSER. —the thing to do, right, that it was very controversial that those with good credit would be punished and those with not so good credit would be rewarded.

I yield back, Mr. Chairman.

Mr. HILL. I thank the gentleman from Pennsylvania.

The gentlewoman from Massachusetts, Ms. Pressley, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Director Thompson, for joining us, and for what you do each and every day.

I represent the Massachusetts 7th Congressional District. There was a report, “The Color of Wealth in Boston,” put out by the Federal Reserve in Boston which states that the average wealth for a Black Bostonian family is \$8, and that of a White family is \$247,500. I believe that has everything to do with homeownership.

In July, when you last came before our committee, I asked if your Agency, the FHFA, had considered how eliminating loan-level price adjustments could increase equitable access to homeownership.

Following that hearing, FHFA enacted reforms, including the elimination of up-front fees for low- to moderate-income first-time homebuyers. I really applaud your leadership in making these pricing changes. These are important steps in improving equity in the housing market.

I still believe that the FHFA needs to go further and fully eliminate these harmful fees which put homeownership out of reach for everyday people, especially Black, Brown, and low-income homebuyers. Many stakeholders, including consumer and housing groups, agree that it is time to get rid of these fees. Have you looked into the feasibility and impact of eliminating LLPAs altogether?

Ms. THOMPSON. Sure. I mentioned that we have just recently issued a request for input that talks about this issue, and one of the questions that we are asking is, should LLPAs be eliminated? We are also asking, should the pricing grid be tied to the capital framework?

There are a host of issues that we are trying to get stakeholder input on, and I would be happy to keep you updated on our progress.

Ms. PRESSLEY. I would certainly welcome that. Thank you.

This LLPA framework does disproportionately impact consumers of color, and so I am glad that you are looking at this so that we can eliminate these structural barriers to affordable housing.

Mr. Chairman, I ask unanimous consent to enter in the record a 2022 article by WBUR entitled, "Black and Hispanic people are more likely to be denied mortgage loans in Boston."

Mr. HILL. Without objection, it is so ordered.

Ms. PRESSLEY. Director Thompson, in this report, WBUR found that 3,501 applications for loans to purchase homes were denied in Boston between 2015 and 2020. For White applicants, the denial rate was approximately 5 percent, but for Black and Latinx applicants, the denial rates were 15.3 percent and 12.7 percent, respectively. This is modern-day redlining.

In your view, what are the biggest barriers for lower-income borrowers and borrowers of color when applying for conventional mortgages?

Ms. THOMPSON. That's a great question. We have found that many underserved borrowers, particularly in communities of color, are renters and some of the positive rental payments don't get counted and so they end up being credit invisible or they have limited credit.

And to the extent that you report on positive rental payments, it really helps people build their credit in a way that is reflective of their ability and willingness to repay. Those are some of the changes that both Fannie Mae and Freddie Mac have made in their underwriting mechanism, and when we update the credit score models, it will include things like rental payments and utility payments or streaming payments, just things that weren't thought about 30 years ago.

So, this is really something that is very important. But the rental payment impacts everybody across the country because people were not getting credit for positive rental payments.

Ms. PRESSLEY. That is right. And, additionally, hikes in rental costs in my district of Massachusetts and across the country have put many low-income families, really, in dire straits. In Boston, we have had rents that have risen by nearly 20 percent in some neighborhoods.

Director Thompson, what can the FHFA do to protect tenants from these egregious rent hikes we are seeing, specifically in properties with federally-backed mortgages?

Ms. THOMPSON. We do a lot of investor and stakeholder outreach and we are getting ready to, before the end of this month, issue a request for input on tenant protections.

This has come up a number of times and we want to hear from not just the people who are building these houses, but we want to hear from tenants as well what can we do to be more proactive and fair and safe and sound in this area. So, we are looking forward to getting comments on our request for input.

Ms. PRESSLEY. Thank you very much, Director, and it is really unconscionable that this committee, under the Republican Majority, has declined to prioritize housing and homelessness in the 118th Congress. Housing affordability is the number-one issue—

Mr. HILL. The gentleman's time has expired. The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. Very good. Thank you, Mr. Chairman. Director Thompson, thank you for being here. Home prices are skyrocketing because regulations and supply chain disruptions have made it too difficult to build new homes. Interest rates have exploded because Washington went on a spending spree and pretended the effects would be only be temporary and transitory. Homeownership is getting even further out of reach for countless Americans. Meanwhile, the FHFA is pushing changes that would penalize responsible homebuyers and inject more risk into the housing finance system. I am concerned that it is the wrong approach.

Earlier this year, the FHFA approved changes to the pricing system. You have discussed those changes today. They are complex, but I think it is clear that it would lead to many responsible borrowers paying more, and, ultimately, those with lower credit scores and smaller down payments paying less. You have noted some of your rationale for doing that. I don't know that I agree with the approach that you have taken. It seems broadly unfair. The FHFA is also allowing GSEs to expand the use of attorney opinion letters instead of traditional title insurance, and I am concerned that may be putting borrowers at risk in the name of saving a few dollars up front. And your Agency is also considering a title insurance waiver pilot, and I am concerned that would increase the risk for homeowners.

I want to encourage you to review the course that you have set, and I think broadly, we do need to make sure that our GSEs are safe, sound, and well-capitalized and that they support responsible homeownership. The American people face a lot of challenges in today's high-inflation, high-interest-rate environment. We need solutions that work for them.

Let me shift gears slightly and dive into a pair of questions that I think are pretty relevant for us to get our heads wrapped around. First, I want to get in the weeds here, if I can, into shifting from three credit reports to two, that it could have and will it have unintended consequences? And so, as we look at this move from the tri-merge standard to a bi-merge, under the bi-merge standard, do you feel that there might be an incentive for brokers to cherry-pick the two highest credit scores for a prospective borrower, and how would the FHFA prevent any gaming of the system under a bi-merge standard?

Ms. THOMPSON. In moving from three to two, I think one of the requirements we have is that if the lender chooses three, if they don't like the two, that if they choose three, they have to use all three, but we are still working on that process. But I did want to, if I could, just make a comment about something that you said earlier. I just want to make sure, for the record, to note that we have done a lot of analysis, and borrowers with high credit scores are not subsidizing borrowers with low credit scores. We are providing an elimination of fees for first-time homebuyers across the country in rural areas, and manufactured housing, and that is being paid for by people who buy second and third and vacation and investor homes. And that money well offsets the fee elimination, and so it is——

Mr. STEIL. Is the fee increasing for high-credit-score individuals?



Ms. THOMPSON. The pricing grid is calibrated to the capital requirements for individual loans, and we went through a public notice-and-comment period on that. It is very public, and we can look at that—

Mr. STEIL. No, I understand, but is the fee increasing for high-credit-score individuals?

Ms. THOMPSON. The fee is changing for not all high credit and not all low, there is no universal, it is just increasing for high-credit-score individuals. In some cases, it is zero, no change whatsoever.

Mr. STEIL. In some cases, is it increasing?

Ms. THOMPSON. In some cases, it is an increase, and in some cases, it is a decrease.

Mr. STEIL. Okay.

Ms. THOMPSON. But at the end of the day, no borrower with a low down payment and a low credit score is going to pay less. They are going to pay more, on average, than a high-credit-score borrower. That is just the way the calibration works.

Mr. STEIL. Understood, but in the delta in the change from the proposal you put forward—

Ms. THOMPSON. You would have to believe that the original grid was accurate, and the original grid was outdated. It wasn't calibrated to any of the capital requirements that the Enterprises were using, not the one that was in place in 2017 and 2018, and not this one. So, we updated it to make the Enterprises more safe and sound, more viable, and so they can accumulate the appropriate amount of capital for the risk that they are taking so it wouldn't have to be on the backs of the taxpayers.

Mr. STEIL. I appreciate that. I will follow up in writing on the bi-merge, because we ran out of time for it. Mr. Chairman, I yield back.

Mr. HILL. I thank the gentleman. The gentlewoman from New York, Ms. Velazquez, is now recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, and thank you, Director Thompson, for being here. You know, if the Republicans are so concerned about interest rates and mortgage payments being so high, what would happen if there is a default, a debt default, Ms. Thompson?

Ms. THOMPSON. Yes. I think the mortgage interest rates would be really high, and it would be likely more preventive from borrowers getting homeownership. And then, I am sure mortgage-backed securities investors would want to make sure they got paid.

Ms. VELAZQUEZ. One economist today described it as a calamity. So, Director Thompson, Senator Van Hollen and I recently wrote to you and the other regulators charged with writing the incentive-based concession rules, under Section 956 of Dodd-Frank, so thank you for your response. Last week, some of the other regulators told me in this committee that the six Agencies have met since the collapse of Silicon Valley Bank, and a notice of proposed rulemaking could be out by the end of the year. Do you agree with what they said, and do you agree with this timeline for the notice of proposed rulemaking?

Ms. THOMPSON. Thank you for the question. I was on the call where we agreed to move forward with the rule and to try to have it out by the end of the year.

Ms. VELAZQUEZ. Thank you. And, Director Thompson, as you know, residential co-ops are an important part of our housing stock in New York City. Can you explain the programs the GSEs have in place for affordable housing investment in co-ops and the options for refinancing? How is the FHFA working to expand programs for residential co-ops?

Ms. THOMPSON. The Enterprises are allowed to buy co-ops, and, again, they purchase the loans that are made, and there are requirements for purchasing those co-ops. I don't know the specifics on if there are issues with that or not, but I do know that those are eligible products for both Enterprises to purchase.

Ms. VELAZQUEZ. And in terms of the option for refinancing?

Ms. THOMPSON. And the option for refinancing is there as well.

Ms. VELAZQUEZ. Director Thompson, there has been a lot of misinformation and mischaracterization by Fox News about the changes the FHFA was making to its pricing structure. Could you please explain how these changes were intended to help homebuyers across the country in all communities, and maybe tonight, Fox News will air your response?

Ms. THOMPSON. Sure. Thank you. The changes were made: one, to update the outdated pricing grids that had not been updated in almost 10 years; and two, to really help first-time homebuyers who cannot afford a huge down payment on a home, to make homeownership more affordable for them, and this is across the country. But we really thought it was important for the workforce, for policemen, for firemen, for teachers, and just for people to be able to live where they worked, and we wanted to do what we could to provide affordability. And, again, we are paying for that with the fees that are generated from second homes, investor homes, and vacation homes. And that was the second reason.

The third reason was to build capital so that the Enterprises could meet their capital requirements and be in a position to absorb more losses. The Enterprises are woefully undercapitalized, and this was a good way to balance safety and soundness and responsible access to credit.

Ms. VELAZQUEZ. Are you listening, Fox News? I yield back, Mr. Chairman.

Mr. HILL. I thank the gentlewoman. The gentlewoman from California, Mrs. Kim, is now recognized for 5 minutes.

Mrs. KIM. Director Thompson, thanks for being with us today. As you may know, California has suffered from chronic home affordability for years. Last year, Orange County, my district, saw the median selling prices going over \$1 million. To make matters worse, California has the highest rate of poverty of any State, at 13.2 percent, so in California, we have a mismatch in the housing market with low supply, the highest prices in the country, and a large segment of the population unable to afford a home.

One of the solutions to California's housing access and affordability problems is found in your testimony. The move to newer, more modern credit-scoring models you are undertaking will score 12.5 percent more for my constituents in California's 48th District,

and of these newly-scorable folks, 41 percent, or 26,000 of them are near prime, with a score above 620. Can you outline the benefits of including rental payments, utility, and cellphone payments in mortgage credit scores?

Ms. THOMPSON. Sure. I think one of the tenets of credit is somebody's ability to pay and their willingness to pay. And if you have people who are making a living and they are making their payments every single month on time, but they just can't afford a low down payment, we think that their ability to pay and their willingness to pay, as demonstrated by their continuous payment of rent every single month, is really important and ought to be considered in their credit score. And utilities—you certainly need water and electric. So if people are paying their bills on time—just because somebody has low wealth doesn't mean they have bad credit. And to the extent they are able to and willing to pay, then that ought to be taken into consideration—

Mrs. KIM. I couldn't agree with you more. I do have a bill to do just that, so thank you. It will help Californians achieve the American Dream of homeownership, so please keep me updated on your efforts as well.

The topic of the GSEs venturing into title insurance has come up a lot recently, and there are some major concerns amongst my colleagues about these endeavors, whether it is the reported Fannie Mae title waiver or the promotion of unregulated title insurance alternatives onto the low-income borrowers. I, too, am worried that the FHFA may be pushing alternative products and workarounds that don't effectively protect homebuyers, lenders, or the GSEs themselves. I would like to ask you and encourage you to go back and revisit the rationale for FHFA pushing the use of unregulated title insurance on low-income borrowers in general, but most immediately, can you confirm that these risky, unregulated title alternatives are not being pushed in Southern California, where I am from, and where my constituents are, or in other seller-paid geographics across the United States?

Ms. THOMPSON. Yes. First, let me confirm that it is our goal to protect borrowers and to protect the Enterprises, and FHFA is not pushing any unregulated entities. I think the title insurance is a requirement, again, by the lender to prove that there is clear title and that there is no superior lien. And since 2008, attorney opinion letters are an option for certain borrowers under certain circumstances, but nobody is pushing that.

Mrs. KIM. Thank you for the clarification. In the interest of time, I just want to continue, but I want to say that we need to ensure that these pilot programs don't undermine the safety and soundness goal of FHFA. Now, I commend you for conducting a robust review of GSEs, NPL, and RPL loan sale programs. However, given that these programs reduce the risk to the GSEs and the taxpayers and help achieve more favorable outcomes for borrowers in local communities, I encourage you to restart these programs as soon as possible, but I understand these programs have come to a stop.

And these programs are important to help de-risk programs, the GSEs, and the taxpayers. Would you agree that we need to restart these programs?

Ms. THOMPSON. We wanted to make two changes: one, we wanted to update the benchmarks because they were old; and two, we wanted to make sure that all of the lost MIT programs that the Enterprises have are included in the waterfall.

Mr. HILL. The gentlewoman's time has expired.

Mrs. KIM. Thank you. I yield back.

Mr. HILL. The gentleman from New York, Mr. Garbarino, is recognized for 5 minutes.

Mr. GARBARINO. Thank you, Mr. Chairman. Director Thompson, you were just discussing a little about title insurance with my colleague. And last week, in our Housing and Insurance Subcommittee, I discussed FHFA's proposal about waiving title insurance requirements and acting essentially as the title insurer to a lending organization. Mr. DeMarco, who is one of your predecessors, said, "Title insurance is a primary market function and, frankly, the GSEs simply do not belong in the primary market." He also went on to say that it is disturbing to think that Fannie Mae or Freddie Mac might displace title insurance by taking on the insurance itself. Would you agree with Mr. DeMarco that Fannie and Freddie have no business offering their own title insurance products?

Ms. THOMPSON. FHFA is not pushing that, and I have not seen that proposal. And we would have to evaluate anything on the merits of safety and soundness to the Enterprises and to borrowers.

Mr. GARBARINO. You brought up attorney opinion letters. What do you think about the proposal? Would you agree with the proposal, if Fannie and Freddie wanted to waive title insurance requirements?

Ms. THOMPSON. I would have to see if that was a safe and sound decision or proposal. I would have to evaluate that on the merits. I just haven't seen it.

Mr. GARBARINO. It wouldn't be safe and sound. I was a practicing attorney, and I did house closings all the time. I worked with title insurance companies, and thank God for them at some of those closings, because they saved a lot of homeowners a lot of grief by going through the title insurance policy. So, I don't think it would be a sound proposal.

And I hope if anything does come forward where Fannie and Freddie would waive those insurance requirements, I would hope you would object to it, because there is a reason private lenders require title insurance now. There is protection there, and when homeowners purchase their homes, that is usually the biggest asset they are going to buy, and it is one thing to have title insurance that protects the lender, and it is another thing to have title insurance that protects the homeowner. So, I think any sort of waiver of title insurance requirements by the GSEs would be a huge mistake and would end up hurting consumers.

