PRIORITIZING FANNIE'S AND FREDDIE'S CAPITAL OVER AMERICA'S HOMEOWNERS AND RENTERS? A REVIEW OF THE FEDERAL HOUSING FINANCE AGENCY'S RESPONSE TO THE COVID-19 PANDEMIC

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

SEPTEMBER 16, 2020

Printed for the use of the Committee on Financial Services

Serial No. 116–109

U.S. GOVERNMENT PUBLISHING OFFICE
43–502 PDF WASHINGTON : 2023

HOUSE COMMITTEE ON FINANCIAL SERVICES

MAXINE WATERS, California, *Chairwoman*

CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
WM. LACY CLAY, Missouri
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
ED PERLMUTTER, Colorado
JIM A. HIMES, Connecticut
BILL FOSTER, Illinois
JOYCE BEATTY, Ohio
DENNY HECK, Washington
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
AL LAWSON, Florida
MICHAEL SAN NICOLAS, Guam
RASHIDA TLAIB, Michigan
KATIE PORTER, California
CINDY AXNE, Iowa
SEAN CASTEN, Illinois
AYANNA PRESSLEY, Massachusetts
BEN MCADAMS, Utah
ALEXANDRIA OCASIO-CORTEZ, New York
JENNIFER WEXTON, Virginia
STEPHEN F. LYNCH, Massachusetts
TULSI GABBARD, Hawaii
ALMA ADAMS, North Carolina
MADELEINE DEAN, Pennsylvania
JESÚS "CHUY" GARCIA, Illinois
SYLVIA GARCIA, Texas
DEAN PHILLIPS, Minnesota

PATRICK MCHENRY, North Carolina, *Ranking Member*
ANN WAGNER, Missouri
FRANK D. LUCAS, Oklahoma
BILL POSEY, Florida
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
STEVE STIVERS, Ohio
ANDY BARR, Kentucky
SCOTT TIPTON, Colorado
ROGER WILLIAMS, Texas
FRENCH HILL, Arkansas
TOM EMMER, Minnesota
LEE M. ZELDIN, New York
BARRY LOUDERMILK, Georgia
ALEXANDER X. MOONEY, West Virginia
WARREN DAVIDSON, Ohio
TED BUDD, North Carolina
DAVID KUSTOFF, Tennessee
TREY HOLLINGSWORTH, Indiana
ANTHONY GONZALEZ, Ohio
JOHN ROSE, Tennessee
BRYAN STEIL, Wisconsin
LANCE GOODEN, Texas
DENVER RIGGLEMAN, Virginia
WILLIAM TIMMONS, South Carolina
VAN TAYLOR, Texas

CHARLA OUERTATANI, *Staff Director*

CONTENTS

PRIORITIZING FANNIE'S AND FREDDIE'S CAPITAL OVER AMERICA'S HOMEOWNERS AND RENTERS? A REVIEW OF THE FEDERAL HOUSING FINANCE AGENCY'S RESPONSE TO THE COVID-19 PANDEMIC

Wednesday, September 16, 2020

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

The committee met, pursuant to notice, at 12:12 p.m., via Webex, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Velazquez, Sherman, Meeks, Scott, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gottheimer, Lawson, Tlaib, Porter, Axne, Casten, McAdams, Lynch, Gabbard, Adams, Dean, Garcia of Illinois; McHenry, Wagner, Posey, Luetkemeyer, Huizenga, Stivers, Barr, Tipton, Williams, Hill, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Steil, and Taylor.

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

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

Before we begin today's hearing, I want to remind Members of a few matters, including some required by the regulations accompanying House Resolution 965, which established the framework for remote committee proceedings.

First, I would ask all Members to keep themselves muted when they are not being recognized by the Chair. This will minimize disturbances while Members are asking questions of our witness. Members are responsible for muting and unmuting themselves. The staff has been instructed not to mute Members except when a Member is not being recognized by the Chair, and there is inadvertent background noise.

Members are reminded that they may only attend one remote hearing at a time, so if you are participating today, please remain with us during the hearing. Members should try to avoid coming in and out of the hearing, particularly during the question period.

If, during the hearing, Members wish to be recognized, the Chair recommends that Members identify themselves by name so as to facilitate the Chair's recognition. I would also ask that Members be patient as the Chair proceeds, given the nature of the online platform the committee is using.

Today's hearing is entitled, "Prioritizing Fannie's and Freddie's Capital Over America's Homeowners and Renters? A Review of the Federal Housing Finance Agency's Response to the COVID-19 Pandemic."

I now recognize myself for 5 minutes for an opening statement.

Today, this committee convenes for a hearing to conduct oversight over the Federal Housing Finance Agency (FHFA). Our sole witness today is Dr. Mark Calabria, the Director of the FHFA.

We had initially intended for Dr. Ben Carson, Secretary of the Department of Housing and Urban Development, to also join us for today's hearing, but we were told his calendar was booked. Secretary Carson does appear to have enough time on his calendar to make non-pandemic-related decisions that undermine fair housing protections and to attend non-pandemic-related events but, apparently, not enough time to talk to this committee about how he is responding to the current national emergency.

Failed leadership has come to define this Administration's response to the pandemic, which continues to have a terrible impact across the nation. Nearly 200,000 people in the United States have lost their lives to the virus. Short of a vaccine, our homes and the ability to shelter in place are the greatest protection we currently have against COVID-19.

The U.S. Census Bureau's Household Pulse Survey recently found that 8.4 million homeowners and 8.2 million renters are behind on their rent and mortgage payments. Of those households, 33.4 percent report that they are either somewhat or very likely to face eviction or foreclosure in the next 2 months. Meanwhile, over half a million people in the United States were already experiencing homelessness going into the current crisis.

Historically redlined communities are reporting higher rates of COVID-19. Sixty-nine percent of Latinx borrowers are unaware of mortgage relief options. And Black borrowers are citing higher mortgage rates and an inability to refinance their mortgages as a result of lending discrimination. Unfortunately, this Administration's ideological agenda continually gets in the way of meeting the current demands of the housing market and the people that our government stands to protect.

Instead of focusing on how to help homeowners and renters, and how to support the housing market during this national emergency, Director Calabria's actions suggest that he is first and foremost interested in filling the coffers of Fannie Mae and Freddie Mac so that he can continue to move forward with his plans to release them from conservatorship.

Rather than allowing homeowners to take advantage of historically low mortgage rates, Director Calabria announced a new refinance fee that would take some of the savings that would have otherwise gone into the pockets of families and instead redirect that money into the pockets of Fannie and Freddie.

Director Calabria is also rushing forward with a new complex regulatory capital framework for Fannie Mae and Freddie Mac, ignoring calls from me and many others to delay this rulemaking in light of the pandemic. Not only is the timing of this major change inappropriate because it would cause serious market disruption in the middle of a recession, but many have raised concerns that these changes would actually make the housing market less prepared for the next economic crisis.

Many have also raised concerns that the rule Director Calabria has put forth would hamper the ability of the Government-Sponsored Enterprises (GSEs) to carry out their mission of promoting access to credit to underserved borrowers.

In the 4 months that Senate Republicans have failed to pass $100 billion in critical rent relief, and the $75 billion Homeowner Assistance Fund included in the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, eviction filings hae continued to grow. Mortgage delinquencies have reached their highest level since August 2014, despite forbearance measures in place, and 3.6 million mortgages are now in forbearance. Meanwhile, mortgage credit supply has fallen to its lowest level since March 2014.

I am very concerned that FHFA's response to this pandemic has fallen short and that Director Calabria, like President Trump, is putting his personal political agenda ahead of the American public.

With that, I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 5 minutes.

Mr. MCHENRY. Director Calabria, thank you for testifying today.

I would like to start with some of the basics here.

Combined, Fannie and Freddie guarantee or own a portfolio of roughly 28 million single-family and multi-family mortgages, for a value of approximately $5.7 trillion. That is nearly half of all outstanding mortgage debt in the United States. These are significant numbers.

Early on, there was concern about what the pandemic might mean for home ownership and whether our housing markets could withstand the impact. Under your leadership, Director Calabria, and decisive action by the FHFA, you confronted the challenges head-on, and I want to commend you for that.

In March, FHFA started issuing statements to mortgage servicers about their responsibility to ensure that, "hardship forbearance is an option for borrowers who are unable to make their monthly mortgage payments."

On March 18th, FHFA went further and suspended foreclosures and evictions for its single-family mortgages for at least 60 days. That was 9 days before Congress enacted the Coronavirus Aid, Relief, and Economic Recovery (CARES) Act—I repeat, that was 9 days before Congress enacted the CARES Act—which codified those two FHFA policies. So, that is leadership.