I want to move on to, and one of my other colleagues used this word, but the Administration has tasked the FHFA with looking into enhancing tenant protections and addressing egregious rent increases in the Enterprises' multi-family programs. Director Thompson, what do you consider to be an, "egregious" rent increase, and do have concerns that any kind of rent control in En-

terprise programs would disincentivize multi-family borrowers and significantly impact the supply of affordable housing?

Ms. THOMPSON. One of the things that we are doing before the end of this month is issuing a request for input on this very topic. I would love to keep you informed on the information we are getting from all of the stakeholders on this really important issue.

Mr. GARBARINO. Okay. So, you are requesting information. I would have to say one thing we have seen in New York, which has rent stabilization laws and limits deductions of investments from people who have landlords who offer affordable housing, when you limit rent increases, when you limit deductions that can be taken from capital investments into upgrading these apartments, you see landlords just they walk away. They either say, well, we are not going to build any new apartment buildings, so we are not going to continue to invest in these, because I can't recoup the money that I am investing. So, the low-income renters who are in these affordable housings are the ones, again, who are hurt.

I think when you are requesting this information, again, pay attention and focus on what the actual effect is on these low-income renters, and I think we have a perfect example of how they are harmed when you look at what has been going on in New York City, where we already have rent stabilization laws and limits on deductions on investment and how to recoup capital improvements.

Last question, because I am running out of time, we have heard a lot today about increasing access to homeownership, an issue that has especially hit home for me. I continually hear about that concern from my constituents. According to the latest statistics, New York has the lowest percentage of homeowners in the nation, under 55 percent. One way to reduce prices in the housing space could be through a new model of providing mortgage insurance designed to create more flexibility and pricing for borrowers by utilizing a new, streamlined, highly-capitalized approach.

Okay. I will submit this for the record. Sorry. I yield back.

[laughter]

Mr. HILL. The gentleman from New York will submit that question for a prompt answer.

And now, we turn to another gentleman from New York, Mr. Lawler, for 5 minutes.

Mr. LAWLER. Thank you, Mr. Chairman. Director Thompson, you said a few minutes ago that the changes that you have made to mortgage pricing were designed to lower the risk profiles of the GSEs. I want to focus on the LLPA changes you announced in October, where you decided to eliminate LLPAs altogether on certain borrowers, like first-time homeowners, which you paid for with increased fees on second and vacation homes. That is obviously a policy choice, and we can argue whether it is good or bad, but my question is on the impact of this change from a risk management standpoint.

Since first-time homebuyers have presumably never owned a home before, there is no history of how they will do in repaying the largest loan they have ever taken in their lives, and yet you lowered the risk-based pricing fees on those loans to zero. Can you tell us how that decision lowers the risk profiles of the GSEs?

Ms. THOMPSON. Sure. As you know, borrowers who have very low down payments are required to have credit enhancement by law, so the Enterprises cannot buy a loan that has a loan-to-value ratio of greater than 80 percent unless it has credit enhancement. That credit enhancement takes the form of mortgage insurance, and to the extent that borrowers with low loan-to-value ratios default, the mortgage insurance stands in front of and takes the first-loss position, so it reduces losses to the Enterprises. The mortgage insurance companies are capitalized, they have liquidity, and at the end of the day, we are transferring the first-loss credit risk to the private sector, which helps protect the Enterprises.

So from a risk-based perspective, the cost of that premium gets included in the pricing. Even though we eliminate the up-front fees, it is a very small portion of the total fees that low credit risk, low down payment borrowers pay, and they pay more than any other borrower. And if you look on the final grid that shows the total amount of payment that borrowers pay, it is risk-based, and there is absolutely no case where low credit score and low down payment borrowers pay less than someone with a high credit score and a high down payment.

And what I get nervous about is people hearing that, oh, I don't have to have a good credit score to get a house, and then they are going to go to the bank and get sorely disappointed. I want to make sure that people understand that you have to continue to pay your bills. We are talking about creditworthy borrowers, and, again, in the Enterprises' flagship programs that are their affordable programs, the credit scores are over 740. These are people who make their payments, they are creditworthy, but they just don't have enough money for a down payment, and the Enterprises are protected through the mortgage insurance.

Mr. LAWLER. My colleagues, Mrs. Wagner and Mr. Davidson, discussed with you the issue that we have a perceived lack of transparency and stakeholder input which the rollout of the new pricing framework has brought up. Again, while the recent formal RFI is a nice first step, the American people need to see more, and given all the attention on the recent pricing changes and some of the backlash that has resulted, are there other specific ways that FHFA can increase transparency for actions like this in the future?

Ms. THOMPSON. Sure. We specifically are intentional about providing public information on pricing. Every year, we submit a report to the Congress, and we also publish it on our website, that talks about what the pricing is, how it has changed year-over-year, and it goes into detail on small lenders, larger lenders, and loan-to-value ratios. And in the 2022 report that we published, we actually articulated that we were going to update the pricing grids, and we also, in the scorecards that we published that define what we expect the Enterprises to do, both in 2022 and 2023, let the public know that we were making these pricing changes.

What was interesting to me was that many people didn't understand the mortgage insurance component, and so we thought that we would take this opportunity to explain what we did by issuing the RFI, and then get input to answer questions like, should we even have LLPAs? Should we include mortgage insurance or not?

Should we tie the pricing to capital? So, we are trying to get as much input as we can.

Mr. LAWLER. Thank you.

Mr. HILL. The gentleman's time has expired. We have votes called on the House Floor, and we will continue questioning until there are 200 votes outstanding.

And I now recognize the gentleman from Florida, Mr. Donalds, for 5 minutes.

Mr. DONALDS. Thank you, Mr. Chairman. Director Thompson, thanks for being here. I am pleased to see that FHFA announced rescission of the debt-to-income up-front fee proposal. In my view, the decision came after significant stockholder or stakeholder feedback and congressional oversight. Can you speak about the specific issues inherent with the debt-to-income proposal from both lenders and borrowers that were raised throughout the process?

Ms. THOMPSON. Sure. When we made the announcement, and there is a debt-to-income capital requirement in the capital rule, lenders called and they said, we are having operational challenges implementing this. And I personally went to and visited lenders, credit unions, I went to banks, I talked to heads of organizations, and they walked us through the process. And they said especially for first-time homebuyers, it was difficult to pinpoint exactly what the debt-to-income ratio was at a point in time. Many times, people forget pieces of information, whether it is expenses or whether it is additional income, that has to get added into the calculation. And what they were nervous about was this notion called bait-and-switch, where we start out with pricing for a loan with one set of information, they get additional information, and then the pricing would change if it moves the debt-to-income ratio up to 40 percent.

And so, there was lots of confusion about it, and we postponed that implementation through August. And then after getting lots of information from talking to stakeholders, we rescinded it.

Mr. DONALDS. Director, do you have any plans on trying to bring this back?

Ms. THOMPSON. No, we do not.

Mr. DONALDS. No? Okay. I just want to make sure we clarify that. Sometimes, I find in this town that ideas bubble up, then they go away, then they bubble up again in the future, so I think it is important to state that. One other thing I want to talk about briefly is I have some strong concerns about the reported title insurance pilot program at Fannie, namely the opaque process with which this program is being developed and how it would work in practice. A spokesperson from Fannie stated in response to recent reporting on the title pilot that the Agency was still in the research phase. Can you describe the stakeholders and data FHFA is utilizing and collaborating with as it conducts research on this potential action?

Ms. THOMPSON. FHFA is not conducting research. FHFA evaluates proposals from Fannie Mae and Freddie Mac. I have not seen that proposal because a pilot would have to be approved by FHFA. And we also put in place a new products rule. Like all of the pilots that both Fannie and Freddie are engaged in, that proposal has not come to FHFA for approval.

Mr. DONALDS. Okay, Director, last question. Are you concerned about the current size of the GSEs, and to a second degree, do you have any concerns about potential loosening of underwriting standards?

Ms. THOMPSON. Yes. To answer your question, I am concerned about the Enterprises building capital so that they can cover their losses. The Enterprises have very low delinquencies right now. The market-to-market loan-to-value ratio on the book of the Enterprises is the best it has ever been, but I am concerned about making sure that they build capital so they don't have to default to getting taxpayer support, so that is my number-one concern.

My second concern, 1A and 1B, is making sure that they fulfill their responsibility to provide liquidity throughout the United States to homeowners everywhere, not leaving anybody out, but making sure that creditworthy borrowers can get access to first-time homeownership.

Mr. DONALDS. I will say in closing that I share a portion of your concern, and this is as a former banker who watched the residential side from the commercial side. I would say that with respect to the GSEs being able to be supportive of the mortgage market to a degree is a goal that I think it is optimal, but it may not always be realistic. But I think that the key concern is always going to have to be credit quality, because credit quality is the thing that is actually going to protect taxpayers in the long run. With that, I yield back.

Mr. HILL. The gentleman yields back. The gentleman from Iowa, Mr. Nunn, is recognized for 5 minutes.

Mr. NUNN. Thank you, Chairman Hill. I very much appreciate it. Director Thompson, thank you so much for spending some time with us today. As a guy here from the Midwest, I think we want to make sure both that our first-time homebuyers have an incredible experience and do this the right way, and that ultimately the taxpayers are not on the hook for when things don't work out the right way. And for those folks watching back home in Iowa today, your organization, the FHFA, plays a unique role in how mortgage markets function. In fact, you are the primary regulator for our GSEs, Fannie and Freddie, of over half of the mortgages on the market owned or guaranteed by those government Agencies. That is more than 50 percent of where we are here, and your primary mission is to regulate these GSEs.

By design, the FHFA is intended to be an independent agency, free from agenda or political pressure, whether it be from Congress or from the White House. Now, as we have heard here today, some have argued that the FHFA is pushing forward the Administration's equitable housing finance plans, but that you are doing it while potentially displacing private capital. Additionally, your Agency simply announced significant changes to long-held standards via press report or a periodic report, disregarding any formal notice-and-comment period, which is concerning.

Last October, the FHFA made two important announcements related to credit scores and homeownership. First, adding VantageScore 4.0 seems to make a lot of sense, and that is an area where we would agree with you. These new models help score an



additional 11 percent of people in my district, and only half of those folks score near prime or higher than 620.

My question, Director, is what is the timeline for this project that you are working on, and can you commit to being communicative not just with my office, but with us here in Congress on how that process is going?

Ms. THOMPSON. Sure. Thank you. It is going to be a multi-year effort to update credit scores because credit scores are used not just for underwriting. They are used for pricing. They are used for pooling. They are used by the mortgage insurance companies. They are used by investors. And so, making sure that people have data so that they can calibrate the old to the new is going to be very important. And it is going to take lots of stakeholders analyzing the data and making sure that their systems can absorb it and they can process in a way that is safe and sound, and that we don't lose a beat in terms of risk management. It is a multi—

Mr. NUNN. I appreciate that, no, and that is good. I hope that we can expedite that process because I think we all recognize this is something we want to get to in a safe way but not something that takes years and years to do that addresses the current concern. As my colleagues on both sides of the aisle have mentioned, my second announcement is moving to a bi-merge system. It raises some questions, though. My small community banks and credit unions, including those in rural Iowa, often only report data to one credit reporting agency. Under the bi-merger standard, two consumers who have similar credit profiles could potentially get differently priced mortgages, depending on: one, which two reports are pulled; two, which mortgage lender and consumers choose; and three, which or how many mortgage lenders they have access to, depending on where they live.

For example, one of my constituents living in a large metropolitan area, like Des Moines, might receive something very different from one of my rural guys in Bedford, Iowa. How is the FHFA going to ensure that all Americans have equal access to mortgages, regardless of where they live and how they apply?

Ms. THOMPSON. We are working on that process right now, and we are getting input from stakeholders. We believe after analysis that moving from three credit scores to two is going to be beneficial for the borrowers, that it will encourage competition from the credit reporting agencies, and it will lower costs for the borrowers, because instead of pulling three credit reports, they only pull two, and then the lender picks which two. Right now, we are working through the process with the GSEs on trying to figure out whether or not there is going to be the median or the average. It used to be the median for the three, and should it be the median for the two or the average for the two? And we have a request out for comment on that very issue of moving from bi-merge to tri-merge.

Mr. NUNN. As you look at these comments, I think one of the things that has to be a concern here is that the FHFA is asking for more data, specifically related to those mortgages, but at the same time excluding some information from the mortgage process. I hope that provides some clear guidance.

In my last 30 seconds here, I want to highlight the fact that we just had a cyberattack in Des Moines, Iowa. It really went after a

number of young people who had no credit score whatsoever. The information is now being used by cybercriminals to be able to apply. Talk to us a little about what the FHFA is doing in this area to really protect first-time homebuyers who may have no credit history.

Ms. THOMPSON. To the extent that first-time homebuyers have no credit history, if they are renting and not living with their parents, perhaps the positive rental payments are being captured. But in cyber, there is not much—

Mr. NUNN. Thank you, Mr. Chairman. We will submit those questions for the record, and I yield back.

Mr. HILL. I now recognize the gentlewoman from Texas, Ms. De La Cruz, for 5 minutes.

Ms. DE LA CRUZ. Thank you, Mr. Chairman, for holding this important hearing today, and thank you, Director Thompson, for appearing before the committee. We are towards the end here. I will state here that I am concerned about the increasing prices of housing and the availability of affordable options, especially in my community, which is one of the most-Hispanic districts in the entire nation. In fact, over 80 percent of our district is Hispanic.

With that being said, record-high inflation and a possible recession will only further complicate housing issues and introduce uncertainty in the system. We are living in a transitory period, moving from a low-rate environment to a high-rate environment, and it is a time when we should be most focused on the safety and soundness of our system and not pushing to remake the system.

With that said, Director Thompson, FHFA has required Fannie and Freddie to release equitable housing finance plans each year during your tenure. The stated purpose of these plans is to, “create goals and actions to advance equity in housing finance.” That being said, equity can mean a lot of different things to a lot of different people. What does this mean to you, specifically?

Ms. THOMPSON. Sure. Thank you for the question. We believe equitable housing plans are the vehicle that allows us to identify barriers to homeownership for underserved communities, and particularly minority communities, but also come up with goals and objectives to eliminate those barriers, and I will give you an example. In the Latino community, one of the barriers is the documents for the mortgage itself. And as you mentioned, the mortgage is one of the largest assets that most people have.

What we have done is we have translated many of the mortgage documents into different languages so that people who don’t have English as their first language can understand what the documents say and walk through the implication of this purchase, and so those are the barriers. What is the goal to try to make the documents more understandable? So, those are the types of things that are in the plan.

Ms. DE LA CRUZ. I reclaim my time. You would agree, though, that your main responsibility is to focus on the safety and soundness of the system, correct?

Ms. THOMPSON. Yes. Everything we do is wrapped in safety and soundness.

Ms. DE LA CRUZ. And our concern, of course, is that some of the tradeoffs that you have had to make as a conservator and a regu-

lator in the name of equity may be affecting that safety and soundness, not only for Hispanic communities, but for our district specifically. Do you believe that you have to move the goal posts, in other words, lessen or otherwise change the requirements to own a home, to bring more borrowers to Fannie Mae and Freddie Mac?

Ms. THOMPSON. We absolutely believe that we are not lowering any credit standards. We are not making any changes such that borrowers who would not otherwise be eligible, are now eligible. We are just not doing that. We have seen that before. The equitable plans really go towards more education and also loan products and programs that are helpful to people who, again, have high credit or reasonable credit, but they don't have the down payment.

If you look again at the Enterprises' affordable programs, the average credit score for the borrowers in 2022 was over 700. In fact, it was over 730, so we are talking about creditworthy people. They may have low wealth, but they are creditworthy and they pay their bills on time.

Ms. DE LA CRUZ. Again, I believe that what we are feeling and what constituents are telling us is that they feel that they have worked hard for their higher credit score, and that they are having penalties or are having to pay more because of that higher credit score. With that, I yield back.

Mr. HILL. I thank the gentlewoman from Texas. The gentleman from Tennessee, Mr. Ogles, is now recognized for 5 minutes.