The results of FHFA's leadership could not be clearer. In February, the GSEs had about 580,000 delinquent loans, or about 2 percent of its portfolio. Approximately 9,000 were in some stage of foreclosure. Today, the delinquency rate has almost tripled because of this pandemic, yet loans in forbearance are just under 5 percent, and the number of foreclosure sales fell to just 97 in May. It is clear that these policies have worked to protect American homeowners impacted by the pandemic.

In August, FHFA announced it was going to extend its foreclosure and real-estate-owned eviction moratoria through at least December 31st. However, these pandemic-related actions and others come at a cost. FHFA projected these costs in August to be at least $6 billion to the GSEs. That is a concerning figure.

What is more concerning was FHFA's poorly explained rollout in August of a new adverse market fee. The way this was announced, and the initial 3-week timing for its implementation, doomed it from the start. Clearly, FHFA has a statutory obligation to ensure that the GSEs operate in a safe and sound manner, with sufficient resources to meet these obligations.

That is the 2008 law that created the FHFA, a law that Chairwoman Waters and all 11 other current committee Democrats who were in Congress at the time supported. So, let me repeat: The law that Director Calabria is implementing and following is the one that Chairwoman Waters and 11 other current Democrats on this committee who were in Congress at that time supported.

But this last-minute fee on mortgage refinancings rightfully received bipartisan scrutiny. I am pleased that FHFA understood our concerns and revised the fee to protect homeowners with loan balances below $125,000, and delayed the implementation date until January.

That is a good example of how this process ought to work: Congress relying on FHFA to make smart decisions regarding the pandemic, and FHFA listening to Congress and responding to this balancing act of protecting American home ownership with its legal requirements to supervise the GSEs.

When you testified before the Senate in June, Director Calabria, you said you were, "proud of what FHFA has done to help borrowers, renters, and the housing market deal with this crisis, but FHFA recognizes that more work remains. The crisis caused by COVID-19 is not over." I think we all can agree on that, even today.

And so, I thank you for your leadership and efforts throughout this pandemic. Thank you for your thoughtful approach to safety and soundness in home ownership in America.

And I would like to yield the balance of my time to the ranking member of our Housing Subcommittee, Mr. Stivers.

Mr. STIVERS. I would like to thank Mr. McHenry for yielding, and I will be fairly brief.

I want to thank Director Calabria for his leadership. And I am looking forward to asking some questions today about the adverse finance fee as well as the capital rule and some other very important things.

I think Mr. McHenry really summed it up well on the leadership you have provided. I appreciate your leadership. We look forward to asking you some very important questions, because we are 12 years past the financial crisis and the only piece of work that is undone is fixing Fannie and Freddie. So, we have some work to do.

I yield back.

Chairwoman WATERS. Thank you very much.

I want to welcome our witness today, the Honorable Dr. Mark A. Calabria, the Director of the Federal Housing Finance Agency.

Dr. Calabria has served in his current position since April of 2019. Dr. Calabria has testified before the committee on previous occasions, so I do not believe he needs any further introduction.

Dr. Calabria, you will have 5 minutes to summarize your testimony. A chime will go off at the end of your time, and I would ask you to wrap up your testimony so we can be respectful of the committee members' time. And without objection, your written statement will be made a part of the record.

Dr. Calabria, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF THE HONORABLE MARK A. CALABRIA, DIRECTOR, FEDERAL HOUSING FINANCE AGENCY (FHFA)

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

The Federal Housing Finance Agency has acted swiftly and prudently to respond to COVID-19. We have updated our policies to remain responsive to the challenges facing renters, borrowers, and mortgage market participants.

The success of our policy response to COVID-19 is foremost a testament to our hardworking employees. They are FHFA's greatest asset. My top priority has been ensuring their well-being. This includes continuing to foster a work environment where everyone feels safe, respected, and valued for our differences.

The unrest across our nation in recent months has strengthened our resolve to uphold the Agency's core values of fairness, diversity, and inclusion in all that we do. Central to this work is FHFA's new Division-level Office of Equal Opportunity and Fairness.

Foremost during a public health emergency, Americans should not have to worry about losing their homes. FHFA has worked with our regulated entities to support borrowers and renters. We have done this while both ensuring the function of the mortgage market during this crisis, and laying the groundwork for after. Our actions have been and will continue to be data-driven.

FHFA's actions apply to mortgages backed by Fannie and Freddie, but they have also set workable standards for the rest of the mortgage market. For homeowners struggling before COVID, we suspended all foreclosures and foreclosure-driven evictions until the end of 2020, and we will extend that further, if needed. This has protected over 28 million homeowners and enabled roughly 200 million families facing foreclosure pre-COVID to stay in their homes.

We allowed homeowners to take a timeout from their mortgage payments through forbearance for up to 12 months, as later codified under the CARES Act. Under FHFA's direction, the Enterprises worked with servicers to develop loan modification options and repayment plans to ensure that borrowers will not face payment shock.

We allowed borrowers in forbearance, who again become current, to repay what they missed when they sell their home or refinance their loan.

We have emphasized repeatedly that those who can make their mortgage payments should continue doing so, so that we can focus our resources on those most in need. Of the borrowers in forbearance with an Enterprise-backed mortgage, about one-quarter continue to make their payments. We will treat these borrowers as current if they want to buy a new home or refinance.

And for the first time in history, recognizing the disproportionate impact on renters, we developed a nationwide multifamily forbearance program that prohibits landlords from evicting tenants for the nonpayment of rent. And we are now requiring landlords to notify tenants of their rights under these forbearance agreements.

At FHFA's direction, the Enterprises created online lookup tools that allow renters and borrowers to determine if they are eligible for eviction protection or forbearance. We have updated and translated into five additional languages servicer scripts to help clarify borrowers and make sure all borrowers are receiving the same message regardless of their servicer.

We have emphasized that no lump sum is required at the end of forbearance. We have partnered with the CFPB to launch the Borrower Protection Program. And we have created a website consolidating Federal relief resources for borrowers and renters.

To provide stability and clarity to the mortgage market, FHFA instituted a 4-month limit on servicers' obligations to advance principal and interest on loans in forbearance. We have authorized loan closing, employment verification, and appraisal flexibilities that have ensured the safety of market participants such as appraisers and home inspectors.

And to support lenders' liquidity, FHFA enabled Fannie and Freddie to purchase certain single-family mortgages in forbearance for the first time in history.

I am extremely proud of FHFA's response to this crisis. Our actions have provided real relief to both homeowners and renters in need. And, as referenced in my written testimony, I am encouraged by what the data tell us about the state of the market and forbearance rates.

But I must emphasize that this does not mean that all is well. America's housing problems did not begin with, and they will not end with, this pandemic. A root cause of the 2008 crisis was imprudent mortgage credit backed by insufficient capital. This fundamental problem remains unresolved today. Together, Fannie and Freddie are leveraged roughly 250-to-1. They lack the capital to withstand a serious downturn in the housing market.

The 2008 housing crisis was financially devastating for countless families, especially low-income, minority households. We know that a major driver of today's racial wealth gap is that minority households went into the 2008 crisis with high levels of mortgage leverage.

And I still remember, working as a staffer on the Senate Banking Committee, the considerable amount of calls that I took, answering phone calls from families facing foreclosure. We cannot forget those families, and we cannot forget the families today. We must remember that when mortgage finance goes bad, it is America's families who pay the price.

My job and my statutory mission is to make sure that Fannie and Freddie never again fail the millions of families whose financial futures depend upon a stable mortgage market.

To do this, the Enterprises must build capital. Capital absorbs losses and enables Fannie and Freddie to continue supporting borrowers and renters during times of stress. It is with capital that Fannie and Freddie are able to support the market.

This May, FHFA took a critical step toward solving this problem when we released a capital framework for the Enterprises. Meeting the framework's requirements will make Fannie and Freddie safer and sounder. This will mean safety and soundness for millions of homeowners and renters, especially low-income, minority homeowners and renters, who are the first to lose their jobs and savings when downturns hit.

Thank you again for the opportunity to testify. I look forward to answering your questions. And I hope that all of the committee members are in good health and good spirits.

[The prepared statement of Director Calabria can be found on page 66 of the appendix.]

Chairwoman WATERS. Thank you very much, Director Calabria. I will now recognize myself for 5 minutes for questions.

Director Calabria, you recently announced a fee increase that would make it more expensive for homeowners to refinance their mortgages, costing the average borrower $1,500. Those are dollars that homeowners need during this pandemic, but that you are redirecting into the pockets of Fannie and Freddie.

The Urban Institute estimates that, once implemented, this fee will prevent roughly 255,000 borrowers from accessing affordable mortgage credit. And the revenue raised by the fee will be nominal. Researchers have found that borrowers who obtain low-rate mortgages through refinance have reduced mortgage default rates by 40 percent and reduced defaults on non-mortgage debts by 25 percent.