Mr. OGLES. Thank you, Mr. Chairman, and for the record, I do want to state, as it pertains to the potential of a default, the House Republicans have passed a piece of legislation. It is now incumbent upon the Senate Democrats to do their job and pass our bill, and it is incumbent upon the President to do his job and sign our bill. So, this notion that the Republicans are to blame is nonsense. If there is a default, it is a Democrat default.

Director, thank you for being here. I know it has been a long day, and you are ready to get out of here, as are we, but one of the things I want to discuss is how climate change and some of the climate activism is kind of creeping into the regulatory regime. And I will specifically go to Fannie Mae's website. Under the, "ESG environmental," webpage, it notes, and I will paraphrase here, that Fannie continually seeks to better understand climate change related to risk. Ms. Thompson, can you explain what risks to the banking, to the loans that climate has that is being articulated by Fannie and, ultimately, that you are overseeing?

Ms. THOMPSON. Sure. In the mortgage space, both Fannie and Freddie and the Home Loan Banks look at natural disasters. We are in the mortgage housing business, and so to the extent that there are climate events, and there have been just an increased number in the past few years, whether it is floods or hurricanes or wind, they cause the damage to the properties that are owned by the Enterprises. And we want to make sure that—

Mr. OGLES. I will reclaim my time. You are on the lending side, and the market has insurance for the purpose of risk, right? So, in specific numerical terms as it pertains to climate change, if there is a 3½ degree change in temperature, how does that affect the housing financial system?

Ms. THOMPSON. Sure. I am glad you raised that question, because in many States that are hugely impacted by climate, the insurance question remains. I know last year, in one particular State, the rating for those insurance companies was going to be downgraded, and that means that borrowers wouldn't have coverage if—

Mr. OGLES. Yes, ma'am, and I will reclaim my time. I am a country boy from Tennessee, and flood insurance in Florida does not impact the borrowers in my State or in the cornfields of Iowa. So, to have a regulatory regime that is forcing climate regulations, or those types of things, into this system is, quite frankly, inappropriate, when what I would really want to know, as I look at going forward in the GSEs, is what is the plan and timeline to get them out of conservatorship, because we have had two Administrations that have been talking about it. Everybody seems to agree that it needs to be done, but yet here we are continuing to have this conversation. Here we are without a clear picture of what the GSEs look like post-conservatorship. How does it affect/impact the free market? I want to get back to the question of, what is your specific plan, under your tenure, to move them out of conservatorship quickly?

Ms. THOMPSON. Right. My plan is to make sure they continue to build capital and that the prices they charge cover the cost of capital for every loan that they take. Also, to make sure that they are running their operations in a safe and sound manner, and to make sure that they are protected, which goes back to the insurance issue you raised. It is not just flood; it is wind, hazard, and fire. We need to make sure our properties are protected and that coverage is available for those properties at inception and through the life of the loan.

Mr. OGLES. Yes, ma'am, but specifically, as you look at building capital based off of historic trends, and obviously we are in a different and fluctuating market, what is your projected timeline to see them out of conservatorship, and is there anything that can be done to expedite that, such as private capital?

Ms. THOMPSON. We are working to, again, build capital for the Enterprises. And because the market has shifted from record acquisitions for refinances to this purchase market, we are in the high interest rate, we have seen the number of loans coming to the Enterprises decline. And so, we are trying to build as much capital as we can and make sure their infrastructures are as safe and sound as possible. It will take a long time to get to the capital requirement.

Mr. OGLES. Yes, ma'am. In other words, there is really not a specific timeline. We are kind of in the same conversation that we are going to be having for a number of years. Mr. Chairman, I yield back.

Mr. HILL. The gentleman yields back. I want to thank Director Thompson for her testimony today.

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 witness 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.

I thank Director Thompson for her perseverance in the hearing.

Ms. THOMPSON. Thank you.

Mr. HILL. This hearing is adjourned.

[Whereupon, at 1:53 p.m., the hearing was adjourned.]



## **A P P E N D I X**

May 23, 2023

**Written Testimony of Sandra L. Thompson  
Director  
Federal Housing Finance Agency**



**Before the U.S. House of Representatives  
Committee on Financial Services  
“FHFA Oversight: Protecting Homeowners and Taxpayers”**

**May 23, 2023**

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

Congress established the Federal Housing Finance Agency (FHFA or Agency) to protect the safety and soundness of the housing finance system and promote affordable and sustainable access to mortgage credit nationwide through the regulation and 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 (FHLBanks) and the Office of Finance. Together, the Enterprises and the FHLBank System provide more than \$8.6 trillion in funding for the U.S. mortgage markets and financial institutions and perform a vital function in the American economy by providing liquidity and stability to the secondary mortgage market.

Housing affordability challenges present significant barriers throughout the country to both renters and those seeking to purchase a home. House prices have soared in recent years and mortgage rates have climbed well above their prior historic lows. The unusually low supply of homes for sale has exacerbated affordability issues, which disproportionately impact creditworthy potential first-time homebuyers who are struggling to achieve homeownership and who often lack the resources to make a large down payment.

While FHFA cannot directly control these dynamics, the Agency and its regulated entities are addressing these challenges, in part, by focusing on ways to responsibly reduce costs, harness technology and innovation to improve underwriting, and support efforts to increase housing supply.

As regulator and, in the case of the Enterprises, conservator, FHFA ensures that each of these steps is undertaken in a manner that furthers the safety and soundness of the regulated entities. FHFA examiners monitor a variety of risks across business lines, products, and other areas in which the regulated entities engage. FHFA’s regulations set requirements related to prudential standards, market activities, and corporate governance. The Enterprises have continued to build



capital and now maintain a combined net worth above \$100 billion. FHFA also requires the Enterprises to engage in stress testing to better ensure they can withstand market shocks.

More broadly, the safety and soundness of the regulated entities is a key component of all policy decisions and other actions taken by FHFA. Neither FHFA nor the Enterprises and the FHLBank System can achieve their missions without a continued and unwavering focus on safety and soundness. As we learned during the Great Recession, it is damaging to put a borrower in a home if they will not be able to stay in the home.

My testimony includes updates on a number of critical issues advanced by FHFA since I last appeared before this Committee. Among the issues discussed in greater detail below are FHFA's updates to the Enterprises' single-family pricing framework, notably including the upfront fees charged by the Enterprises. As Representative Cleaver rightly pointed out at last week's subcommittee hearing on this topic, housing finance is a complex issue and the pricing grids underpinning this framework are not easily digestible.

Unfortunately, certain media reports have distorted basic facts by painting an incomplete and misleading picture of these pricing updates. These media reports often make the fundamental mistake of assuming that the pricing grids previously in place were perfectly aligned with the risks faced by the Enterprises. I would like to dispel that myth: in fact, the pricing grids in effect prior to these updates had not been updated in many years and were not fully reflective of the capital framework with which the Enterprises are required to comply.

I want to be very clear on one key point, and one that bears repeating: under the new pricing framework, borrowers with strong credit profiles are not being penalized to benefit borrowers with weaker credit profiles. That is simply not true.

Moreover, the Enterprises by law cannot purchase a loan with a loan-to-value (LTV) ratio greater than 80 percent unless there is an approved level and type of credit enhancement. In most cases, this credit enhancement takes the form of mortgage insurance (MI) provided commercially by private insurers. Borrowers pay for this insurance in addition to the guarantee fees that are passed on to them. If the borrower defaults on their mortgage, the MI provider absorbs the first loss, which limits overall losses for the Enterprises. In this way, MI protects the Enterprises from credit risk by transferring first loss risk to the private sector. The Enterprises' capital requirements include recognition for loans with MI to reflect lower exposure to unexpected losses. This dynamic is also reflected in the Enterprises' pricing framework. MI costs must be added to the guarantee fees charged by the Enterprises to fully understand the costs borne by the borrower. Factoring in MI costs and risk transfer is critical to the fee calculation.

Any narratives that ignore these simple facts are harmful to borrowers who could misunderstand the steps they should take to best position themselves for homeownership. The purchase of a home is a complicated transaction, and homebuyers should have accurate information to make the best decisions possible.

Given the admittedly complex nature of the pricing grids, it is important to offer some context so that the general public can better understand the changes FHFA made to the outdated pricing

grids. FHFA updated the Enterprises' pricing framework to both help creditworthy first-time homebuyers limited by income and wealth and to enhance safety and soundness by better aligning upfront fees with the risk exposures and the capital required to be held against these exposures. The updated pricing framework will enable the Enterprises to continue building capital, thereby reducing the risk to taxpayers who have borne the financial burden of supporting them since they were placed into conservatorship in 2008.

In fact, the updated pricing framework accomplishes both of the objectives highlighted in the title of today's hearing. First, the updated pricing framework supports American homeowners by eliminating the upfront fees for many creditworthy borrowers—first-time homebuyers with lower incomes, for example—and does so by increasing the fees on products that are less central to homeownership, such as second homes or vacation homes. These targeted changes promote homeownership that is both attainable and sustainable. Second, the updated pricing framework enables the Enterprises, both of which are taxpayer-supported, to build capital in a safe and sound manner.

The Committee's focus on protecting American homeowners and taxpayers is important for another reason. Housing comprises 16 percent of U.S. gross domestic product. And for most Americans, their home is their largest asset, and homeownership is the primary way in which families build wealth and pass it on to their children and grandchildren. The updated and improved pricing framework makes homeownership more attainable for creditworthy first-time homebuyers, which strengthens communities.

In addition to the updated Enterprise pricing framework, FHFA has announced a series of important initiatives since I last appeared before this Committee in July 2022 that I would like to highlight. These actions are consistent with FHFA's statutory mission of ensuring the safety and soundness of the regulated entities and promoting access to affordable and sustainable housing, including for first-time homebuyers and underserved communities.

#### ***Federal Home Loan Bank System at 100: Focusing on the Future***

On August 31, 2022, FHFA announced the launch of a comprehensive review of the Federal Home Loan Bank System (the System). The purpose of the review was to ensure the FHLBanks remain positioned to meet the needs of the communities they serve—today and well into the future. FHFA began the review with no pre-determined outcomes and encouraged all stakeholders to participate in a robust public engagement process.

The project began with a three-day listening session followed by 19 regional roundtable discussions and, most recently, a wrap-up listening session. FHFA concluded the public input phase of the review earlier this year and is now working on a report, expected to be published in the second half of the year, which will summarize the feedback received and detail the Agency's recommendations.

FHFA asked for public feedback on a range of topics, including the mission and purpose of the System, the efficiency of its organization and operations, and its effectiveness in supporting affordable, sustainable, and equitable housing. In addition, we examined the System's role in

community and economic development, including addressing the unique needs of rural and financially vulnerable communities. Finally, we looked at the System's member products, services, and collateral requirements, as well as its membership eligibility requirements.

FHFA is still analyzing the feedback received, but I am happy to share some recurring themes heard throughout the public engagement portion of the review. Overall, FHFA heard that the System has been a stable and reliable source of liquidity for housing finance for its member institutions. Many stakeholders noted that the System has been serving this function well for the past 90 years, particularly for smaller members and during times of market stress.

This was made clear earlier this spring during a period of heightened volatility in the banking sector, when the FHLBanks provided a record amount of advances to ensure their members had the liquidity they needed in an uncertain market. To support this demand for advances, the System issued more debt than it has ever issued in a single day. Through this period of market stress, the FHLBanks remained in a safe and sound condition and continued to serve their critical role. The System's resiliency in the face of significant market volatility showed the effectiveness of the standards FHFA established for the FHLBanks to ensure they are appropriately prepared for stress events.

The FHLBanks also have the responsibility to support affordable, sustainable, resilient, and equitable housing and economic development, especially in underserved and financially vulnerable communities, including rural areas, tribal areas, and communities of color.

FHFA has received valuable feedback on how a number of FHLBank initiatives could be made more effective. Numerous responses focused on the FHLBanks' affordable housing and community investment programs, and the need for the FHLBanks and their members to conduct outreach efforts to ensure those who could benefit from the System's programs and products have greater awareness of these offerings. Some stakeholders also noted a need to clarify the mission and purpose of the FHLBanks.

This review has been an in-depth and far-reaching initiative, and FHFA is now in the process of analyzing these and other suggestions and preparing our report for publication later this year.

#### ***Credit Score Model Validation and Approval***

When I last appeared before the Committee, I highlighted that FHFA supports the use of fair and accurate credit score models by the Enterprises, and that we were actively reviewing credit score models along with the Enterprises pursuant to the solicitation and approval process set forth by the law and our regulations. Last year, FHFA advanced two changes that I would like to note.

On October 24, 2022, FHFA announced the validation and approval of both the FICO 10T and the VantageScore 4.0 credit score models for use by the Enterprises. This policy represents an update to the use of the Classic FICO model, which the Enterprises have required for nearly 30 years. At the same time, FHFA also announced that the Enterprises will require two, rather than three, credit reports from the national consumer reporting agencies. These changes are expected to reduce costs and encourage innovation, without introducing additional risk to the Enterprises.

FHFA expects a multiyear transition, as credit scores interface with many elements of the mortgage ecosystem, including loan application and underwriting, risk management, capital, pricing, mortgage insurance, and investor disclosures, and many different stakeholders will be impacted, including borrowers, lenders, mortgage insurers, technology service providers, and investors.

The validation and approval of FICO 10T and VantageScore 4.0 was the result of a thorough and publicly inclusive effort which began in 2014 and followed legislation enacted in 2018 that required FHFA to create a process for validating and approving credit score models.

As a result of FHFA's announcement, borrowers, lenders, investors, and other stakeholders can expect:

- *More accurate credit scores.* The evaluation of new credit score models included extensive testing by the Enterprises to ensure that any validated and approved models met the necessary accuracy standards that are expected for widespread use in the market. Both FICO 10T and VantageScore 4.0 met those standards.
- *More inclusive credit scores.* While both Enterprises have already taken steps to expand equitable access to credit for those borrowers lacking extensive credit histories, such as through enhancements to their underwriting systems, both FICO 10T and VantageScore 4.0 include new payment history information such as rent, utilities, and telecommunications payments when available.
- *Enhanced safety and soundness in the housing finance system.* Promoting accuracy and innovation in credit score models will ultimately lead to better outcomes for borrowers, lenders, investors, insurers, guarantors, and the Enterprises. Additionally, because both FICO 10T and VantageScore 4.0 are more accurate than Classic FICO, the mortgage market will be provided with an improved view of risk from two different credit score models.
- *Sufficient time to transition.* FHFA and the Enterprises anticipate a multiyear transition and are committed to working with stakeholders to ensure a smooth process towards the use of the new credit score models and the new credit report requirements in a manner that avoids unnecessary costs and complexity. The transition timeline must be flexible enough to incorporate testing and unexpected events, but also efficient enough to ensure that consumers, the Enterprises, and others benefit from the more accurate credit score models.

Additionally, on March 23, 2023, FHFA announced proposed implementation timelines for the use of FICO 10T and VantageScore 4.0 and for the Enterprises' requirement to transition to a bi-merge credit report requirement. This announcement marked the beginning of a public engagement process to inform these changes and timelines. The public engagement process will allow stakeholders to provide critical feedback and input on the implementation process and to work with FHFA and the Enterprises to further refine the proposed implementation plan.

### ***Prior Approval for Enterprise Products***

The Enterprises, while continuing to serve their public missions, may seek out technological advances and pursue innovations to create opportunities to provide the public, the Enterprises' counterparties, and the market more access to, and options for, new products. However, in doing so the Enterprises may be exposed to additional risks or could alter the risks faced by other market participants, and the impact on achieving their missions should be carefully balanced against the risks that are introduced by any new activity or product.

On December 20, 2022, FHFA published a final rule that requires the Enterprises to provide advance notice to FHFA of new activities and obtain prior approval before launching new products. The rule was enacted after extensive public engagement. To facilitate implementation, the rule defines "activity" and clarifies which categories of activities would be considered to be "new." The rule establishes that FHFA will determine which new activities merit public notice and comment, and therefore should be treated as new products and subject to prior approval. In addition, the rule establishes a public disclosure requirement for FHFA to publish its determinations on new activity and new product submissions. The rule took effect on April 28, 2023.