In other words, in the midst of the current pandemic, when default rates are already at historic highs, you have made a decision that will likely not only harm families across the country but will likely also harm the balance sheet of Fannie Mae and Freddie Mac..

You have since delayed the refinance fee after much criticism, but this isn't enough. Dr. Calabria, how can you justify this fee increase?

Mr. CALABRIA. Thank you, Madam Chairwoman.

I will respectfully disagree with the bit of analysis I just heard. Let's be very clear: First and foremost, the CARES Act imposed unfunded costs on Fannie and Freddie as well as much of the mortgage market. And as the ranking member pointed out, we are, by statute, required to recoup those fees via income. So I first and foremost want to say, I am simply following the law, and, again, as the ranking member pointed out, a law you voted for.

But, more importantly, this fee does not go into the pockets or the coffers of Fannie and Freddie. It is money that comes to help us keep people in their homes.

As I have mentioned, we had 200,000 families facing foreclosure in March when COVID hit. For the last 6 months, we have paid their property taxes, we have paid their housing costs. And it would be nice if local governments would have given property-tax relief to some of those families. We have kept people in their homes.

I certainly want to emphasize that nobody's monthly payment will go up because of this fee. Not a one. The only impact on people who have not lost their job will be able to take advantage of the lower rates, and we are using that to keep people in their homes.

And that is the important part of this. It doesn't build capital. It doesn't go to anybody's bonuses. It doesn't go to anybody's salaries. It certainly doesn't benefit me. It goes to keep people in their homes who would otherwise be exposed to a deadly virus.

And that is what we are focused on here first and foremost, keeping those who lost their jobs and creating a funding stream—because I will remind you again, Madam Chairwoman, that Congress provided no funding to allow us to be able to help millions of households. We have done it without a penny of assistance.

Chairwoman WATERS. Dr. Calabria, despite your response and the excuses that you have given, I believe there is no excuse for this fee increase. This policy puts hundreds of thousands at risk of default in the middle of an economic crisis. And instead of facilitating access to affordable credit, you are limiting the options. Borrowers have to remain housed and financially stable. I urge you to reverse course immediately so homeowners will have a fighting chance.

Dr. Calabria, shortly after you began your tenure as the Director of FHFA, we met to discuss your priorities, including your intentions to move forward with a rulemaking on capital requirements for Fannie and Freddie. I specifically raised questions about the potential for this rulemaking to have an adverse impact on lower-income borrowers and borrowers of color.

You committed to me then that you would pay close attention to this issue. Yet, you recently released a capital rule proposal that does not appear to have any analysis and attention to the effects it will have on underserved borrowers. How do you respond to that?

Mr. CALABRIA. I would say, respectfully, Madam Chairwoman, we believe this is a rule that protects lower-income families, and provides stability to the market.

If I could for a moment quote a letter that you wrote to Chairman Powell of the Federal Reserve 2 years ago, when you said, "Strong capital requirements are the cornerstone of an effective regulatory regime that promotes financial stability while supporting stable economic growth. The financial crisis a decade ago taught a painful lesson about how damaging an undercapitalized financial system could be."

You go on in the letter to observe that higher capital standards since the crisis have not harmed the economy.

I agree with you in this letter, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. I would still insist and encourage you to change direction and, particularly, to pay attention to the needs of the underserved and minorities who appear to be the victims of this pandemic in so many ways.

Thank you very much.

And I now recognize the distinguished ranking member, Mr. McHenry, for 5 minutes for questions.

Mr. MCHENRY. Thank you, Madam Chairwoman.

Director Calabria, in anticipation of a lot of questions we will have from committee members on your announcement of this additional fee, why don't you give us the lay of the land on why you feel the decision was necessary and why this fee is an appropriate solution? And what are the alternatives?

Mr. CALABRIA. Thank you, Congressman.

Let me first say, I certainly have no desire to raise fees in the housing market. In fact, what we are trying to do is avoid a much worse outcome. But, foremost, as I mentioned to the Chair, we are simply following the law of the CARES Act that imposed unfunded mandates on the mortgage market by the charters of the GSEs that are required to recapture those costs via income.

Both Fannie and Freddie approached me back in March and April, as early as that time, and requested it. So I do want to emphasize, this was not my proposal, my suggestion; this was Fannie and Freddie's suggestion.

And as a safety and soundness regulator, when I have two multitrillion-dollar entities coming to me and saying that if they aren't allowed to increase their income, that they are at risk of distress, I simply have to take that seriously. I don't think we can ignore instability in the mortgage market.

So, foremost, this was a Fannie and Freddie request. I will note for the record, Fannie and Freddie requested a much higher amount and also wanted to cover purchases, but I went back to them and said, "Let me know exactly what your costs are going to be."

And so, we wanted to also—the timing of this in September is we wanted to be able to capture the finance wave, because the losses, which will ultimately, by our estimates, be somewhere between $8 billion and $15 billion—I will note, CBO recently put out an estimate of $10 billion—we wanted to spread that over as many mortgages as possible so we would minimize the impact on consumers.

And I really do want to emphasize for members of the committee, we delayed this until December to give Congress an opportunity to fund these costs. And while I am, of course, not asking for that, I believe we can cover these costs within the mortgage market, but we are simply following our statutory mandate.

Mr. MCHENRY. Thank you.

And, as we look at the state of the housing market and what it has gone through since the beginning of COVID, raising capital for the Enterprises when you did, appears to be a prudent step. If you hadn't started to build capital at the beginning of the last year, the GSEs would be without reserves and would be reliant on taxpayer money from the Treasury.

Would you agree that we need to have sufficient capital within these Enterprises and risk-mitigation tools around capital—again, a credit risk transfer—for protection of the taxpayers so that these Enterprises don't need to be bailed out again?

Mr. CALABRIA. Absolutely, Congressman. As we have seen repeatedly, it is capital in financial institutions that protects homeowners, protects the economy, and protects taxpayers.

Mr. MCHENRY. Okay. So has this pandemic altered your plans to rebuild capital at the GSEs?

Mr. CALABRIA. We still think it is absolutely necessary. And while any capital increase is unrelated to this short-term adverse market fee, in the long run we simply need to build capital if we want to have a stable mortgage finance system.

Mr. MCHENRY. Okay.

I am aware that the FHFA is currently reviewing comments on the proposed capital framework, but, generally, how has your thinking about recapitalization changed since the onset of the pandemic?

Mr. CALABRIA. I think particularly the events of March—I should mention, we saw in March, that third week particularly, very similar behavior to what we saw in 2008, where you saw, actually, mortgage spreads and the cost of credit blow out and become much higher even when the Fed was lowering overall interest rates. And this, I believe, was most directed to the high leverage and instability in Fannie and Freddie.

And so the objective here is, if we can have a well-capitalized Fannie and Freddie, that we can be able to withstand a crisis, that Fannie and Freddie can better support the market, and we have less volatility in rates.

And, more importantly, if we had come into this crisis with the appropriate amount of capital, this fee could have been delayed for years. The reason, the timing here is because Fannie and Freddie really are on the verge of insolvency.

Mr. MCHENRY. Let's move on to the question of what is happening on the Gulf Coast. We know that we have the earliest S-named hurricane on record currently hitting the Gulf Coast right now. So, let's talk about flood risk.

I asked you back in October about the increased risk of flooding and how that poses a risk to GSE portfolios and, thereby, the taxpayer. We talked about the 2019 Johns Hopkins Montreal study on alarming trends of lenders transferring flood-related mortgage risks to the taxpayer. You stated, "The overall point of the study is largely correct," and added concern that, without meaningful reform, much of that risk will be sent to Fannie and Freddie.

It has been almost a year since that conversation, and Congress has not enacted any meaningful reform legislatively. Can you tell me what steps FHFA is doing to take into account the risk of flooding and more enhanced flooding as a result of our changing climate?

Mr. CALABRIA. First and foremost, I think the most important thing we need to do to prepare Fannie and Freddie for any risk from flooding or climate change and other related activities is to build a capital buffer that accounts for that so that we have a safe and sound system.

Second, we are building out research capacity. Here, for instance, we are in the process of hiring an environmental economist and building the data infrastructure to be able to model these issues, and we are working with both Fannie and Freddie to get much better data on this element.

But there will be more announcements to come on this front that address those concerns.

Mr. MCHENRY. Thank you, Dr. Calabria.

And I yield back.

Chairwoman WATERS. Thank you.

I now recognize the gentlelady from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Chairwoman.

Dr. Calabria, earlier this year, the FHFA took the administrative step of extending both the foreclosure and eviction moratoria for GSE-backed single-family homes until the end of the year. Have you considered extending either of these moratoria into 2021? What factors would you use in making this decision?

Mr. CALABRIA. Thank you, Congresswoman.

Let me commit to you, we will extend those measures if necessary. We are looking at a lot of the same data that I think everybody is looking at: COVID; we are looking at the rental market; looking at the spread of the disease. But, absolutely, I would commit to you that, if the data and the evidence at the time suggests we need to extend it, we will extend it.

Ms. VELAZQUEZ. Thank you so much.

And I just want to discuss New York City and other cities that are filled with mom-and-pop landlords and CBOs with multifamily properties backed by GSEs. Many of these property owners are currently struggling with their own loan fee obligations, as tenants have had difficulty paying their rent.

In June, the FHFA approved forbearance extensions for multifamily property owners with GSE-backed mortgages for up to 6 months. Have you considered extending the forbearance period for multifamily property owners?

Mr. CALABRIA. Congresswoman, yes, we have. And I very much agree with you and see the need that we especially face in smaller rental properties. The worst impact of this has truly been on renters and our multifamily properties. And so I do commit to you that we will examine, and if the data suggests needing to extend the multifamily forbearance program, we will do so.

Ms. VELAZQUEZ. I appreciate it.

My next question is, some experts predict that the FHFA's proposed capital rule will result in higher mortgage rates, with rates increasing by an average of 15 to 20 basis points while the GSEs remain in conservatorship and 30 to 35 basis points if they were released. And these numbers could be even higher for borrowers with higher loan-to-value ratios or lower credit scores, such as those in communities of color.

So my question to you is, given your charter to provide access to credit for the entire country, with particular emphasis on low- and moderate-income (LMI) families and underserved communities, how do you plan on raising the capital requirements while still providing affordable access to credit to these communities that are in need?

Mr. CALABRIA. Thank you for the question, Congresswoman.

First and foremost, I believe that the more capital that Fannie and Freddie have, the more they have an ability to provide support to low-income families. Every additional dollar of capital in Fannie and Freddie is another dollar invested in housing.

If I can get to some of the numbers you mentioned, let me also be very clear and emphasize for members of the committee, there is absolutely nothing in the rule that requires Fannie and Freddie to raise prices—nothing in the rule that requires them to do that. I really do want to emphasize that point.

Ms. VELAZQUEZ. Hopefully, we will see what the data will show a month from now, and a year from now, and if, in fact, it will not have any impact on underserved communities.

Mr. CALABRIA. It is hard to know ahead of time, but I will certainly mention, we have had over a decade of the financial crisis, and, again, as the Chair noted in her letter to Chairman Powell, increases in capital standards in banks have not resulted in costs or harm imposed upon low-income communities. We have a significant amount of data and evidence as it applies to raising capital of other institutions, and there is very little reason to think it should work any differently here.

And I lastly want to emphasize that given the large body of research that has happened, and scientific research we have had over the last decade, the estimates out there of 30 to 40 basis points are simply very much outside of the range of accepted research in this area.

Ms. VELAZQUEZ. We shall see.

Dr. Calabria, multifamily property owners with GSE loans in forbearance are required to inform tenants of eviction suspensions and the protections that apply during their repayment period. How is the FHFA ensuring landlords are informing tenants of their rights and carrying out these obligations?

Mr. CALABRIA. Thank you, Congresswoman.

What we are doing is, when we hear from tenants and we hear from community groups, Fannie and Freddie go in and talk to the landlord. And if we discover that they are not meeting the requirements of it, we can declare the forbearance agreement in default. We can go as far as [inaudible] Default. But we always try to work with the lenders to get them to behave.

Ms. VELAZQUEZ. Thank you very much.

Chairwoman WATERS. Thank you very much.

The gentlelady's time has expired.

I now recognize the gentlelady from Missouri, Mrs. Wagner, for 5 minutes.

Mrs. WAGNER. Welcome, Director Calabria.

I first want to thank you for your leadership at FHFA to protect borrowers and renters since the beginning of the COVID-19 pandemic. FHFA has gone above and beyond what has been required of it in statute to assist American homeowners and renters, and I commend you and your staff for your hard work these past 6 months.

America, as we have discussed a little bit, is currently seeing some of the lowest interest rates in history available for both purchase and refinancing of existing mortgage loans.

In the St. Louis region, sir, which I represent, the residential real estate market in August has experienced a dramatic increase in pending and closed sales of over 27 percent. These sales increases exceed the year-over-year monthly increase in 2020 and reflect the strength, I think, of American demand to purchase new homes during this pandemic.

So, with home sales increasing and millions of Americans considering taking advantage of record-low refinance rates—you have talked about it a little bit, and I don't want to beat a dead horse, but I still don't think I fully understand FHFA's reasoning behind the announcement on August 12th to implement that new adverse market refinance fee, which, in my estimate—I know that the chairwoman said $1,500. We estimate about $1,400 to the consumer based on their average mortgage.

I understand the fee has been delayed, I think, until December 1st, and that you are doing some reconfiguring work on this. I think I know where it came from and the initial thinking, but do you believe that the changes that FHFA has made to this fee are adequate to prevent placing uncertainty on both the refinance market and on borrowers who choose to refinance their mortgage?

This is of great concern to me and to my constituents in Missouri's Second Congressional District, sir.

Mr. CALABRIA. Thank you, Congresswoman. I appreciate the remarks.

First of all, let me emphasize that nobody's preexisting monthly payment will go up because of this. This only applies to people who would refinance and who are therefore going to get a lower rate regardless. We specifically—and, again, I should also emphasize, this was a Fannie and Freddie announcement request, not an FHFA request.

But, that said, we asked Fannie and Freddie to exclude purchase mortgages, because, again, home purchases have a much bigger impact on the economy. And, again, our hope was that Congress could come up with a fix. But we are trying to avoid a much bigger disruption to borrowers, which is the insolvency of Fannie and Freddie.

If we aren't able to get this fee—maybe it would be helpful for members of the committee if I just take a minute to walk through this.

If you look at the combined net worth of Fannie and Freddie today, it is about $30 billion. About half of that, $15 billion or so, is because of accrued interest on mortgages in forbearance. If I could put that into plain English, that is money they haven't received. They can't absorb any losses. So, were Fannie and Freddie to take the entire potential $15 billion loss from COVID, they would hit zero. And if they become insolvent, there is a real risk that it would disrupt the mortgage market, that it would disrupt mortgage availability. We saw that in 2008.

So what I would emphasize to the committee is, I had a whole list of bad choices, and I tried to pick the "least bad." And I would be delighted for the committee and Congress to offer me some better options.

Mrs. WAGNER. As we move forward in the recovery, what changes has COVID-19 brought to our housing market that will kind of stay with us in the future? And which segments of the housing market give you the most concern? Which are performing the strongest throughout the pandemic? If you could elaborate a little bit, Director.

Mr. CALABRIA. That is a great question, because we really do have a two-track market, if you will. Obviously, single-family sales in many suburban areas have been booming. Prices have been quite strong.

On the other hand, urban markets, particularly multifamily, have been hit really hard. Both Fannie and Freddie, for instance, have exposure to student housing, and that has been under a tremendous amount of stress. And Fannie and Freddie have exposure to senior housing, which is also under a lot of stress. Obviously, outside of Fannie and Freddie, the commercial retail market, particularly the retail sector, shopping centers, are just under a complete mess.

So the rental market really is extremely stressed today, which is very different from, of course, the purchase market.

It sounds like the timer is up.

Mrs. WAGNER. I yield back.

Chairwoman WATERS. The gentlelady's time has expired.

I now recognize the gentleman from California, Mr. Sherman, for 5 minutes.

Mr. SHERMAN. Thank you.

I believe that Fannie and Freddie should continue to be what they are now, government agencies. We tried having them be in this bifurcated position, where the upside went to the shareholders and the downside seemed to go and ended up going to the taxpayers. That is not the right answer. They have done very well and have made money for the taxpayers in their current situation. If it is not broke, we don't need to fix it.

In addition, all of the fees we are talking about now wouldn't be necessary if we weren't gearing up to have these agencies become, not private, but halfway between private and public, which is not a good place for any agency to be.

And I would hope that we would, instead of instituting these new fees, wait until next year, when a new Congress, and hopefully a new Administration, can look anew as to whether we are going to recreate these entities in the same form that didn't work last time, and, if not, then we don't need the new fees.

But I will start with the assumption that, currently, we are hellbent on removing these agencies to the semi-private sector, and I am concerned about this half-percent fee. I am not sure it is necessary even if we are moving toward privatizing these agencies.

But if we do need that amount of money, I hope, Mr. Calabria, that you would, as we have talked about on the phone, look at raising the same amount of capital with a lower fee over a longer period of time. Because, right now, we have people who are looking at their home to save them from their financial crisis and they are refinancing, and taking a half-point from them just makes that harder.