This process will promote safety and soundness as well as transparency, while balancing the importance of innovation with the need to ensure the Enterprises' actions remain consistent with their charters and the public interest.

### ***Updates to the Enterprises' Single-Family Pricing Framework***

As I discussed earlier, FHFA is first and foremost a safety and soundness regulator, and the Enterprises were chartered by Congress with a mission to support liquidity, stability, and affordability by facilitating responsible access to mortgage credit through their activities in the secondary market. To achieve this mission, the Enterprises charge fees to compensate them for guaranteeing securities collateralized by the mortgages they acquire, which in turn attracts investors across the globe to provide liquidity for the U.S. mortgage market and, ultimately, reduces interest rates for homeowners.

Since 2008, a portion of the Enterprises' single-family guarantee fees have been "upfront" fees that are based on risk characteristics of the borrowers and the loan and property attributes. Accordingly, the Enterprises engage in risk-based pricing to, among other things, better ensure their safety and soundness, protect taxpayers, and serve their missions.

As required by law, FHFA publishes an annual Guarantee Fee Report which analyzes the guarantee fees charged by the Enterprises, including the average guarantee fee by year. The report also provides detailed information on guarantee fees by product type, loan purpose, LTV ratio, borrower credit score, and seller size. The most recent report includes a timeline of changes to guarantee fees spanning the period from 2008 to 2021 (see Table 1). Taken together, this information provides additional transparency to the public regarding the level and structure of the guarantee fees charged by the Enterprises.

**Table 1: Timeline of Changes in Guarantee Fees from 2008 to 2021**

Date	Change
March 2008	The Enterprises increased ongoing fees and added two new upfront fees: a fee based on the borrower's LTV ratio and credit score, and a 25-basis point adverse market fee.
Late 2008 through 2011	The Enterprises gradually raised fees and refined their upfront fee schedules.
December 2011	Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, FHFA directed the Enterprises to increase the ongoing fee for all loans by 10 basis points. The Enterprises pay this fee to the U.S. Department of the Treasury. This fee increase was effective with April 2012 deliveries and was set to expire after 10 years.
August 2012	FHFA directed the Enterprises to raise fees by an additional 10 basis points on average to better compensate for credit risk exposure. FHFA raised fees more on loans with terms longer than 15 years than on shorter-term loans to better align the gaps and made fees more uniform across sellers with varying loan delivery volumes. These changes were effective with December 2012 MBS deliveries.
December 2013	FHFA directed the Enterprises to increase ongoing fees by 10 basis points, change upfront fees to better align pricing with credit risk characteristics, and remove the 25-basis point adverse market fee for all but four states. However, in January 2014, FHFA suspended the implementation of these changes pending review.
April 2015	FHFA completed its fee review and directed the Enterprises to eliminate the adverse market fee in all markets and add targeted increases for specific loan groups effective with September 2015 deliveries. These changes were approximately revenue-neutral with little or no impact for most borrowers.
July 2016	Based on findings from FHFA's quarterly guarantee fee reviews, the Agency directed the Enterprises to set minimum ongoing guarantee fees by product type, effective in November 2016, consistent with FHFA's responsibility to ensure the safety and soundness of the Enterprises.
September 2018 & March 2019	The Enterprises implemented a 25-basis point upfront fee for loans on second homes where LTV exceeds 85 percent.
April 2020	FHFA allowed the Enterprises to purchase loans in forbearance, with an upfront fee add-on of 500 basis points for first-time home buyers and 700 basis points for all others, effective for loans closed through December 31, 2020, following multiple extensions.
August 2020	FHFA directed the Enterprises to introduce a 50-basis point upfront adverse market refinance fee, effective December 1, 2020, for cash-out and rate-term refinances. The Enterprises excluded loans with principal balance less than or equal to \$125,000, those associated with HomeReady/Home Possible, and construction-to-permanent loans meeting certain criteria.
July 2021	FHFA announced that the Enterprises would eliminate the adverse market refinance fee for loan deliveries effective August 1, 2021.

November 2021	The Infrastructure Investment and Jobs Act extended to 2032 the existing 10-basis point ongoing fee arising from the Temporary Payroll Tax Cut Continuation Act of 2011, which was due to expire in 2022. The Enterprises remit the proceeds from this fee to the U.S. Department of the Treasury.
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It has been over eight years since FHFA undertook a comprehensive review of the Enterprises' pricing framework, and since that time, FHFA adopted and implemented a new capital regulation for the Enterprises—the Enterprise Regulatory Capital Framework (ERCF). Much of the updated pricing framework, as discussed below, is calibrated to the ERCF to help ensure that the Enterprises' capital requirements and pricing framework are more closely aligned.

For over a year, FHFA, as conservator of the Enterprises, has been conducting a holistic review of the Enterprises' guarantee fee pricing framework with a special focus on upfront fees. FHFA's objectives in updating the framework were expressed in both the 2022 and 2023 Conservatorship Scorecards for Fannie Mae, Freddie Mac, and Common Securitization Solutions. These objectives include increasing pricing support for many creditworthy first-time homebuyers, while ensuring a level playing field for small and large lenders, fostering capital accumulation at the Enterprises, and achieving viable returns on capital over time, which combine to help protect taxpayers.

FHFA, as conservator, has taken a series of steps since January 2022 to accomplish these goals. First, FHFA announced targeted fee increases for second and vacation home loans, high-balance loans, and, later, cash-out refinances. Next, FHFA announced the elimination of upfront fees for many creditworthy low- and moderate-income first-time homebuyers, as well as certain borrowers purchasing homes in rural communities or purchasing manufactured housing. While many loans made through the Enterprises' flagship affordable mortgage programs (HomeReady and Home Possible) already had zero upfront guarantee fees, upfront fees were fully eliminated for the following borrowers and programs:

- first-time homebuyers at or below 100 percent of area median income (AMI) in most of the United States and below 120 percent of AMI in high cost areas;
- HomeReady and Home Possible loans;
- HFA Preferred and HFA Advantage loans; and
- single-family loans supporting the Duty to Serve program.

These fee eliminations were primarily offset by the increased fees on second and vacation home loans, high-balance loans, and cash-out refinances.

In January 2023, FHFA announced a recalibration of the upfront fees for most purchase and rate-term refinance loans. The updated fee matrices increased transparency by separating the base grids across three loan purposes (i.e., purchase loans, rate-term refinance loans, and cash-out refinance loans), rather than combining purchase and rate-term refinance loans, as was the case with the prior grids. The redesigned matrices also further refined the credit score distribution to include more granular categories at the upper end of the spectrum (i.e., providing more

categories than the prior grids, in which all borrowers with a credit score of 740 or greater were grouped together). These changes better reflect the risks associated with various types of loans acquired by the Enterprises.

To ensure mortgage pipelines were not impacted, these updated fees took effect for loan deliveries to the Enterprises beginning on May 1, 2023. Notably, this means that most lenders began implementing these updated fees into the pricing offered to borrowers months earlier to ensure they delivered closed loans that aligned with the new framework by May 1, 2023.

A substantial part of the January 2023 fee recalibration is to align fees with the ERCF. As was noted in the Agency's 2022 Annual Guarantee Fee Report and in the request for input (RFI) on the Enterprises' single-family pricing framework published on May 15, 2023, the transition to the ERCF changed capital requirements across credit characteristics. The flatter risk gradients embedded in ERCF result in a lower and flatter return profile across the credit risk spectrum. Several features of the ERCF, including a minimum risk-weight floor for all mortgage exposures, and risk-insensitive capital buffers for stability, stress, and leverage, are applied evenly across all loans acquired by the Enterprises and thereby set a higher minimum level of capital that must be held against these loans.<sup>1</sup> This dynamic results in loans with stronger credit characteristics receiving more significant capital increases than loans with weaker credit characteristics, relative to the prior proposed capital requirements. This, in turn, impacts the return-on-capital targets set by FHFA for the Enterprises and served as the basis for much of the recalibration in the January 2023 updates.

On April 25, 2023, FHFA issued a public statement in response to several misconceptions that had been reported in certain media coverage of these updates. In this statement, FHFA made clear that no borrowers are being charged higher upfront fees based on their credit score in order to allow other borrowers to be charged lower upfront fees based on their credit score. The recalibrated upfront fees announced in January 2023 were set based on the capital required by the ERCF (as well as the return-on-capital thresholds set by FHFA), which in turn is predicated on the expected financial performance of each category of loan. Further, FHFA clarified that there is no incentive for borrowers to seek a lower credit score due to the updated fee structure. Risk-based pricing remains in effect, and the upfront fees are now more closely aligned with the return-on-capital targets set by FHFA.

Similarly, there is no incentive for borrowers to make a smaller down payment as a result of the new fee structure. The Enterprises' congressional charters require credit enhancement—primarily in the form of private MI—for loans with a down payment of less than 20 percent. As discussed earlier, this MI coverage absorbs first losses and reduces the total loss exposure of the Enterprises because the approved insurance providers bear much of these losses in the event of default. Absent MI, the Enterprises would assume a far greater proportion of the losses associated with defaults on these loans. For borrowers making a down payment smaller than 20

<sup>1</sup> For loans with stronger credit profiles, the presence of a risk-weight floor will generally increase the amount of capital the Enterprises must hold against those loans. In contrast, for loans with weaker credit profiles, the Enterprises generally were already required to hold capital against those loans in excess of that necessitated by the minimum risk weight floor. Therefore, the risk weight floor is more likely to be binding for loans with stronger credit profiles.



percent of the home's value, the costs of the required credit enhancement, such as MI, contribute to the overall cost of their loan. As such, any analysis of guarantee fees without consideration of MI or other credit enhancement costs is incomplete—both from the perspective of the borrower and from the perspective of the Enterprises.

FHFA has continued to engage with stakeholders on specific issues related to the pricing framework to ensure it meets our stated objectives of fostering capital accumulation at the Enterprises, achieving viable returns on capital, and increasing support for creditworthy first-time homebuyers. FHFA received numerous comments, for example, related to operational and other challenges associated with an upfront fee based on a borrower's debt-to-income ratio and subsequently removed the fee on May 10, 2023. In addition, and as noted above, to promote transparency and ensure stakeholders can share their perspectives on a variety of issues related to the Enterprises' pricing framework, FHFA published a public RFI on May 15, 2023.

Since entering conservatorship in 2008, the Enterprises have remained undercapitalized, and taxpayers, through the Treasury Department, continue to provide a financial backstop should the Enterprises confront significant losses. The updated pricing framework will better protect taxpayers in the long term and put the Enterprises on more durable footing, which will allow them to support affordable, sustainable mortgage credit across the economic cycle to the benefit of all Americans. And they will do so with a pricing framework that is more accurately aligned to the expected financial performance and risks of the loans they back.

#### ***Enhanced Payment Deferral Policies for Borrowers Facing Financial Hardship***

FHFA and the Enterprises are examining lessons learned from the pandemic to inform the existing loss mitigation framework, with the goal of improving the ability of mortgage servicers to assist struggling homeowners in retaining their homes, while minimizing losses to the Enterprises and taxpayers. On March 29, 2023, FHFA announced that the Enterprises would enhance their payment deferral policies to allow borrowers facing financial hardship to defer up to six months of mortgage payments as part of the standard loss mitigation framework. The enhanced payment deferral policies will promote sustainable homeownership and further support the safety and soundness of the Enterprises.

Payment deferral allows borrowers who are able to resolve a temporary financial hardship to retain the same monthly mortgage payment by moving past-due amounts to the end of the loan as a non-interest bearing balance, due and payable at maturity, sale, refinance, or payoff. During the pandemic, the Enterprises' payment deferral policies were expanded to allow borrowers with COVID-19 hardships to utilize this solution.

The Enterprises have successfully completed over 1 million COVID-19 payment deferrals since the onset of the pandemic in March 2020. In addition to its benefits to borrowers, payment deferral has the added benefit of allowing the Enterprises to keep the loans in mortgage-backed securities and mitigating growth to their retained portfolios.

Throughout conservatorship, FHFA and the Enterprises have worked to develop policies to help servicers better resolve mortgage payment delinquencies with the goal of keeping struggling

borrowers in their homes whenever possible, while minimizing losses to the Enterprises and taxpayers. The payment deferral option is another important step towards improving borrower and taxpayer outcomes.

The Enterprises will work with servicers to implement the enhanced payment deferral policies, with a voluntary adoption date of July 1, 2023, and mandatory adoption by October 1, 2023.

***Updated Minimum Financial Eligibility Requirements for Enterprise Seller/Servicers***

An important tool for counterparty risk management at the Enterprises is the use of minimum financial eligibility requirements for approved seller/servicers. These requirements promote safety and soundness by strengthening the capacity of seller/servicers to meet the financial responsibilities associated with originating and servicing mortgages acquired by the Enterprises.

Beginning with proposed updates in early 2020, FHFA and the Enterprises have been examining the framework for issues related to seller/servicer net worth, capital, and liquidity requirements. This work was further informed by the experience of both the Enterprises and seller/servicers in managing challenges that arose as a result of the COVID-19 pandemic. FHFA has worked closely with Ginnie Mae throughout this process, as many Enterprise seller/servicers are also approved Ginnie Mae issuers.

On August 17, 2022, after multiple rounds of public comment, FHFA and Ginnie Mae jointly announced updates to their respective minimum financial eligibility requirements. These updates improve upon the prior framework by strengthening seller/servicer net worth, capital, and liquidity requirements and better tailoring the minimum requirements associated with different types of loans and risk exposures. Most of the updated requirements for Enterprise seller/servicers will take effect in late 2023.

***Equitable Housing Finance Plans and Duty to Serve Update***

On April 5, 2023, FHFA announced updates to the Enterprises' Equitable Housing Finance Plans for 2023. The updates build upon the inaugural plans first announced in 2022 and include adjustments based on initial research and findings. The Equitable Housing Finance Plans are designed to complement the initiatives outlined in FHFA's strategic plan that promote the Enterprises' safety and soundness and foster housing finance markets that provide equitable access to affordable and sustainable housing.

FHFA's reason for requiring the Enterprises to develop Equitable Housing Finance Plans is clear. Even after passage of the landmark Fair Housing Act of 1968, the racial homeownership gap persists, with homeownership rates for households of color more than 24 percentage points lower than the rate among white households. Accordingly, the Enterprises developed and published plans to identify and address barriers to sustainable housing opportunities, as well as the Enterprises' goals and actions to advance equity in housing finance, for the next three years.

Updates to the Enterprises' 2022-2024 Plans include, but are not limited to:

- the inclusion of the Latino Housing Journey and actions to remove barriers experienced by Latino renters and homeowners in Fannie Mae's plan;
- an enhanced focus on ensuring existing borrowers receive fair loss mitigation support and outcomes through monitoring and developing strategies to close any gaps;
- the provision of financial capabilities coaching to build credit and savings;
- support for locally-owned modular construction facilities in communities of color; and
- increases to the reach of Enterprise Special Purpose Credit Programs to support homeownership attainment and housing sustainability in underserved communities.

All plan activities are subject to FHFA's review and oversight of any risks to, or impacts on, safety and soundness.

In addition, the Enterprises released performance reports that outline progress made under their Equitable Housing Finance Plans during 2022 and actions they are taking to advance equity in their automated underwriting systems, such as the inclusion of rental payments and cash flow underwriting and the use of advanced statistical techniques to improve model fairness. In total, the Enterprises, through programs associated with their Equitable Housing Finance Plans, have helped more than 834,000 American families.

FHFA also recently released a proposed rule that would codify the process and standards for the Equitable Housing Finance Plans in the future. The proposed rule addresses many of the questions from stakeholders on the initial program, and FHFA welcomes public comments from all stakeholders.

Later this year, FHFA will conduct a public engagement session to build on last year's listening session and request for input. The initial engagement with the public yielded thoughtful responses that were incorporated into the Enterprises' final plans. In future years, I expect the Enterprises will focus on other underrepresented communities, such as Asian American and Pacific Islander communities.