I want to focus on apartments, because, obviously, we all aspire to home ownership, or most of us, but a lot of people are renting, nearly half, and the rents are too high. And when the rent is high, the middle-class renter can't put together the downpayment necessary to become a homeowner. And, even worse, poor renters are just one step away from homelessness.

So we look at Fannie and Freddie's multifamily mortgage underwriting programs, and we see a recently proposed capital rule that is not clear as to its risk-sensitive grid based on empirical multifamily loan performance data.

Mr. Calabria, can you produce information showing that you have to treat GSE loans on multifamily properties as quite so risky and quite so in need of higher fees?

Mr. CALABRIA. Congressman, thank you. There was a lot to that question, so if I can touch on a few things.

First of all, while I very much share your observation that the preexisting model, essentially privatized gain and socialized losses, is—

Mr. SHERMAN. Well, if you could just address the multifamily, and then I have to try to squeeze in one more question.

Mr. CALABRIA. But before I do, I just want to emphasize for the record that, by law, these are not government agencies. By law, they are private companies. And I have to follow the law, whether I think it makes sense or not.

But to the multifamily question, as perhaps you are aware, the multifamily grids changed very little from the 2018 rule, which was based upon the capital conservatorship framework that they have been working on for some time.

So, the short answer is, I am happy to try to figure out what data we can share with your staff, but I want to commit to you and emphasize, the multipliers for the multifamily are completely driven by the historical data. This is an empirical—

Mr. SHERMAN. I look forward to you presenting that historical data as part of the record of this hearing. And I and my staff will go through it and try to convince you to look at it in a somewhat different light

I know a number of my colleagues will be asking about the credit risk transfer contracts and whether you are taking them into account appropriately in computing the amount of capital that is needed.

And I want to shift to the consumer credit scores. As part of the CARES Act, passed overwhelmingly, we directed the credit rating agencies not to look at accessing forbearance as part of their credit score. But now we are told that somehow you are getting the information, perhaps from the credit rating agencies, perhaps from other sources, and that it negatively impacts the homeowner.

Are you making use of the very information we said shouldn't be used?

Mr. CALABRIA. I am certainly not.

Mr. SHERMAN. Okay. We will get back to you with the evidence that it is affecting people. And, of course, by law, it shouldn't.

Mr. CALABRIA. Absolutely.

Mr. SHERMAN. I yield back.

Chairwoman WATERS. I now recognize the gentleman from Florida, Mr. Posey, for 5 minutes.

Mr. POSEY. Thank you very much, Madam Chairwoman.

Dr. Calabria, I commend you for your leadership.

And I wondered if you could tell us how much the Federal Government has spent on legal defense fees in litigation of Fannie and Freddie decisions made by people like Mr. Raines, one of your predecessors, during the run-up to the last financial crisis.

Mr. CALABRIA. Congressman, I don't have that information in front of me, but I am happy to try to track down and assemble what we have internally and what I can get from the SEC. Certainly, my impression is we are surely talking millions and millions of dollars.

Mr. POSEY. I think it was over $150 million many years ago when I asked that question. But I would greatly appreciate it if you could provide my office with that information at your earliest possible convenience.

Mr. CALABRIA. We would be happy to.

Mr. POSEY. Over a decade after the financial crisis, we are continuing to deal with the role that the Government-Sponsored Enterprises, Fannie Mae and Freddie Mac, played in the meltdown of the entire financial system. Many continue struggling to understand the lessons and whether we have learned the lessons.

Our Federal Government created these GSEs to overcome a perceived inability of healthy private markets to mobilize sufficient capital to finance housing at a scale and scope that met all of our social and political goals for widespread home ownership.

Now, with these social and political goals, the Federal Government implicitly promised to provide a backstop to the Enterprises while letting them act like private firms and take on risk that the market would not have underwritten.

The result was the subprime mortgage crisis, moral hazard, and an unprecedented bailout. We should work, obviously, to prevent that in the future, and I think you are doing a great job of doing exactly that.

The mortgage securitization footprint of the GSEs dominates that activity. Now, given our social and political goals in housing, we could pull out the segment of the market we seek to subsidize and give the job of financing that activity to a smaller GSE as essentially a government agency inside HUD, then leave the funding of mortgages that are outside our social and political goals to the market.

That arrangement would give the government better regulatory control over underwriting standards and capitalization, I believe, and streamline the government's involvement and give Congress and the Executive Branch better oversight. We wouldn't be encouraging market-level risk-taking in pursuit of backstop mortgages for social and political goals and moral hazard on a grand scale like we did in the run-up to the crisis.

Can you comment on that concept?

Mr. CALABRIA. I absolutely agree with you. And it is certainly very interesting, because, as you know—and despite perhaps the perception that I am somehow the person privatizing Fannie and Freddie, it was actually President Lyndon Johnson who privatized Fannie. And, as you may recall, that is when Ginnie Mae was created so that we had a government-backed entity.

And so, I would very much agree that we should fix the situation, and we should decide what is private and what is government, and be very clear about those lines. And, as you know, I came before the committee last year urging reform, and I urge reform today.

Mr. POSEY. And regarding that, you did propose new rules to capitalize GSEs. These rules were based on risk weighting like the government rules banking capital.

Based on your stress-testing results under these rules, what can you tell us about whether the capital funds will cover another financial crisis like we experienced in the 2008 timeframe or an even worse crisis?

Mr. CALABRIA. I would say that the rules are geared toward making sure that Fannie and Freddie can survive a 2008 crisis.

Of course, we always have to be modest about the unknowns. We don't know if there is going to be another pandemic. We don't at this point know the implications quantitatively of climate change. So, I think it is always important to have sufficient capital and be modest about what may happen in the future that you don't see coming.

And, again, that is why I think it is so important to make sure Fannie and Freddie have sufficient capital to withstand most situations, if not all.

Mr. POSEY. Thank you very much. I have another question, but my time will expire before I get a chance to get your answer, so I will just save us all the grief and yield back, Madam Chairwoman. Thank you.

Mr. CALABRIA. Thank you, Congressman.

Chairwoman WATERS. Thank you very much.

I now recognize the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Thank you, Madam Chairlady.

Dr. Calabria, how are you?

Mr. CALABRIA. I am doing well, thank you, and hope you are the same.

Mr. SCOTT. I am.

Dr. Calabria, you may recall, back in 2010 when we had that financial meltdown, we were able to put together what we called the Hardest Hit Fund. You remember that, where we took the 18 States with the highest unemployment and the highest home foreclosure rate, and we were able to help them significantly. It was a very, very successful program.

You recall that, don't you agree?

Mr. CALABRIA. I do. It was modeled after, basically, the Community Development Block Grant program, where we provided assistance to a number of—actually, I believe there was an original version of it, the Housing and Economic Recovery Act (HERA), which also created this agency.

Mr. SCOTT. Exactly. It helped nearly 500,000 homeowners stay in their homes; in Georgia, it was close to 20,000. So, it had a very good impact.

And do you agree with us that this Hardest Hit Fund was helpful in stabilizing families, stabilizing the real estate market, and, actually, stabilizing our entire financial system?

Mr. CALABRIA. First of all, you recognize that, as we all remember, Georgia was hit particularly hard in the 2008 crisis, and so I do believe that assistance allowed—first, it was well-targeted, which I think is an important component of any system, any program in this effort, and it did help stabilize a number of markets.

Mr. SCOTT. Yes. Mr. Calabria, thank you for that answer.

In August, with this pandemic, we now have 8.4 million Americans who are facing foreclosure. We also have 6.2 million more homeowners who have entered forbearance.

So what we have done to help here, is we have entered this legislation, our committee, and I was able to provide legislation that would give $75 million to be able to do the same thing that we did. And we were able to save the economy with this, and it is so vital. We are talking about $75 billion.

Do you think that this type of program now would have the same positive impact as it had back in 2010?

Mr. CALABRIA. There certainly is some potential for that, Congressman. And I certainly hope that the two Houses of Congress and the Administration agree.

It's certainly worth reminding the committee that I am an independent regulator, so I don't speak on behalf of the Administration or anybody else, but I am certainly hopeful that folks can work to come together.

Mr. SCOTT. I want you to work with us. It is in the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act. We need to get that out. We need to understand that this pandemic has an even more detrimental impact. Right now, 15 million people are about to be put out. That means the banking system is not getting their money. We are in terrible shape. So, I hope that you would make these points known to the Senate to get this help to our American people.

Now, I want to ask you something else.

President Trump has put forward this moratorium on evictions.

You are a very knowledgeable person, and a very respectful one. Don't you know that it is very devious to say, put a moratorium on evictions? How is the landlord going to pay for his end of it? How are the property owners who own the property going to do that without collecting rent from the renters?

In other words, how can you have an eviction moratorium and stop that without making sure that everybody along the line is covered? If not, you will have an implosion of the economy.

Can you help us with that?

Mr. CALABRIA. Thank you, Congressman. Just a quick reminder that the independent regulator is not a part of the Administration.

Chairwoman WATERS. The gentleman's time has expired. I now recognize the gentleman from Missouri, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

Mr. Calabria, I would like to start out with a question with regards to the Credit Risk Transfer (CRT). I would like to commend you, first, for reproposing the Enterprise capital regulatory framework to make sure that the GSEs are properly capitalized, and have an exit from conservatorship. I want to specifically ask you about the treatment of the Credit Risk Transfer and the framework.

You have talked about this at length, but in my opinion, CRT has been one of the biggest successes of conservatorship by reducing the concentration of mortgage credit risk at the GSEs. However, as proposed, the GSEs would receive little to no capital relief for distributing risk to private capital through CRT, which would significantly increase their own retained credit risk exposure, while the Enterprises remain taxpayer-backed.

Can you comment on the treatment of CRT, and can you commit to revisiting this part of the proposal to ensure that a robust CRT regime is preserved in the market going forward?

Mr. CALABRIA. Congressman, certainly, we are in a comment period. We had a listening session last week on CRT. So, obviously, we will look at all of the comments; the comment period only closed 2 weeks ago. So, I certainly commit to you that we will examine the issue as we move forward.

Mr. LUETKEMEYER. I was one of the folks who pressed the flood insurance folks to be more aggressive in the reinsurance market, and purchase that to minimize taxpayer risks, and it has worked out very well. In my opinion, it is still not enough, but at least it shows that it is a program that works.

In your situation, to me, I think this is something that we need to be doing. And I am not sure, by the way, of your calculation on that, how you wind up with minimizing the ability to show that it actually helps capital, and I am curious about that.

Mr. CALABRIA. Great question. And what you said 2 years ago, with reinsurers paid out on the National Flood Insurance Program, I thought that was a great success and a great model. I would point the committee to things I wrote in different positions back in 2015 and 2016 that were very supportive of CRT. In fact, I think over the course of my career, I have established an extremely strong reputation for wanting to get as much risk out of Fannie and Freddie as possible.

That said, certainly we are trying to make this data-driven. We certainly are open for others that have the parameters and ways to do this. I would note that this rule, while it is not as generous to CRT as the 2018 proposal, is far more generous than the current bank capital treatment of CRT. We fully expect CRT to continue to operate. It is still in the conservator report cards, for instance, so we expect CRT to play a role. I certainly want to minimize as much impact as possible.

But I do think that the distinguishing principal—there were situations under the 2018 rule in which CRT was given dollar-for-dollar relief. And, again, we are in a situation in 2018 where there was no expectation of conservatorship, so perhaps, over-incentivizing that was appropriate. But going forward, we certainly know that a dollar of CRT, which, of course, only provides a dollar of relief against losses on a reference pool, is not the same thing as a dollar of equity on the balance sheet, which covers any losses.

So I think we would all agree they are not only one where it is in the middle of that. We certainly don't think it is zero either. The relief is somewhere in the middle. That is an empirical question. I certainly commit to you, Congressman, to work with you and your office to figure out where that number actually is.

Mr. LUETKEMEYER. Thank you. I certainly want to continue to work with you on that, Director.

With regards to your raising of fees, it is kind of interesting—the chairwoman, a while ago, whom I spent over a year trying to convince that we needed to have a hearing on Current Expected Credit Losses (CECL), which we now know is exacerbating, or could exacerbate the situation here, it will be implemented, and now it has now been delayed. And now, she is talking about the very same principal of that, of CECL causing people to not be able to access credit.

But it is not the same thing this time around, because that was to build up reserves. This is to actually—you are forced—the CARES Act, if I am not mistaken, actually covered costs, which is what you are trying to do. Isn't that correct?

Mr. CALABRIA. There are a couple of different elements to this. And certainly, we implemented CECL at Fannie and Freddie in the first quarter. And it did result in the higher reduction of loan loss reserves than it would have otherwise. The requirement to cover the expenses via income is something that comes out of the GSE charts. So it is a different—but certainly the way all of these things interact is what is essentially driving the problem.

Mr. LUETKEMEYER. A very quick question, what is the percentage of refinancing of the loans versus the new loans that you are covering right now?

Chairwoman WATERS. The gentleman's time is up.

Mr. LUETKEMEYER. It is a quick question, Madam Chairwoman. Just give me the percentages of—

Chairwoman WATERS. Go right ahead.

Mr. CALABRIA. About 60 percent of new loan volume is refinanced.

Mr. LUETKEMEYER. Okay. Thank you.

Chairwoman WATERS. Thank you very much. I now recognize the gentleman from New York, Mr. Meeks, for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman, and thank you for holding this important hearing. During the Great Recession that struck in 2008, the housing market collapsed, and wealth across the country that had been built up over the course of the generations evaporated. Families saw their home value go underwater, owing more on their mortgages than their house was worth. And banks already impaneled foreclosure homes across the country. The Black homeownership rate plummeted from under 50 percent in the mid-2000s, to around 40 percent over the course of a decade. This deep hole was caused by bad actors, and insufficient regulation and enforcement. Certain unscrupulous lenders were targeting communities of color with tricky balloon mortgages that the lenders knew would jump, but they were able to get the loan off of their books and sell it to other financial institutions while pocketing the initial fees. When the buckle popped, the banks had a bunch of bad debt on their hands, and Black and Brown families were out of homes.

So let's fast forward to today, where our country has been decimated by a pandemic, and we have lost nearly 200,000 people to this terrible virus. The unemployment rate briefly spiked to levels not seen since the Depression era, and remains over 8 percent. And some of our wonderful small businesses around this country have shut their doors, probably forever. And we have a public health crisis on our hands, and we have an economic crisis on our hands, but crucially, we do not have a financial crisis or a housing crisis on our hands yet.

The Dodd-Frank Act is working, in my estimation, and banks have the capital they need. Instead of dragging the economy down, the housing market is propping it up, actually. And homeownership rates have gone up during the pandemic, and mortgage interest rates are at an all-time low.

This brings me to my question, Mr. Director. I just can't fathom why you would impose a sizable fee on home borrowers and mortgage refinancers at this time. You are talking about a fee which is functionally a tax that would take thousands of dollars out of the pockets of middle-class borrowers. For people in my district in Queens, for example, the cost will easily amount to more than $2,000 for a borrower. That is not a small fee. For many, that is a paycheck. Can you explain why a fee, that is an essence a tax at this time?

Mr. CALABRIA. Respectfully, Congressman, I don't think that is what we are doing at all. If I can take a moment to explain this. First of all, I think we are facing a housing crisis for renters today, and I think we are facing a housing crisis for those who have lost their jobs.

And, again, we at FHFA had directed Fannie and Freddie to provide assistance. I will remind you, there were 200,000 families facing foreclosure in March when COVID hit. We covered their property taxes for the last 6 months. I am going to cover their property taxes for the next 3 to 6 months. We are paying to keep these families in their homes. And for these families, this is a housing crisis, this is an employment crisis. And if we allow Fannie and Freddie to fail, we will also have a financial crisis. And I want to push back on this fee amounts to about 5 basis points, annually, on the loan. That is less than mortgage rates have fluctuated through the time this year has been going on again.

So, again, I want to emphasize that I think higher-income households—if I can give some demographic data, the typical refinance household in the second quarter had an income of about $110,000, whereas the typical income of a borrower in forbearance today who has lost their job, and their income before losing their job was only $80,000. And I will remind the committee, that this committee has provided me not a penny to cover the people in their homes. This fee was necessary to keep people in their homes so that we can avoid a renter crisis.

Mr. MEEKS. That is why this committee, under the leadership of Chairwoman Waters, put in our Heroes Act over $110 billion for vouchers for renters so that we can prevent a housing crisis, and put in another $90 billion for those who are behind on their mortgage, because individuals have lost a lot of their income. So, this committee, under the guidance of the leadership of Chairwoman Waters, is trying to make sure that we prevent a housing crisis, and that is why we have been trying to get something through the Senate so that we can make sure that happens.

At the same time, it is communities like mine, who are still trying to get back on their feet as a result of the crisis, and we are still trying to urge individuals that now is the time for them to buy a house, so that they can own a house, which will be an appreciating asset, as opposed to buying a car.

And, so, now you are taking the incentives of others who are struggling, some of these same people who own homes now and need to refinance, and are trying to figure out it, they are now struggling, and this would be, in effect, a tax on them. And I just think that this is the wrong time. I yield back. Thank you.

Chairwoman WATERS. The gentleman's time has expired, thank you.

I now recognize the gentleman from Michigan, Mr. Huizenga, for 5 minutes.