Other issues affect many underserved communities' access to affordable and sustainable housing throughout the country, such as the availability of small balance loans. There is limited access to mortgage credit for small balance loans on modestly priced homes. This is a barrier to homeownership for many Americans, and unfortunately the void is often filled with non-mortgage products that do not offer an affordable and sustainable path to homeownership. It is also a barrier to refinancing in low interest rate environments. The fixed costs associated with a refinancing often make it uneconomical to refinance lower balance loans, even though that opportunity could reduce monthly costs for owners of modestly priced homes. I believe this is an area in which further work is needed to develop solutions that make small balance mortgage loans more affordable and available to support all communities throughout the Nation.

Many challenges to affordable and sustainable homeownership exist for tribal lands in Native American communities throughout the country. These challenges include legal complexities, infrastructure for housing development, and a lack of access to mortgage products, especially

conventional loan products. As a result of these long standing and serious issues, fewer than 1,000 mortgage loans are made annually on tribal lands. Under the Duty to Serve program, the Enterprises are working to develop new solutions to some of these challenges through the expansion of access to conventional loans and the provision of support to Native Community Development Financial Institutions (CDFIs).

### ***Multifamily Market***

The multifamily market experienced volatility in 2022 and the first half of 2023, but fundamentals have remained strong. Throughout this period, the Enterprises have continued to serve as a consistent source of liquidity without compromising credit standards. This year, FHFA instructed the Enterprises to develop and implement strategies to support and advance the multifamily market by identifying ways to facilitate greater affordable housing supply, exploring options to expand energy efficiency and resiliency, exploring the feasibility of expanding tenant protections at Enterprise-backed properties, and increasing Enterprise support for workforce housing.

- *Low-Income Housing Tax Credit (LIHTC) program.* One of the primary mechanisms for the Enterprises to create incentives for production and investment in affordable housing is through the LIHTC program. These investments can also support housing in Duty to Serve-designated rural areas, preserve affordable housing, support mixed-income housing, provide supportive housing, or meet other affordable housing objectives. In September 2021, FHFA increased the Fannie Mae and Freddie Mac LIHTC investment caps to \$850 million annually. Previously, each Enterprise was limited to \$500 million of investments annually. Within this \$850 million annual cap, any investments above \$425 million in a given year are required to be in areas that have been identified by FHFA as markets that have difficulty attracting investors. LIHTC investments are a meaningful way for the Enterprises to support affordable housing supply. In 2022, both Enterprises were able to fully deploy all allowable LIHTC investment dollars, the majority of which supported transactions that traditionally have difficulty attracting investors.
- *Multifamily loan purchase caps.* In November 2022, FHFA also made several changes to the Enterprises' multifamily housing loan purchase caps for 2023, which are set at \$75 billion, for a combined total of \$150 billion, to support the multifamily market. 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 as defined in the Conservatorship Scorecard's Appendix A. FHFA added a new mission-driven category for workforce housing properties to increase Enterprise support of the "missing middle" by providing incentives for multifamily borrowers to voluntarily ensure rents are affordable for those renters at or below 120 percent of AMI. In addition, FHFA will allow loans to finance energy or water efficiency improvements with units affordable at or below 80 percent of AMI to be classified as mission-driven, up from 60 percent of AMI in 2022. This increase will allow the Enterprises to expand their efforts related to energy and water conservation measures at workforce housing properties.

- *Increased multifamily radon testing requirements.* FHFA has also adopted more robust radon testing requirements for multifamily properties backed by the Enterprises. This policy enhancement ensures that properties financed by the Enterprises continue to provide safe and sustainable housing for tenants across the country.
- *Multifamily tenant protections.* FHFA announced that the Agency would conduct a public stakeholder engagement process to identify tangible solutions for addressing the challenges renters are facing nationwide, particularly among underserved communities. FHFA's determination to evaluate the Enterprises' tenant standards is based on lessons learned from the COVID-19 pandemic, rising rents, and a shortage of safe and affordable housing. The Agency has committed to a transparent stakeholder engagement process that includes broad participation from diverse voices. Additionally, FHFA instructed the Enterprises to explore the feasibility of expanding multifamily tenant protections for properties they finance and to identify strategies and activities that could facilitate a greater amount of affordable rental housing supply. FHFA expects to issue an RFI on multifamily tenant protections by the end of this month.

\* \* \*

We at FHFA will continue to focus on our safety and soundness mission and on the mission that Congress gave the entities that FHFA regulates and supervises: providing liquidity for the secondary mortgage market across the Nation, including underserved markets such as rural and tribal areas, manufactured housing, 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.

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.



May 23, 2023

Hon. Patrick McHenry, Chairman  
House Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

Hon. Maxine Waters, Ranking Member  
House Committee on Financial Services  
4340 O'Neill House Building  
Washington, DC 20515

Dear Chairman McHenry and Ranking Member Waters,

On behalf of the Center for Responsible Lending (CRL), we thank you for the opportunity to submit this letter for the record for the House Committee on Financial Service's hearing entitled, "Federal Housing Finance Agency (FHFA) Oversight: Protecting Homeowners and Taxpayers."

The Center for Responsible Lending (CRL) is a non-partisan, nonprofit research and policy advocacy organization working to promote financial fairness and economic opportunity for all, end predatory lending, and close the racial wealth gaps. One crucial part of the economic life of any American family is housing and, for many of those, home ownership.

Today's hearing is important as we follow the FHFA's oversight of the Government Sponsored Enterprises (GSEs) to maintain a competitive, liquid, efficient, and resilient housing finance market. The enterprises don't just purchase, package, and guarantee home loans. In times of economic distress, they have a countercyclical function to ensure access to mortgage credit, particularly when the private sector retreats or becomes so exceedingly risk-averse that credit-worthy borrowers are routinely denied access to mortgage credit.

In the aftermath of the Great Recession, the Financial Crisis Inquiry Commission stated unequivocally that the primary cause of the crisis was a failure on the part of the government to regulate the financial industry, particularly in the secondary mortgage market.

We also shouldn't forget that LLPAs were a compromise to those that wanted to put the burden of the enterprises' financial recovery and future risk on the backs of moderate- and middle-income households, even though these were the very victims of the financial crisis, not the cause.

Let's be mindful that those modest- and middle-income borrowers that benefit from a reduced LPA cost are fully underwritten by their lender. To mean that those borrowers' financials were scrutinized by a lender who ultimately decided to approve the loan based on their ability to repay. And, please, let's remember that "they," in this case, is your average American family. These changes to LLPAs help bring a little more equity to purchasing a home.

It bears repeating that the principal function of the GSEs is to support sustainable and affordable homeownership that benefits all communities across all regions of the country. The g-fees are meant to cover capital requirements and meet goals for return on capital, but those fees are intended to serve a public mission. The GSEs adjust their margins for different kinds of loans. This flexibility helps American families access affordable mortgage credit in rural communities, states with higher default rates, or when purchasing a mobile home.

Undoubtedly, the GSEs need to balance that mission with their fiscal obligations, and they do this by adjusting to the market. As entities with a federal guarantee, they took advantage of current market conditions by lowering fees for folks with average wealth and credit to purchase a home. They also raised fees for loans that don't fall within their mission – like investment properties and cash-out refi's. These fees are adjusted according to mission and market conditions.

All the expert witnesses at last week's subcommittee hearing testified that LLPAs and the base g-fee are driven by the capital structure. Most of that capital and the resulting LLPAs are for catastrophic risk to avoid a repeat of the 2008 crisis. The GSEs were both overly risky and grossly undercapitalized at the time, but that is not the situation today.

Dodd-Frank and the ability to repay rule have de-risked these loans, as shown by the current historically low default rates even following the Covid crisis. The risk on lower down payment loans is borne largely by private mortgage insurance, paid for with hefty premiums charged to those borrowers. Meanwhile, the GSEs have further improved on conditions with their Credit Risk Transfers, which offload substantial risk to additional private companies.

As a result, in the regular stress tests done for the GSEs, which are modeled on the 2008 crisis, the enterprises can cover all losses and continue to operate with ongoing revenues. If the worst came to pass, these stress tests reveal the GSEs capable of absorbing the shocks without tapping into their capital. Yet, most of the LLPAs and G fees continue to be charged to borrowers for this capital. This puts an undue burden on all homebuyers today. Given that the GSEs have paid the federal government several times over, LLPA costs have now become a tax on modest- and middle-income families that purchase a home.

Most any American family would agree that LLPA fees for mansions, penthouse condos, and beach homes shouldn't be lower than those for purchasing a single-family home as an owner-occupier. Polls have repeatedly shown how American families want to buy homes but cannot afford them – especially the down payment. For example, a conventional 20 percent down for the 2023 Q1 average sales price of \$436,800 is \$87,360.

This year we commemorate 55 years of the Fair Housing Act, yet the disparity between white and black homeownership is at its highest in 120 years. We must face that the present lack of affordable housing remains at the core of inequality in the United States and how investor purchases of single-family homes have become a key driver of inflation. These changes are, if anything, too modest in addressing the inequities in mortgage lending and wealth. As an organization, we continue to believe that LLPAs ought to be eliminated altogether.

The federal government's role in promoting affordable housing credit is settled policy, and we've had the enterprises to prove it for nearly a century. Their role is to ensure that all Americans have an opportunity to own their home, ensuring that credit-worthy borrowers of all kinds have access to affordable credit. Not just

in urban and suburban communities, not just to high-wealth and -income borrowers. To keep the dream of homeownership – and the wealth creation that generally comes with it – attainable to the next generation.

We urge you and the Members of the committee to please consider our views and reject tomorrow's consideration of the so-called Middle-Class Borrower Protection Act. Thank you again for the opportunity to present these thoughts for the hearing record.

Sincerely,

The Center for Responsible Lending

Contacts: [Mitria Spotser](#), Executive Vice President & Director of Federal Policy  
[David Ferreira](#), Senior Manager for Government Relations



**Representative Andy Barr**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

**May 23, 2023**

- 1. The GSE mortgage insurance pilot programs represented inappropriate adventurism into the primary market that sought to compete with the private sector while increasing risks to taxpayers. Any such effort to revive these pilots should receive a high degree of scrutiny. The Prior Approval of GSE Products Rule will bring needed transparency and input to the GSE pilots. Can you confirm that any attempts for the GSEs to engage in mortgage insurance pilot programs would be subject to the Prior Approval of GSE Products Rule?**

Answer: Yes. If an Enterprise seeks to engage in a pilot program similar to the previous Enterprise-Paid Mortgage Insurance and Integrated Mortgage Insurance for Fannie Mae and Freddie Mac, respectively, then such a pilot would be subject to the requirements of the Prior Approval for Enterprise Products regulation.

**Representative Sean Casten**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

May 23, 2023

1. **Director Thompson, I applaud you in your efforts to require the GSEs to develop and implement equitable housing finance plans to address inequities and to prioritize practices that help everyone. In October of last year, you announced the validation and approval of both FICO 10T credit score model and the VantageScore 4.0 credit score model for use by Fannie Mae and Freddie Mac. You also announced that the enterprises will work toward changing the requirement that lenders provide credit reports from all three nationwide consumer reporting agencies (CRAs) and instead the Enterprises will require lenders to provide credit reports from two of the three nationwide CRAs.**
  - **What analyses has the FHFA performed that demonstrates that the bi-merge will benefit consumers and create a more equitable housing system?**
  - **Specifically, what was the basis that prompted you to move from the tri-merge to the bi-merge?**
  - **What will the change from the tri-merge to the bi-merge do for consumers who are seeking affordable housing?**
  - **If there have been additional analyses on the move from the tri-merge to the bi-merge, will you commit to making them public?**

The tri-merge credit report has been required for loans acquired by the Enterprises for nearly 30 years and uses information from all three nationwide consumer reporting agencies: Equifax, TransUnion, and Experian. At the time of the initial requirement, it was important to receive reports from all three reporting agencies due to the regional nature of their business models. Currently, the reporting agencies provide broad, national coverage; this, in turn, reduces the need for lenders to purchase credit reports from all three reporting agencies.

Fannie Mae and Freddie Mac analyses conducted in 2017, and refreshed in 2022, found that a bi-merge credit report performs similarly to a tri-merge credit report. Recently, a similar analysis from S&P<sup>1</sup> confirmed these results, finding that the variation in scores among reporting agencies using a bi-merge report, rather than a tri-merge report, is small.

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<sup>1</sup> <https://www.spglobal.com/ratings/en/research/articles/230608-residential-mortgage-credit-score-snapshot-when-three-bureaus-become-two-12748088>

FHFA is committed to ensuring a transparent transition process and is working with industry stakeholders to gain feedback on the transition impacts, if any, of this change.

In its recent proposed rule to amend the Enterprise Regulatory Capital Framework, FHFA recognized that the current procedure for determining a representative credit score could result in a downward shift in representative credit scores for many borrowers. To mitigate that risk, the proposed rule would change the method for determining representative credit scores in a way that would result in minimal changes to the average representative credit score. As FHFA and the Enterprises work to implement the transition to bi-merge credit reports, we will continue to consider any necessary policy changes to minimize any adverse impacts on borrowers.

FHFA believes that competition among the reporting agencies will have benefits for consumers. Whether that competition results in lower costs or better coverage, data, or service, fair and open competition is the best way to promote innovation to provide the best possible product for consumers, which will benefit the entire market.

**2. During the hearing, in response to Congressman David Scott's question, you stated that going from a tri-merge to a bi-merge credit report would increase competition between the three national CRAs.**

- **Following up on Congressman Scott's question, can you explain what information and data that you collected would make you assume that it would lead to more competition?**

FHFA does not regulate the business practices of the nationwide consumer reporting agencies. However, under the current tri-merge requirement, the reporting agencies do not have incentives to compete for business on mortgages acquired by the Enterprises. The tri-merge requirement ensures that reports from each of the three reporting agencies will be used for every mortgage that is sold to the Enterprises, regardless of the quality of the data provided or the price charged for the reports. FHFA believes that this approach inhibits any incentive that the reporting agencies have to compete on price or quality. While FHFA cannot guarantee that the change to a bi-merge requirement will result in any specific changes, FHFA hopes that the reporting agencies will embrace the new, more competitive approach to providing credit reports for mortgages and will find ways to help consumers by improving data quality and reducing prices.

**Representative Emanuel Cleaver, II**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

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1. **I am pleased that FHFA under your leadership has taken some key steps administratively to reform the Enterprises, seeking to preserve their ability to support market liquidity and mortgage affordability, while reducing risk. I’d particularly like to commend your action to restore credit for credit-risk-transfers (CRT) in the Enterprise Regulatory Capital Framework (ERCF), which has enjoyed bi-partisan support in this committee. I’m concerned that the SEC’s conflict of interest proposal may have an inadvertent negative impact on CRT and similar transactions. Can you please what engagement the FHFA has had with the SEC on this concern? And secondly, can you please reassure us that you intend to continue to keep CRT in the score card for the Enterprises irrespective of where the SEC lands on this important reform?**

FHFA has engaged in several discussions with staff at the Securities and Exchange Commission (SEC) and the Department of the Treasury regarding the SEC’s proposal related to conflicts of interest in certain securitizations. These discussions have helped us determine any potential implications for the Enterprises that could result from the proposal.

FHFA views CRT as a key component of the Enterprises’ processes for managing their credit risk. We consider the transfer of credit risk to a broad set of investors an important tool to reduce taxpayer exposure from potential losses, particularly while the Enterprises operate in conservatorship and are significantly undercapitalized. FHFA supports the continued use of meaningful CRT in an economically sensible manner.

2. **The FHFA has acknowledged the merit and need for countercyclical adjustments in multifamily housing on multiple previous occasions. I have received reports that debt funds are leaving the multifamily market and banks are having to pull back on their lending due to balance sheet concerns and increased cost of funds. Do you believe it’s especially timely to propose and implement a countercyclical adjustment to the multifamily capital framework as previously indicated? If so, could you provide a timeline of when you might do so?**

FHFA continues to explore an appropriate countercyclical adjustment for multifamily mortgage exposures, but we have not set a timeline for the rulemaking that would be required to implement such a modification to the ERCF. The Enterprises’ multifamily portfolios continue to experience low rates of serious delinquency, and demand remains strong for the Enterprises’ multifamily CRT products. In addition, multifamily property values have risen substantially over the last decade and vacancy rates remain relatively

low nationwide, so without examining the details of a particular countercyclical adjustment we cannot say whether, at this time, capital would increase or decrease due to such an adjustment, despite debt funds and bonds decreasing their exposure to the multifamily sector in recent months. FHFA continues to closely monitor multifamily market conditions and the availability of liquidity for multifamily financing.