Mr. HUIZENGA. Thank you, Madam Chairwoman, and Dr. Calabria, I am glad you were able to be with us. My colleague, Mr. Luetkemeyer, hit on the Credit Risk Transfers (CRTs), and you had a bit of a discussion on that. I am curious, though, obviously the pandemic has been disruptive to various financial markets, and CRT relies on those private capital markets for its funding. Are investors and reinsurers still buying CRT deals?

Mr. CALABRIA. As we saw in March and April, the CRT market basically shut down. I will also note for the committee that in March and April, we had a number of CRT investors approach Fannie and Freddie with the expectation that Fannie and Freddie would repurchase their CRT in a stress environment, which, of course, undercuts the entire purpose of CRT.

But over time, Freddie has gone through a deal recently since then, so it started the CRT market open up, but this is really after we got past, what I would say, was the capital market stress. As you know, the capital markets today are much calmer during that third week of March.

Mr. HUIZENGA. Yes. Let's talk a little bit about the capital role and multifamily situation. As you may recall, when you were before the committee last October, I had asked a question about what economic analysis FHFA did to study the impact of multifamily capital requirements on the multifamily housing market. You said you could not go into detail to answer the question, since FHFA was in another Enterprise capital rulemaking process. The comment period ended August 31st, so I will ask the question again, but in the context based on the most recent rulemaking. What economic analysis did you perform to study the impact of multifamily capital requirements on the secondary and tertiary markets, and are you able to publish that proposal?

Mr. CALABRIA. Since some of the internal analysis relies on confidential data, let me see what we can release publicly without releasing any confidential data. But I think an important point to make on this, as I mentioned earlier, is that this proposal on the multifamily side is extremely similar to the 2018 proposal. The 2018 proposal was based on the conservator capital framework that both Enterprises have been operating on for a number of years. So to the extent they are pricing their multifamily book off of that, they are basically pricing as if they are already on the rule. And, as you know, they are the largest players in the market. Over the last several years, they have gone from 20 percent to 40 percent of the multifamily. So I think the last several years of multifamily activities where they, for all intents and purposes, have been pricing as if this rule were already in place, shows that they have been quite competitive. And we certainly hear regularly from other markets participants, such as insurance companies, that they have a very hard time competing with Fannie and Freddie on price.

So, I would argue that the data is fairly clear, the experience is fairly clear on certain years. Of course, I want to caveat and heavily emphasize that we are in a rulemaking process, so we have to hear from everybody, and we are going to take that into consideration, so it is likely to change. But I think the evidence is pretty clear that they have been able to run an extremely successful multifamily business basically under these same sort of parameters.

Mr. HUIZENGA. So you are saying that FHFA basically has the analysis to demonstrate the ways capital proposals reflect historical experience in actual reality?

Mr. CALABRIA. Yes.

Mr. HUIZENGA. Okay. I have a little bit of time here left, so I want to talk about capital rule, multifamily, that—on the space. It seems that multifamily is held at a much higher capital standard than single family in the capital rule, despite what I think is clear and well-documented historical data demonstrating that multifamily performance was actually superior to single family. When comparing the applied capital standards in the proposal for the single family versus multifamily to realize losses, the worst historical vintage single family's capital is half of the 2007 vintage loss, while multifamilies charge more than 5 times its worst vintage lost. Why is that?

Mr. CALABRIA. Congressman, it really depends on the timeframe you look at. I would be the first to say that in the 2008 crisis, multifamily came through it much better. But, for instance, if you look at the early 1980s, multifamilies did worse. And, of course, in this current COVID environment, multifamily is suffering to a much greater degree than single family.

So, first, I want to emphasize the grids are driven by historical experience. Nobody is changing the math. The math is what the math is. If we can look at alternatives, we are happy to do that. But I also just think it is important to recognize that we can't simply just take the 2008 experience and assume that every cycle for multifamilies is going to perform similarly.

Mr. HUIZENGA. I believe my time has expired. I yield back.

Chairwoman WATERS. The gentleman's time has expired.

I now recognize the gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, for 5 minutes.

Mr. GREEN. Thank you very much, Madam Chairwoman. I thank the witness for appearing, and I also thank the staff for the outstanding job they are doing in providing intelligence.

Mr. Director, you have indicated that there is a housing crisis for renters. And in so indicating, I assume that you are talking about 30 to 40 million people who are at risk of eviction through the end of the year, the intelligence I received from staff. I assume that you are talking about the 1.5 million renters in this same survey who reported that they have not paid their previous rental payment. I assume you are talking about the 40 percent of Houstonians who could not make their August rent payment due to the pandemic. I assume that all of these things are correct. Am I correct in assuming these things, Mr. Director?

Mr. CALABRIA. Congressman, I would say, however you want to measure, there is very clearly a stress amongst renters today, and that is where the greatest housing needs remain.

Mr. GREEN. And I would also call to your attention, he words of Dr. King. He reminds us that, "Injustice anywhere is a threat to justice everywhere. We are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly, affects all indirectly."

So this inability to pay rent, while it has a direct impact on the renter, it also has an impact on the person who happens to be called a landlord, who may have a mortgage that has to be paid, and then, that has an impact on the mortgage holder. So, there is a chain of events that take place when the renter cannot make the rental payment. Do you agree?

Mr. CALABRIA. Absolutely. Yes.

Mr. GREEN. Okay. In so agreeing, then, it becomes of paramount importance that we not allow the chain to get beyond the renter. If the rent is paid, then the landlord, who happens to be a mortgage holder is paid, and the mortgage company is paid. I believe that paying the rent is of paramount importance. The rent must be paid, not delayed.

The moratoriums on rent ultimately don't help the landlord. The landlord still has bills to pay and is depending upon the rent. So, the rent must be paid.

This is why I look at the leadership of the Honorable Maxine Waters. There is $100 billion in the Heroes Act that has passed the House, Mr. Director, $100 billion for renters, to assist them. But in so doing, it will also assist the landlords, as well as the mortgage companies. Remember, "inescapable network of mutuality." This mutuality would also afford us the opportunity to maintain a stronger economy. It all comes together.

There is also in the Heroes Act, $75 billion to help mortgage holders. This is significant money, and that probably is a means by which we can salvage what may become an economic downturn that may exceed the last Great Recession.

So my question to you is simply this: Isn't it true that we have to pay the rent so that we can take care of all of the other persons in this chain, otherwise, all we are doing to a certain extent is delaying the inevitable for a good many people?

Mr. CALABRIA. Before answering the question directly—

Mr. GREEN. Here, let me just share this with you, Director. My time is of the essence. Why don't you start with answering my question, and then we will see if we can get to the other answer? Thank you.

Mr. CALABRIA. Just to remind you, we are providing forbearance to multifamiliy renters. But the answer, of course, is we need to deal with the rental situation.

Mr. GREEN. Yes, we do have to deal with the rental situation. And so, I mention this to you finally in this fashion, and you said earlier, and I made a note of it, that the committee had not provided a penny to help you with this situation.

Let me just ask you to rethink that for a moment, if you would kindly, in this sense. This committee, under the leadership of the Honorable Maxine Waters, has passed legislation to deal with the situation: pay the rent; pay the mortgages. The House has voted on the legislation provided by the Honorable Maxine Waters. The legislation has passed the House. So, the truth is that the House has done its part. It is the Senate that won't take up the House's legislation.

I am not trying to create an argument with you. I want you to have some degree of respect for what the committee has done, and how it has met its mandate to meet the needs of the American people.

I talk to the people who are engaged in this renting business, they are called REALTORS, and they help us in various ways. And the REALTORS tell me they are very much concerned about not only the rent, but the mortgages. So this committee is dealing with the issues of the REALTORS, who are right there where the rubber meets the road. Can you agree that we have to pay the rent so that we can pay the mortgage? Your final response? Can you agree that we have to pay the rent so that we must pay the mortgages so that the mortgages can be paid?

Mr. CALABRIA. I agree with all of these issues, and I have to deal with issues and I can't wait until the Houses come to agreement. So, respectfully, I would encourage everybody to work together.

Chairwoman WATERS. Your time has expired. I would like to advise the Members that votes have been called on the Floor. We will continue with the hearing. And so, for those Members who have spoken, perhaps you want to go and take your votes while we continue. Thank you very much.

I now recognize the gentleman from Ohio, Mr. Stivers, for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman. I appreciate you holding this hearing. Welcome, Dr. Calabria. And since you brought it up in answer to a couple of other Members' questions, I want to give you some time to expand upon it.

You said that you chose, in your adverse market finance fee, the "least bad" option you could find. I know you don't want to lobby Congress, but what other options could Congress give you if Members of Congress don't like the adverse finance fee?