**3. Does a procyclical capital standard for multifamily housing and a countercyclical capital adjustment for single-family create a divide between available resources for homeowners and renters during a tight credit cycle?**

Indeed, the Enterprise Regulatory Capital Framework (ERCF) includes separate assessments for the Enterprises' single-family and multifamily businesses. The ERCF's single-family risk-based capital requirements include an adjustment to help mitigate procyclicality. In contrast, the ERCF's multifamily risk-based capital requirements currently do not include a comparable adjustment. These differences in the ERCF's treatment of cyclicality, under certain economic conditions, may provide competing incentives for the Enterprises' single-family and multifamily acquisitions.

Fortunately, even in the absence of a multifamily adjustment, the ERCF contains several significant stability measures that help ensure that ERCF's capital requirements are (i) robust across the credit cycle and (ii) dampen differential incentives between business lines. These measures include minimum risk weights for both single-family and multifamily mortgage exposures and significant capital buffers that can be utilized during adverse economic conditions to support lending.

FHFA has undertaken an investigation into potential mitigants for procyclicality in the ERCF's multifamily risk-based capital requirements. As part of this process, FHFA has engaged the public through notice and comment rulemakings to gather feedback on approaches to mitigate multifamily cyclicality. FHFA's research and the public's feedback will inform FHFA's decision making on potential future ERCF rulemakings.

I am committed to ensuring the Enterprises fulfill their mission by operating in a safe and sound manner throughout the economic cycle and welcome any opportunity in the future to keep you and your office informed on our progress towards addressing ERCF's cyclicality.

**4. The Federal Home Loan Bank System presents an opportunity for CDFIs to increase the development and expand access to affordable housing for very low- to moderate-income households. There are now almost 70 CDFI members of the Federal Home Loan Bank System. Despite their growing participation, I have heard from the CDFI community that transparency and consistency from the Federal Home Loan Banks on how they work with CDFIs – on how they approach and treat their collateral, on the terms of their advances could be improved. Has the FHFA also received similar feedback and what improvements do you think the Federal Home Loan Bank System can make in this area?**

One of FHFA's key priorities, agency-wide and as it relates to the *FHLBank System at 100: Focusing on the Future* initiative, is to ensure that our regulated entities remain well positioned to provide needed liquidity for housing finance, affordable housing, and community development. Under the initiative, we heard from Community Development Financial Institution (CDFI) participants at nearly all of our 19 regional roundtables, two of which focused specifically on the needs of CDFIs, including one on CDFIs serving Native American and indigenous populations. CDFI feedback has been a valuable component of FHFA's review of the Federal Home Loan Bank System.

In terms of the specific concerns expressed by CDFIs at the roundtables, we heard many suggestions for changes that would make it easier for CDFIs to borrow from the FHLBanks, including the FHLBanks' treatment of collateral and advance terms. FHFA believes the FHLBanks need to ensure their risk appetite for providing advances or other offerings to CDFIs and other mission-oriented entities is consistent with the affordable housing and community development component of the FHLBank System's mission. To that end, FHFA expects to bring forward recommendations in the report, currently under development, that will strengthen the FHLBanks' support for mission-oriented entities, such as CDFIs.

**Representative Warren Davidson**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

May 23, 2023

1. **Capital requirements should adjust based on market conditions. This is why FHFA included countercyclical adjustments for their Enterprise Regulatory Capital Framework (ERCF) for single family lending. In 2021, when FHFA issued a notice of proposed rulemaking (NPR) to amend the ERCF, they stated on p. 29, “FHFA is again expressing its desire to include a multifamily countercyclical adjustment in the ERCF that is not reliant on proprietary information and is seeking input on how that adjustment should be constructed.” FHFA ultimately chose not to include an adjustment. One excuse that FHFA has given in the past is that the agency has not “identified sufficient public domain data to develop a reliable long-term trend for multifamily property values. Some of the data sets recommended by commenters are not available without cost to the public. FHFA continues to see considerable merit to a countercyclical or similar adjustment.” (p. 105 of the 2020 Final Capital Rule).**

**Industry participants, however, do not believe there is a lack of public data and have said they would provide any additional data for free if needed. What is the precise reason the FHFA continues to discriminate against multifamily housing in their capital framework vs. single-family requirements? In times of economic stress, when lending and liquidity is contracting, as it is now, shouldn’t there be an adjustment considered, especially to help secondary and tertiary markets like in Ohio? Can you please share exactly why public data or data provided by a non-partisan, collector, validator and aggregator of commercial real estate benchmarking information is not sufficient to use for a countercyclical adjustment for multifamily?**

FHFA continues to explore an appropriate countercyclical adjustment for multifamily mortgage exposures using data freely available to the public that shows reliable long-term trends and cycles in multifamily business variables (e.g., property values, vacancy rates, cap rates, etc.). These were the principles FHFA applied when constructing the ERCF’s single-family countercyclical adjustment.

FHFA continues to closely monitor multifamily market conditions and the availability of liquidity for multifamily financing. The Enterprises’ multifamily portfolios continue to experience low rates of serious delinquency, and demand remains strong for the Enterprises’ multifamily credit risk transfer (CRT) products. In addition, multifamily property values have risen substantially over the last decade and vacancy rates remain relatively low nationwide, so without examining the details of a particular countercyclical adjustment we cannot say whether, at this time, capital would increase or decrease due to such an adjustment, and how ultimately that would be passed on to property owners and

renters. Furthermore, the single-family countercyclical adjustment is applied at a national level, which means that locally the adjustment may be relatively larger or smaller depending on house price increases or decreases at the local level. The same would ultimately be true for a multifamily countercyclical adjustment.

## 2. Digitization of Mortgage Finance

**Director Thompson, I was pleased to see FHFA establish an Office of Financial Technology and engage in a robust dialogue with industry and other stakeholders on how technology can reduce existing frictions to make the mortgage process more inclusive and efficient. One of my keen interests is how technology can help reduce the time and costs involved in closing a mortgage. A summary of the public feedback received on FHFA’s RFI on Fintech in Housing Finance, shows that respondents indicated that the average time to originate a residential mortgage loan is 30 to 45 days and that the average cost is roughly \$10,000 per loan. Can you provide any more specific analysis on what FHFA views as the principal sources of these costs and delays, as well as any policies FHFA and the GSEs are actively considering to reduce regulatory frictions and support private sector innovations aimed at reducing these costs and creating a more consumer-friendly closing experience?**

FHFA is concerned about the rising cost of origination and is working with the Enterprises to better understand the drivers of cost and complexity in the mortgage process and encourage responsible innovation. Analysis of data from the Mortgage Bankers Association (MBA) indicates that major cost components of mortgage origination include customer acquisition costs (estimated at 40 to 50 percent of total origination cost), loan/file manufacturing costs (25 to 30 percent), third-party service costs (15 to 25 percent), and loan “salability” costs (5 to 10 percent).<sup>1</sup> MBA data also indicates that, between Q1 2009 and Q1 2023, mortgage production costs increased from about \$3,700 to \$13,000 per loan.<sup>2</sup>

Delays in the mortgage origination process are often driven by limited capacity during periods of high demand, delays in receiving required documentation from loan applicants, difficulty finding qualified appraisers, and redundant and manual data validation, data verification, and loan underwriting processes at various stages of mortgage production.

A number of approaches are being taken to reduce delays and lower costs. For example, FHFA has worked closely with the Enterprises as they have developed suites of tools to help lenders automate the assessment of borrower assets and income. In addition, FHFA has worked with the Enterprises and the industry to encourage a transition to digital

<sup>1</sup> Customer Acquisition costs include sales compensation, borrower interface/engagement, and marketing and advertising costs; loan/file manufacturing includes operations compensation, technology, and business process outsourcing costs; third-party services include the cost of credit, collateral, diligence, and compliance evaluation by external providers; and loan salability includes internal quality assurance, due diligence evaluation, warehouse and capital fees, and funding capacity costs.

<sup>2</sup> Mortgage Bankers Association (MBA) Quarterly Performance Reports



mortgage origination and e-closings, an effort that helped the industry continue to function during the pandemic. Another promising approach is appraisal modernization, which entails the development of new tools and valuation methods that reduce the timeline and costs of completing the evaluation of the mortgage collateral.

The Enterprises and many third-party providers, which include new fintech companies and more established firms, are developing ways to increase process automation to manage tasks and workflows, directly access trusted sources of data (e.g., for validating assets, income, and employment), and reduce process redundancies. Such automation should reduce costs, improve overall data accuracy, and provide a faster and lower-cost experience for borrowers while improving the quality of loans sold to and securitized by the Enterprises.

FHFA and the Enterprises are committed to reducing regulatory frictions and supporting innovations to reduce costs and improve the consumer experience. To do so, FHFA has facilitated, and the Enterprises have implemented, innovations with respect to appraisals, mortgage digitization, process automation, the incorporation of nontraditional data in mortgage underwriting, and the use of e-closings and e-notarization.

FHFA's Office of Financial Technology will continue to support the Agency's efforts to understand technology-driven developments in housing finance and the associated risks, and to facilitate the development of responsible innovation. Recently, to better understand the factors affecting the increasing cost of mortgage originations and potential impediments to efficient closing times, FHFA's Office of Financial Technology held the "Velocity TechSprint." The TechSprint was a team-based problem-solving competition that brought together experts and practitioners from the technology and the mortgage finance sectors to propose solutions that could reduce mortgage costs and delivery times while creating a more inclusive and transparent process. FHFA welcomes the opportunity to brief you and your staff on the results of the competition.

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**Representative Monica De La Cruz**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

May 23, 2023

**Director Thompson, I’m proud to represent one of the most vibrant communities in this country. Many of my constituents are rural Americans, and most are Hispanic Americans looking to buy their first home. All of us are hardworking. We do not need handouts. We do not want subsidies.**

**There is however a conservative, market-oriented way to open up homeownership to more in my community. That’s by the FHFA updating the credit scoring models used by Fannie Mae and Freddie Mac when a homebuyer’s creditworthiness is being determined.**

**Newer credit scoring models utilize rent payments, utility payments, cell phone bill payments, and even payments for video streaming services. People who make these monthly payments on time, month in and month out, should see a benefit in their credit score. The data shows that these new models will score about 15% more of my constituents than traditional models do. 25% of the newly scorable population would have a credit score of 620 or above – meaning they are near-prime.**

**Your March 2023 timeline declares this update will be done by Q4 of 2025. President Donald Trump and Congress enacted legislation in 2018 asking for this change. We need to keep moving this train forward.**

**1. Are there hurdles or other problems you anticipate preventing you from following your issued timeline on updating credit scores used by the Enterprises?**

Due to the complexity of implementing two new credit score models and its impact on the entire mortgage ecosystem, FHFA and the Enterprises are actively engaging in partnerships and dialogue with credit reporting agencies, lenders, technology service providers, and other relevant stakeholders. This collaboration is intended to establish a coordinated approach and enable the exchange of information and expertise necessary for a seamless transition. The initial timeline proposed is subject to change and revision based on feedback from the industry and other stakeholders.

FHFA recognizes the need to assist the industry to ensure adequate technical infrastructure is in place to support the implementation of the new credit score models. We also recognize that adequate time is needed for rigorous testing and validation processes to ensure the accuracy and reliability of the information flow. In addition, access to historical data is needed to help lenders and investors recalibrate their financial

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models and understand the new scores. FHFA plans to work closely with stakeholders to promote consumer awareness of the changes during the homebuying experience.

We appreciate the support of Congress as we work collaboratively through these significant changes and the multi-staged implementation with industry and other stakeholders in order to ensure the transition is conducted efficiently and successfully.

**2. Transparency is key. How will you be communicative on this work with Congress and other stakeholders?**

FHFA and the Enterprises will continue our public engagement process throughout the transition period to allow stakeholders to provide critical feedback and input on the implementation process and inform further refinement of the proposed implementation plan. FHFA and the Enterprises will work with stakeholders to ensure a smooth transition to the new credit score models and the new credit report requirements in a manner that avoids unnecessary costs and complexity.

Stakeholders can expect:

- A partner playbook with timelines and resources, including frequently asked questions and answers, roadmaps, and training opportunities;
- Multiple opportunities to provide feedback, including through a public survey conducted by the Enterprises and targeted outreach to lenders, servicers, investors, mortgage insurers, technology service providers, and other stakeholders;
- Regular meetings to facilitate ongoing communication and updates; and
- Updated resources and training on at least a quarterly basis.

FHFA staff have also been meeting regularly with stakeholders to answer questions, solicit feedback, and listen to concerns. We would be happy to provide briefings to Congress and other stakeholders, as requested.

**Representative Scott Fitzgerald**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

May 23, 2023

**Bi-Merge Credit Score Model Questions to Director Thompson:**

- 1. Do you see any potential that the GSEs will price mortgages higher as a direct result of moving to a bi-merge system to account for a potential increased risk?**

FHFA does not anticipate that product eligibility, loan pricing, financial disclosures, or upfront fees for new originations will be materially affected by the move from the tri-merge to bi-merge requirement.

In aggregate, the bi-merge requirement will have an immaterial impact on the amount of capital the Enterprises must hold due to an amendment to the Enterprise Regulatory Capital Framework (ERCF) that FHFA proposed in March. Under the current ERCF, when three credit scores are submitted for a borrower, required minimum capital is determined using the median score. However, when only two credit scores are submitted for a borrower, required minimum capital is determined using the lower score. FHFA issued a notice of proposed rulemaking (NPR) in March that would require the Enterprises to determine required minimum capital using the average borrower credit score rather than the median/lower score regardless of whether three or two scores are submitted. This change would minimize the impact of switching from a tri-merge requirement to a bi-merge requirement on the associated capital requirement and therefore on mortgage pricing. Additionally, moving from a tri-merge credit report requirement to a bi-merge requirement could result in reduced costs to consumers. Consumers would no longer be required to pay for credit reports from each of the three consumer reporting agencies.

FHFA’s analysis, as noted in the NPR, found no material difference in the average representative credit score using the proposed average score methodology when three scores were present (750.7), the average representative credit score using the proposed average score methodology when two scores were selected at random (750.3), and the average representative credit score using the current methodology of selecting the median of three scores (750.6). Similarly, in an analysis published on June 8, 2023, S&P Global found that the variation in credit score when using a bi-merge average rather than the median of a tri-merge is small, and that for their sample (comprising residential mortgage loans from their portfolio of rated residential mortgage-backed security transactions), the variation among credit reporting agencies when using a bi-merge average compared to tri-merge median is also small.<sup>1</sup>

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<sup>1</sup> <https://www.spglobal.com/ratings/en/research/articles/230608-residential-mortgage-credit-score-snapshot-when-three-bureaus-become-two-12748088>

**2. Under the bi-merge standard, how many consumers could get approved for a mortgage if their two highest scores are pulled but who would have been denied based on a tri-merge report?**

FHFA does not intend for the change from the tri-merge requirement to the bi-merge requirement to impact access to credit. We are currently assessing whether additional changes are needed to the identification of the representative credit score to minimize potential impacts. Currently, if a borrower has three credit scores (one from each bureau), the median of the three scores is the representative score. If a borrower has two credit scores, the lower score is the representative score. If more than one borrower applies for a mortgage loan, the lower representative score of the two borrowers is selected as the representative credit score for the loan. FHFA and the Enterprises are considering changes to this method of calculating the representative score, by instead averaging the credit scores from the two bureaus to determine the borrower's representative credit score. FHFA and the Enterprises are also considering using the average of scores from multiple borrowers, rather than using the lower of the borrower representative scores.

**3. What is the dollar value of the total risk we will be adding to the system by extending mortgages to such consumers?**

When Equifax, Experian, and Transunion (the consumer reporting agencies) were established over 25 years ago, they each had a regional focus and served distinct parts of the country. Since then, all three agencies have expanded their coverage and offer services nationally. As part of FHFA and the Enterprises' work to update credit reporting requirements, Fannie Mae and Freddie Mac analyses conducted in 2017, and refreshed in 2022, found that a bi-merge credit report performs similarly to a tri-merge credit report. Recently, a similar analysis from S&P<sup>2</sup> confirmed these results, finding that the variation in scores among credit reporting agencies using a bi-merge report, rather than a tri-merge report, is small.

Accordingly, FHFA does not believe the change from the tri-merge requirement to the bi-merge requirement will add risk to the housing finance system. Based on the analyses conducted by the Enterprises, a bi-merge requirement will maintain the safety and soundness of the Enterprises and will not materially impact access to credit or loan performance.

**New GSE Credit Scoring Model Questions to Director Thompson:**

**Per a bipartisan law passed and enacted in 2018, the FHFA has validated two modern credit scoring models for use: FICO 10T and VantageScore 4.0. These**

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<sup>2</sup> <https://www.spglobal.com/ratings/en/research/articles/230608-residential-mortgage-credit-score-snapshot-when-three-bureaus-become-two-12748088>

**newer credit scoring models use payments data not captured by the dated model previously required by Fannie Mae and Freddie Mac. If a constituent of mine pays their rent on time every month, that should count towards their credit score. That will be the case under the new credit scoring models. In fact, the newer credit scoring models can score 11.2% more of my district's residents in comparison to the dated credit scoring model. Of these newly-scored individuals, 50.8% receive a VantageScore at 620 or above, meaning they're near-prime and able to climb the economic ladder.**

**As of now, your goal is to have this project completed by the end of 2025. The implementation of new credit scoring models appears to be a complex task involving numerous stakeholders (e.g., mortgage originators, servicers, and investors) that will require significant changes to the internal systems and processes that govern the Enterprises.**

- 1. Can you tell me what resources, or industry help, FHFA and the GSEs need to facilitate a smooth and timely transition to the new credit scores?**
- 2. Are there any portions of the mortgage market that present higher obstacles than others when it comes to facilitating this change, and what resources do you require from Congress or the industry to navigate those obstacles?**

To ensure a smooth and timely transition to the new credit score models, FHFA and the Enterprises are actively engaging in multi-year effort to include partnerships and dialogue with credit reporting agencies, lenders, technology service providers, and other relevant stakeholders. This collaboration is intended to establish a coordinated approach and enable the exchange of information and expertise necessary for a seamless transition. We also want to ensure that industry stakeholders have sufficient time to transition. FHFA also plans to work closely with stakeholders to promote consumer awareness of the changes during the homebuying experience. We appreciate the support of Congress as we work collaboratively through these significant changes and the multi-staged implementation with industry and other stakeholders in order to ensure the transition is conducted efficiently and successfully.

**Representative Andrew Garbarino**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

**May 23, 2023**

- 1. Director Thompson, can you share your thinking on the degree to which high GSE capital requirements are making it difficult for FHFA to balance mission with safety and soundness? As the FHFA demands higher capital, while also lowering pricing for mission borrowers, I am concerned that pricing will result in higher pricing for borrowers who are not part of the mission-driven goals.**

The Enterprise Regulatory Capital Framework (ERCF), which took effect in 2021, is a risk measurement framework with the purpose of ensuring safety and soundness at the Enterprises. Importantly, managing capital to the ERCF requirements does not conflict with the Enterprises’ mission requirements.

To reflect an updated view of the risk of different loan characteristics in the ERCF, FHFA launched a comprehensive review of the Enterprises’ guarantee fee pricing framework. As part of this review, in the 2022 and 2023 Conservatorship Scorecards for Fannie Mae and Freddie Mac FHFA instructed the Enterprises to “Update the current pricing framework to increase support for core mission borrowers, while ensuring a level playing field for small and large sellers, fostering capital accumulation, and achieving viable returns on capital.” This initiative consists of two key components. First, upfront fees were eliminated for several categories of low- to moderate-income borrowers or affordable housing products. This upfront fee elimination was primarily offset by targeted upfront fee increases on second/vacation home loans, higher balance loans, and cash-out refinances.

Second, the upfront fee grids were updated to more closely align the upfront fees with the ERCF capital required to be held by the Enterprises for those loans, irrespective of achieving mission-driven goals. For borrowers obtaining purchase loans or rate-term refinances on primary residences, but who do not qualify for an exemption from upfront fees, these pricing changes do not represent a uniform increase or decrease in fees. Some borrowers with very high credit scores will now pay lower upfront fees due to the pricing changes, while other non-mission borrowers will pay slightly higher upfront fees due to the fee alignment with the ERCF. One reason for this is that certain safety and soundness features of the ERCF, including the risk-weight floor (which requires a minimum capital charge for all loans) and the capital buffers, have a more pronounced impact on borrowers with stronger credit profiles and higher down payments. These features, in conjunction with mortgage insurance multipliers that provide capital relief to the Enterprises for riskier high-LTV exposures, result in flatter capital requirements and return profiles across the credit spectrum.

Overall, these updates will better allow the Enterprises to build capital to ensure their safety and soundness and protect taxpayers while better delivering targeted pricing support to borrowers limited by income or by wealth. This, in turn, will better allow them to provide liquidity through all parts of the economic cycle – a benefit to all borrowers obtaining Enterprise-backed loans.

2. **I know others here have raised concerns with the impact of the SEC’s Conflict of Interest Proposal on housing markets. You responded that “FHFA has no jurisdiction on what the SEC should or should not do.” However, you have taken action, which I appreciate to restore capital credit in the Enterprise Capital Rule, and to require CRT in their scorecards which suggest you must see CRT as a positive for markets. Therefore, let me ask specifically in your capacity as regulator and conservators of Fannie May and Freddie Mac:**

- **Do CRTs issued by the Enterprises, in your view, serve to mitigate risk to the Enterprises and the taxpayers that back them?**

FHFA views CRT as a key component of the Enterprises’ processes for managing their credit risk. We consider the transfer of credit risk to a broad set of investors an important tool to reduce taxpayer exposure from potential losses, particularly while the Enterprises operate in conservatorship and are significantly undercapitalized.

- **Do you agree that MILNs issued by private mortgage insurers, similarly serve to mitigate risks and reduce counterparty exposure for the Enterprises?**

The Enterprises’ counterparty standards for their approved mortgage insurers (*Private Mortgage Insurer Eligibility Requirements* or *PMIERs*) recognize MILNs as a claims-paying resource for the mortgage insurers. As the MILNs transfer mortgage credit risk to a diverse group of reinsurers and investors, they reduce the Enterprises’ counterparty exposure to the mortgage insurers issuing the MILNs.

- **Do you agree that neither CRTs issued by the Enterprises, nor MILNs issued by private mortgage insurers represent any attempt by the issuing entities to “bet” against the housing market, but that they rather represent an effort by the issuing entities who are by their nature highly exposed to a downturn in housing, to better manage those risks and take a through-the-cycle approach to capital and credit risk management?**

Yes, CRTs and MILNs are risk mitigating instruments and not speculative positions by the issuing entities. The CRT transactions in which the Enterprises engage transfer a meaningful amount of credit risk to private investors in severely stressful economic scenarios, which helps to protect taxpayers from potentially large credit-related losses. FHFA views the transfer of unexpected credit losses to a broad set of global investors as an important tool to reduce taxpayer exposure to the potential risks posed by the



Enterprises' businesses. CRT is an effective mechanism for such a distribution of credit risk, especially while the Enterprises operate under conservatorship and are significantly undercapitalized relative to their overall books of business.

- **Can I please get your assurance that you will discuss this matter personally with Chair Gensler to make sure that the SEC adequately appreciates the impact this rule could have on the entities you regulate, their key counterparties, and CRT markets generally which have been an important part of the post-global financial crisis housing finance reform construct?**

The Chair of the Securities and Exchange Commission (SEC), like the Director of the FHFA, is a member of the Federal Housing Finance Oversight Board and the Financial Stability Oversight Council. In these capacities, we meet regularly to discuss a range of issues affecting FHFA's regulated entities. FHFA has made the SEC aware of the potential impact of this proposed rule on the Enterprises' businesses, including their CRT transactions, and I assure you we will continue these discussions as the SEC considers further action.

3. **We have heard a lot today about increasing access to homeownership – and this issue especially hits home for me. Not only do I hear about this concern from my constituents – and the fact that they can't buy or even find a home to buy – but the facts speak for themselves. According to the latest stats New York has the lowest percentage of homeowners in the nation at under 55%, and only two other states are below 60%. I think the FHFA and the Biden Administration should be doing all it can to lower costs for New Yorkers – especially when it involves bringing in new private capital to create more options for consumers. One thing along these lines that could lower costs for folks is a new model of providing mortgage insurance designed to create more flexibility and pricing for borrowers. By utilizing a new, streamlined, highly capitalized approach, Direct Mortgage Insurance is estimated to save homebuyers \$6,000 and reduce taxpayer exposure of the GSEs. What would your thoughts be on this type of approach that brings in new private capital to the market, and where does it currently stand with the FHFA? Is there a reason Direct MI is not a standard product offering?**

FHFA has not received any recent proposals for mortgage insurance alternatives for consideration by either Enterprise. Previously, Fannie Mae and Freddie Mac administered pilot programs related to mortgage insurance known, respectively, as Enterprise-Paid Mortgage Insurance (EPMI) and Integrated Mortgage Insurance (IMAGIN). These pilot programs have since been discontinued. However, if an Enterprise seeks to engage in a pilot program similar to EPMI and IMAGIN, then such a pilot program would be subject to the requirements of the Prior Approval for Enterprise Products regulation. 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 Vicente Gonzalez  
Questions for the Record  
Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”  
U.S. House Committee on Financial Services**

**May 23, 2023**

- 1. I recently met with title professionals from my district and around the state. They are very concerned about a potential title insurance pilot program at Fannie Mae. Reportedly, Fannie would waive their current requirement for title insurance on some loans and would then self-insure the risk on those loans. Is Fannie Mae equipped to take on this guarantee, the risks involved, and provide the services the title insurance industry currently provide to buyers and lenders alike, including research and closing services? Please provide more information on this pilot program such as who will guarantee these loans. Additionally, will there be any formal mechanism for industry leaders to provide feedback on such a proposal? When do you expect more information to be available?**

FHFA also has heard concerns from stakeholders about a potential pilot program that might impact an Enterprise’s title insurance requirements. To be clear, there is no current request by either Enterprise to FHFA to review a pilot program that relates to waivers of title insurance, nor does FHFA have information about the timing of any potential submission. Therefore, FHFA cannot provide information about the specifics of such a pilot program.

As the regulator of the Enterprises, FHFA’s role is to ensure they operate in a safe and sound manner. Any proposal submitted by an Enterprise, including any potential pilot program involving changes to its title verification processes, will be reviewed thoroughly by FHFA under FHFA’s supervision and conservatorship authorities. As part of its review, FHFA will consider whether the proposal is of a nature that it should be made available for public comment.

**Representative French Hill  
Questions for the Record  
Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”  
U.S. House Committee on Financial Services**

May 23, 2023

**Pilot Transparency and Implementation of the Products and Activities Rule**

- 1. Since the New Enterprise Products and Activities Final Rule went into effect, how many Notices of New Products or Activities were submitted to FHFA by either Fannie Mae or Freddie Mac?**

To date, FHFA has received two new activity notices from the Enterprises. One notice relates to a potential pilot focused on homebuyer education and financial literacy. The other notice relates to a potential pilot focused on providing borrowers with resources to address future hardships.

- 2. Of those, has FHFA made a determination on any of the submissions as to whether it is a new product or activity?**

For the first notice described above, FHFA determined that the activity does not constitute a new product, largely due to its focus on homebuyer education and financial literacy. This activity would be subject to additional review, however, if the volume or duration of the pilot is changed or if the activity is proposed to be made permanent.

For the second notice described above, FHFA determined that the potential pilot warranted review under FHFA’s authority as conservator. No final determination has been taken on this activity.

FHFA staff are available to brief your staff on any further questions regarding these activities.

**Credit Score Models**

- 3. In the hearing, Congressman Rose asked you about how moving to a two-score model impacts the Enterprise Regulatory Capital Framework Final Rule.**
  - a. Could you expand on this, and how you anticipate the change will impact product eligibility, loan pricing, financial disclosures, and the grid for new originations?**

FHFA and the Enterprises are in the process of evaluating how the new credit score models will be implemented, and decisions about product eligibility, loan pricing, financial disclosures, or upfront fees for new originations will be made as part of that

multi-year process. Due to the complexity of implementing two new credit score models and its impact on the entire mortgage ecosystem, FHFA and the Enterprises are actively engaging in partnerships and dialogue with credit reporting agencies, lenders, technology service providers, and other relevant stakeholders.

We appreciate the support of Congress as we work collaboratively through these significant changes and the multi-staged implementation with industry and other stakeholders in order to ensure the transition is conducted efficiently and successfully. We would be happy to provide briefings to Congress and other stakeholders, as requested.

4. **In your written testimony, you talked about the updated credit score models that will be required for use by the GSEs and their inclusion of “new payment history information” which includes utility and telecommunications data. This statement has been repeated in congressional hearings, in FHFA communications, as well as in media interviews.**
- a. **Would you please clarify whether the Classic FICO Score, in use today by the GSEs, already considers utility and telecommunication payment history, when available in the credit bureau files?**
  - b. **And if that is accurate, what is the basis for continuing to suggest that FICO 10T and Vantage Score 4.0 “include new payment history information such as rent, utilities, and telecommunications payments when available?”**

FICO 10T and Vantage 4.0 both consider rental payments and utility and telecommunications payment history when reported on the credit report. Classic FICO will consider utility and telecommunications payment history when reported on the credit report, but it will not consider rental payments even if available. The newer credit score models also consider trended data. Thus, the newer credit score models consider more data than Classic FICO.

**Representative Young Kim**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

May 23, 2023

1. **Director Thompson, In October of last year, the FHFA announced the validation and approval of both FICO 10T credit score model and the VantageScore 4.0 credit score model for use by Fannie Mae and Freddie Mac. In the same press release, you announced that the enterprises will work toward changing the requirement that lenders provide credit reports from all three nationwide consumer reporting agencies (CRAs) and instead the Enterprises will require lenders to provide credit reports from two of the three nationwide CRAs. The dual announcement has broad implications on the mortgage ecosystem, consumers, and the safety and soundness of the American economy. With the anticipated implementation deadline of January 2024, this Committee has a lot of outstanding questions and concerns around the research and analysis that went into both decisions.**
- **Will you commit to sharing all of the data on the bi-merge with our office and the House Financial Services Committee by the end of Q3 2023? This would include but not be limited to safety and soundness analysis, impacts on fair lending laws, analysis of the bi-merge change on affordable housing, and any other research that went into this decision?**

We would be happy to set up a briefing for interested staff to discuss the data and analysis used to make the decision to transition from a tri-merge requirement to a bi-merge requirement for loans acquired by the Enterprises.

2. **During these uncertain economic times, I think we all have the goal of figuring out how to reduce costs for consumers. When it comes to the housing space, one way could be through a new innovative approach like Direct Mortgage Insurance, which is ready to launch and would significantly reduce borrower costs by eliminating unnecessary administrative expenses. Another benefit of a model like this is that it reduces risk to taxpayers by providing additional private capital to the market and increasing the GSE’s counterparty diversification. Director Thompson, what would your thoughts be on something like this innovation that would bring new private capital into the market, lower prices for folks, and reduce taxpayer risk? Is there a reason the Biden administration has not approved this as a standard product offering?**

FHFA has not received any recent proposals for mortgage insurance alternatives for consideration by either Enterprise. Previously, Fannie Mae and Freddie Mac administered pilot programs related to mortgage insurance known, respectively, as Enterprise-Paid

Mortgage Insurance (EPMI) and Integrated Mortgage Insurance (IMAGIN). These pilot programs have since been discontinued. If an Enterprise seeks to engage in a pilot program similar to EPMI and IMAGIN, then such a pilot program would be subject to the requirements of the Prior Approval for Enterprise Products regulation. 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.

3. **Director Thompson, your agency plays a significant role in the housing market today, as both regulator and conservator of Fannie Mae and Freddie Mac. We've heard that the recent LLPA pricing changes are designed to better align with risk, build capital, account for mortgage insurance, and cross subsidize borrowers. It seems really complex, and I know you've recently announced an RFI to solicit public feedback. Do you think the agency should collect public feedback and have an open process before it makes pricing decisions? Should that become a permanent part of the process moving forward? Finally, can you and HUD coordinate so there are unnecessary and arbitrary swings from conventional to government mortgage programs?**

As you correctly note, and as indicated in the 2022 and 2023 Conservatorship Scorecards for Fannie Mae and Freddie Mac, FHFA instructed the Enterprises to update the current single-family pricing framework to meet a variety of objectives, including providing better pricing support for certain borrowers limited by income or wealth. As indicated in the Scorecards, any such changes would have to be consistent with the safety and soundness of the Enterprises.

In the RFI on the Enterprises' single-family mortgage pricing framework published on May 15, 2023, FHFA sought feedback on the frequency with which FHFA should consider updating the Enterprises' upfront guarantee fee grids and how future pricing changes should be executed, among other issues. We look forward to working with your office once we have received feedback on these and other related questions.

FHFA is committed to coordinating with HUD and works closely with all our federal partners on a variety of issues. As it relates more specifically to FHFA's recent pricing review, the overlap between borrowers obtaining Enterprise-backed loans and borrowers obtaining Federal Housing Administration (FHA)-insured loans is generally quite limited, and we do not expect significant shifts in execution or market share between the Enterprises and FHA as a result of the updated upfront fee grids.

**Representative Blaine Luetkemeyer**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**  
**May 23, 2023**

**Director Thompson, the issue of quality control generally and repurchases in particular seems to have escalated in recent months and some in the industry think the current Representation and Warranty Framework is not being followed as it was in the past. Is there now a new attitude toward the Representation and Warranty Framework and how it should be implemented?**

There have been no changes to the Representation and Warranties framework (Rep and Warrant framework). The Enterprises worked with lenders to establish the Representations and Warranties Framework (Rep & Warrant Framework) as a crucial component of the Enterprises’ quality control function. The Rep & Warrant Framework was designed to provide stability and standardization to the process of resolving loan defects, especially after the 2008 housing crisis. It also was designed to provide relatively timely feedback from the Enterprises to lenders on loan manufacturing defects, so lenders can address issues in their manufacturing processes promptly.

FHFA has received feedback from lenders expressing concern with the volume of repurchases issued by the Enterprises. We have engaged in discussions with the Enterprises to assess the current quality control function and investigate lender feedback.

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**Representative Ralph Norman  
Questions for the Record**

**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”  
U.S. House Committee on Financial Services**

**May 23, 2023**

- 1. In 2018, I voted for the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155), which was signed into law by President Donald Trump.**

The bill directed the FHFA to evaluate more modern credit scoring models than what are currently used by the Enterprises. The Agency did so and validated two scores for use by the GSEs: FICO 10T and VantageScore 4.0.

You espoused the benefits of the use of these modern credit scoring models during your appearance for the House Financial Services Committee, noting that they incorporate data on rent payments, utility payments, and cell phone payments, all of which disproportionately benefit the credit records of rural Americans, first-time homebuyers, and working-class Americans. In fact, data shows that newer models can score 14.5% more of my district’s constituents than old credit scoring models. 30.1% of this newly scorable population would have a score over 620 and be able to enter the financial world.

But I was troubled to hear you also testify that you are not “wedded to timelines” on this manner. I understand this to be a reference to the March 2023 timeline issued by Agency for adoption of the two new credit scoring models.

That timeline extends out to 2025. Congress asked FHFA to start work on this in 2018. Consumers stand to benefit from your quick action.

- **Based on the industry feedback that you are receiving, do you believe that there will be significant changes made to the implementation timeline for incorporating credit score model updates into capital and pricing at the Fannie Mae and Freddie Mac?**
- **Knowing of the benefits to potential homebuyers of the Agency making this change, what expertise and resources are you dedicating to meeting your issued timeline?**
- **How can stakeholders best ensure there is no slippage in meeting your timeline by the FHFA??**

Due to the complexity of implementing two new credit score models and its impact on the entire mortgage ecosystem, FHFA and the Enterprises are actively engaging in partnerships and dialogue with credit reporting agencies, lenders, technology service providers, and other relevant stakeholders. This collaboration is intended to establish a



## CONTROLLED

coordinated approach and enable the exchange of information and expertise necessary for a seamless transition. The initial timeline proposed is subject to change and revision based on feedback from the industry and other stakeholders.

We recognize the need to assist the industry to ensure adequate technical infrastructure is in place to support the implementation of the new credit score models. We also recognize that adequate time is needed for rigorous testing and validation processes to ensure the accuracy and reliability of the information flow. In addition, access to historical data is needed to help lenders and investors recalibrate their financial models and understand the new scores. FHFA also plans to work closely with stakeholders to promote consumer awareness of the changes during the homebuying experience.

We appreciate the support of Congress as we work collaboratively through these significant changes and the multi-staged implementation with industry and other stakeholders in order to ensure the transition is conducted efficiently and successfully. We would be happy to provide briefings to Congress and other stakeholders, as requested.

**Representative Brittany Pettersen**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

**May 23, 2023**

- 1. Recently, the FHFA announced possible changes from the historic tri-merge credit reports to requiring lenders to only needing two. Can you discuss what factors are being considered to ensure that consumers are properly protected and that all positive factors regarding their credit are considered as the FHFA and Enterprises work to implement this? Does the FHFA have any concerns regarding access to credit being harmed for first-time homebuyers or lower-income home buyers?**

Fannie Mae and Freddie Mac analyses conducted in 2017, and refreshed in 2022, found that a bi-merge credit report performs similarly to a tri-merge credit report. Recently, a similar analysis from S&P<sup>1</sup> confirmed these results, finding that the variation in scores among credit reporting agencies using a bi-merge report, rather than a tri-merge report, is small.

In addition, FHFA issued a notice of proposed rulemaking (NPR) in March that would require the Enterprises to determine required minimum capital using the average borrower credit score rather than the median/lower score regardless of whether three or two scores are submitted. FHFA’s analysis, as noted in the NPR, found no material difference in the average representative credit score using the proposed average score methodology when three scores were present (750.7), the average representative credit score using the proposed average score methodology when two scores were selected at random (750.3), and the average representative credit score using the current methodology of selecting the median of three scores (750.6).

Importantly, the updated bi-merge requirement provides consumers and lenders with additional optionality and flexibility. Lenders may, if they wish, or at the consumers’ request, continue to pull credit reports from all three national credit reporting agencies. FHFA also plans to work closely with stakeholders to promote consumer awareness of the changes during the homebuying experience.

Additionally, as part of the actions taken pursuant to their Equitable Housing Finance Plans, the Enterprises have explored and introduced new ways to more accurately and fairly assess creditworthiness, including for applicants with no credit score by using cash flow underwriting, and for first-time homebuyers by incorporating on-time rental payments into their underwriting systems.

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<sup>1</sup> <https://www.spglobal.com/ratings/en/research/articles/230608-residential-mortgage-credit-score-snapshot-when-three-bureaus-become-two-12748088>

**Representative Brad Sherman**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

May 23, 2023

- 1. Director Thompson, the mission of the Federal Home Loan Bank system is “to provide reliable liquidity to its member institutions to support housing finance and community investment.” However, once a bank becomes a member institution, the Federal Home Loan Bank is designed to provide liquidity should the member institution face a liquidity crunch. How should the Federal Home Loan Bank balance its mission to support housing finance and community investment with its duty to provide liquidity to all member institutions?**

As part of the *FHLBank System at 100: Focusing on the Future* initiative, FHFA heard from a wide range of stakeholders who stressed the important role the FHLBank System has played in ensuring that members have access to a stable and reliable source of liquidity. This function is especially important for community-based and smaller organizations with limited direct access to capital markets, particularly in times of market stress.

Providing members with a source of stable and reliable liquidity is one important aspect of the FHLBanks’ mission. Another equally important aspect is supporting housing finance and community investment, particularly for historically underserved communities. These two aspects are connected. Members must use long-term advances for residential housing finance or, in the case of community financial institutions, for small business, small farm, small agribusiness, or community development loans. While members may use short-term advances for any business purpose, the availability of such liquidity helps to keep members stable, thriving, and better able to continue to provide support for housing finance and community investment activities in the communities they serve. Importantly, most advances, regardless of type, are tied to the FHLBanks’ mission in that they must be fully secured by eligible collateral, the vast majority of which is mortgage and real estate-related assets.

FHFA believes that the FHLBanks should be prepared to provide liquidity to all of their members in varied market conditions. FHFA has issued guidance (AB 2018-07: Federal Home Loan Bank Liquidity Guidance) setting out the expectation that the FHLBanks will maintain a sufficient level of liquidity to allow them to provide advances to members during a sustained capital markets disruption. FHFA periodically assesses conditions in financial markets to determine whether adjustments should be made to the liquidity guidance and also assesses the adequacy of each FHLBank’s liquid assets and its liquidity risk management program as part of each annual examination.

FHFA also believes the FHLBanks need to adequately assess member creditworthiness when making advances or providing other credit products to members, especially during times of market stress. As part of the initiative, FHFA will look to clarify the FHLBank System’s

mission and update its expectations that the FHLBanks will fulfill the entirety of their mission in a safe, sound, and equitable manner. FHFA will also clarify its position and expectation that, while the FHLBanks must support their members, they are not to serve as lenders of last resort for the Nation's banking system.

**2. What effect will restricting membership have on community banks, credit unions, and smaller lenders?**

The authority to determine which institutions should be eligible for membership in the FHLBank System rests with Congress. FHFA will provide considerations for Congress should Congress choose to reevaluate which entities should be permitted to be members of the FHLBank System.

We are also looking at how the FHLBanks can expand access and support for members, across all membership eligibility classes, that have a demonstrable focus on housing finance and community development.

**Representative Bryan Steil**  
**Questions for the Record**  
**Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”**  
**U.S. House Committee on Financial Services**

**May 23, 2023**

**This Committee has long been interested in making sure that the GSEs aren’t engaged in mission creep, that they stick to their charter granted duties to support the secondary market.**

**As you said in the hearing on May 23rd, Fannie Mae and Freddie Mac are Secondary Market entities and should not be engaging in primary market activities, and to me that is specifically activities such as the now-suspended mortgage insurance pilots EPMI/IMAGIN and the newly discussed title insurance pilots.**

**As such, the GSEs should carry out their secondary market charter-required duties without expanding their footprint and taking on new functions that compete with the private sector or expose taxpayers to unnecessary risks.**

**I know during the delay in implementing the New Products and Activities Rule, you instructed the GSEs not to advance anything that would have otherwise been subject to the rule.**

**1. Now that the rule is in place, what does that review process look like?**

When an Enterprise submits a notice of new activity to FHFA, FHFA reviews it to ensure that the submission is complete and contains sufficient information for the Agency to determine whether the new activity is a new product. During the initial review (and at any time thereafter), FHFA may determine that the new activity warrants review under one of FHFA’s other authorities, such as FHFA’s conservatorship authorities. After the submission is considered complete, FHFA has 15 calendar days to make a determination on whether the new activity merits public notice and comment as a new product.

If the Agency determines that a new activity merits public notice and comment as a new product and the Enterprise wants to pursue offering the new product, the Enterprise must submit a request for approval of a new product. This request provides additional information to FHFA to develop and publish a Federal Register notice that enables the public to provide meaningful comment. After the close of a 30-day public comment period, FHFA has 30 days to approve or disapprove a new product.

FHFA may not approve a new product unless the product is authorized under the Enterprise’s charter, is in the public interest, and is consistent with the safety and soundness of the Enterprise and the mortgage finance system.

**2. In the hearing on May 23rd, you stated a meeting to review proposals would be May 24th – who is in that group, what proposals are you reviewing, and when can we**

**expect to hear about them for public feedback?**

In the meeting that you referenced, the Director and the Agency's senior leadership team reviewed two new activity notices from the Enterprises. One notice relates to a potential pilot focused on homebuyer education and financial literacy. The other notice relates to a potential pilot focused on providing borrowers with resources to address future hardships.

For the first notice described above, FHFA determined that the activity does not constitute a new product, largely due to its focus on homebuyer education and financial literacy. This activity would be subject to additional review, however, if the volume or duration of the pilot is changed or if the activity is proposed to be made permanent.

For the second notice described above, FHFA determined that the potential pilot warranted review under FHFA's authority as conservator. No final determination has been taken on this activity.

FHFA staff is available to brief your staff on any further questions regarding these activities.

**Representative Roger Williams  
Questions for the Record  
Full Committee Hearing: “FHFA Oversight: Protecting Homeowners and Taxpayers”  
U.S. House Committee on Financial Services**

**May 23, 2023**

- 1. Newer credit scoring models like VantageScore 4.0 and FICO 10T score 11.6% more of the constituents I represent than under older credit scoring models. Previously, these folks were described as “credit invisible.” Many credit invisible Americans pay their rent on time, pay their utility bills on time, and pay their cell phone bills on time – every month. Under old credit scoring models, this positive payments data didn’t have an impact on someone’s credit score.**

**It's obvious we're due for a change, which is why I voted for the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155) in 2018, which was signed into law by President Donald Trump. The bill contained a provision I had previously cosponsored named the Credit Score Competition Act – bipartisan legislation that directed the FHFA to validate new credit scoring models for use at Fannie Mae and Freddie Mac.**

**That was over five years ago. While I'm not happy that FHFA hasn't finished this project yet, I was glad to see your issued timeline in March 2023 that called for completion of the work by the end of 2025.**

- Knowing the benefits for potential homebuyers, are you still committed to finishing this work by the end of 2025?**
- How can Congress assist you in making this upgrade successfully?**
- What are your plans to ensure transparency with Congress and other interested stakeholders in the housing market?**

Due to the complexity of implementing two new credit score models and its impact on the entire mortgage ecosystem, FHFA and the Enterprises are actively engaging in partnerships and dialogue with credit reporting agencies, lenders, technology service providers, and other relevant stakeholders. This collaboration is intended to establish a coordinated approach and enable the exchange of information and expertise necessary for a seamless transition. The initial timeline proposed is subject to change and revision based on feedback from the industry and other stakeholders.

We recognize the need to assist the industry to ensure adequate technical infrastructure is in place to support the implementation of the new credit score models. We also recognize that adequate time is needed for rigorous testing and validation processes to ensure the accuracy and reliability of the information flow. In addition, access to historical data is needed to help lenders and investors recalibrate their financial models and understand the

new credit score models. FHFA also plans to work closely with stakeholders to promote consumer awareness of the changes during the homebuying experience.

We appreciate the support of Congress as we work collaboratively through these significant changes and the multi-staged implementation with industry and other stakeholders in order to ensure the transition is conducted efficiently and successfully.

The public engagement process throughout the transition period will allow stakeholders to provide critical feedback and input on the implementation process and inform further refinement of the proposed implementation plan. FHFA and the Enterprises will work with stakeholders to ensure a smooth transition to the new credit score models and the new credit report requirements in a manner that avoids unnecessary costs and complexity.

Stakeholders can expect:

- A partner playbook with timelines and resources, including frequently asked questions and answers, roadmaps, and training opportunities;
- Multiple opportunities to provide feedback, including through a public survey conducted by the Enterprises and targeted outreach to lenders, servicers, investors, mortgage insurers, technology service providers, and other stakeholders;
- Regular meetings to facilitate ongoing communication and updates; and
- Updated resources and training on at least a quarterly basis.

FHFA staff have also been meeting regularly with stakeholders to answer questions, solicit feedback, and listen to concerns. We would be happy to provide briefings to Congress and other stakeholders, as requested.