Mr. CALABRIA. Since this fee is resulting from costs that arise out of the CARES Act that are unfunded, of course, Congress could come in and fund that. And I do want to be clear, I am not asking for a penny, because I think we at this agency and we at the Enterprises can make this work without any taxpayer assistance. So if the question is: Were Congress to provide taxpayer assistance, Congressman, I think, where you are going is what would that number be?

Mr. STIVERS. That was my next question. Assuming that you said you wanted congressional financing, how much would it cost?

Mr. CALABRIA. I think it would have to be in the neighborhood of about $10 billion. That would make sure that we would not have to reassess city fees to cover COVID costs. I certainly want to emphasize that—heavily caveat on the economy not getting considerably worse.

Mr. STIVERS. And I understand you are not asking for it.

Mr. CALABRIA. No.

Mr. STIVERS. I just wanted to understand if Congress were to do something to avoid that fee, because none of us want Fannie and Freddie to go bankrupt, and frankly, that is the option if you do nothing, because Freddie and Fannie have no reserves and are on the verge of insolvency, is that correct?

Mr. CALABRIA. That is correct. And, again, were Congress to provide the funding to cover that hole, we would not have to implement the fee. Again, as you recognized, I am not requesting any funding. We think we can make this work on our own. Again, I wanted to be able to give Congress the opportunity to find other solutions.

Mr. STIVERS. I appreciate you delaying the fee implementation through December to give Congress time to decide what we want to do. I think that is really important.

I would like to move on to the capital rule. I know that Mr. Luetkemeyer talked a lot about credit risk transfers and sort of asked about those. But one of the other things that doesn't get credit is MI coverage that is above the minimum level. It doesn't seem to get much credit in your capital rules. And I am curious if you could explain to us why that doesn't get much credit in your capital rules?

Mr. CALABRIA. We were trying to base this on the bank framework, and the bank framework doesn't give credit. But, again, I would say that we do factor the ultimate losses. So I do think that we have agreed to reduce credit. But I am happy to provide the fuller analysis for the record.

Mr. STIVERS. The fuller analysis, and I would like to note for the record that the GSEs are not banks. And while I understand the bank capital rules, as far as the level of capital is okay, I don't think you need to follow the bank capital rules up and down. And, frankly, credit risk transfers, while, I understand, may not be dollar for dollar, are a very important piece of managing risks.

And the other thing I would like to add about credit risk transfers are—because you are not at this conversation privately, Director, it is going to take years for the GSEs to be fully capitalized, and credit risk transfers can infuse some amount of shock absorber where less capital is needed immediately without the capital markets problems that the GSEs will have if they try to go to a full capitalization too quickly.

I guess I would like to put in a plug for how important credit risk transfers are during the transition. I also think they play a role in the future of the GSEs because they would require less total capital to have still the taxpayers off the hook.

So I guess I am not really asking you to comment on that because I know you already commented on it with Mr. Luetkemeyer. But if you could take another look at that, if you could just tell us you might take another look at both MI coverage and credit risk transfers, and if you want to follow up with a fuller analysis on both of those to my office, that would be great.

Mr. CALABRIA. Absolutely we will do so. And let me commit to you that as long as the GSEs are on conservatorship, and we are doing a conservatorship score card, we will be requiring them to engage in some CRT transactions.

Mr. STIVERS. Since you bring that up, Fannie has stopped credit risk transfers, and I am curious if you are going to encourage them to restart them?

Mr. CALABRIA. We certainly are. They have not stopped at my direction, so let me be clear about that.

Mr. STIVERS. Okay. Thank you. I know my time is wrapping up. I am going to follow up with some questions in writing to you. Thanks for being here, and thanks for your leadership, Dr. Calabria.

Mr. CALABRIA. Thank you, Congressman.

Mr. STIVERS. I yield back.

Chairwoman WATERS. Thank you very much. I now recognize the gentleman from Missouri, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you.

Dr. Calabria, are you familiar with Norman Whitfield and Barrett Strong?

Mr. CALABRIA. Not off the top of my head.

Mr. CLEAVER. Well, I didn't expect you to be. I consider myself somewhat of a little amateur historian on Motown, but they were big songwriters, and wrote a bunch of hits. One of them in 1970 was called, "Ball of Confusion." And I mention it because I want to talk to you about a couple of things really fast, and I hope that you can deal with them. And one of them happened just this past week. Dan O'Neal, the guy who runs the Missouri REALTORS, talked to me about an issue that you and several other members had talked about earlier, and that is with the landlords.

Contrary to what people would probably believe, many of the landlords, maybe most of them, are small landlords. They are people who saved money and bought a duplex, or they bought some kind of apartment building, and they are trying to make a little money on it. And so, they are in trouble, and they are going to be in greater trouble if we can't do anything. How are they going to make repairs and so forth? Is there something that you can do as it relates to these landlords?

Mr. CALABRIA. First of all, I 100 percent agree with you on the problem. These small landlords are under a tremendous amount of stress. If that small landlord has a mortgage that Fannie and Freddie hold, we can offer forbearance to that landlord during however much time they are under some stress, and we have been doing this for 3 months at a time, so we can provide, essentially, a bridge, if you will, if they are a Fannie and Freddie borrower. If they are not a Fannie and Freddie borrower, then we don't have a direct relationship with them.

Mr. CLEAVER. Right. I appreciate that, and I am going to try to make sure that all of them get some information about it. I am trying to rush.

But the second issue is last week, one of the bankers in my district, in a small rural bank, looked in the newspaper and saw a story in The Wall Street Journal about Freddie and Fannie adding this one half of one percent fee to all loans, beginning on September 1st, and others have spoken about it. But when they found that out, it was the day after it was done. Which means that they have, at least small banks, have to go out and pay for somebody to come in and try to undo and redo loans. And I just think that is a bit much to drop on any bank.

But certainly, these small banks in a little town like Marshall, Missouri, with 12,000 people, or Higginsville. So, can that be delayed? Do you have the capacity?

Mr. CALABRIA. We will delay that. We are delaying that second one, Congressman.

Mr. CLEAVER. Okay. Madam Chairwoman, thank you. My work is done here today.

Mr. CALABRIA. Thank you, Congressman.

Chairwoman WATERS. Thank you very much, Mr. Cleaver. I now recognize Mr. Barr from Kentucky for 5 minutes.

Mr. BARR. Mr. Calabria, thank you for being here today and for your testimony and your work at FHFA. And as you may know, the Democrat bill, the Heroes Act, called for an additional $100 billion in rental assistance. But I want to underscore the work that you have already done in this area at FHFA, keeping renters in their homes throughout this pandemic.

As you noted in your testimony, FHFA built nationwide multifamily forbearance programs and tenant protections, "from the ground up" during the crisis. And I applaud your efforts. Tenants residing in multifamily properties with federally-backed loans in forbearance may not be evicted.

And on August 6th, you announced a number of additional renter protections for tenants in qualifying properties, including rent payment flexibility and a prohibition on late fees.

You note in your testimony that renters in approximately 170,000 rental units in multifamily housing are eligible for eviction protection, and that FHFA created an online tool that allows tenants to know their options.

My question is, to what extent are renters utilizing this online lookup tool that you have created to see if they qualify for FHFA renter assistance programs?

Mr. CALABRIA. Congressman, thanks for that question. Thanks for the remarks. Let me go back and find out whether we can determine the numbers of unique hits. I think we probably can find how many people have—

Mr. BARR. Thanks for sharing that. And, again, I think that the actions that you are taking reduce the need for Congress to act—maybe Congress doesn't act, but certainly, you have done a good job to help renters in this pandemic.

I also want to echo my colleague, Congressman Stivers', thoughts on CRT. Unfortunately, we have heard from stakeholders that the proposed GSE capital framework doesn't account for the value of CRT, and there is a risk of disincentivizing private market participation. Do you agree with that? Do you disagree with that?

Mr. CALABRIA. I would certainly think this one is a blanket statement. I think it is less an issue of counting or not. I think there is some difference on how much it should count rather than does it count. We certainly account for it. The question is, are we as generous as someone would like and thinks we should be?

Mr. BARR. Thanks, and my colleague, Congressman Stivers, said it very well, I do believe it is a very valuable tool for you all as you attempt to recapitalize the GSEs.

In December 2019, the Financial Stability Oversight Council (FSOC) announced it would undertake an activities-based approach rather than an entity-based approach when identifying potential systemic risks.

During the July 2020 FSOC meeting, FSOC announced it would begin that activities-based review of potential risks posed by the secondary mortgage market. You issued a statement in support of that decision. What observations or suggestions will you bring to FSOC on how to ensure the safety and soundness of the GSEs, particularly considering your view of the market during the pandemic, the economic challenges?

Mr. CALABRIA. I would say I think as you can understand given the nature of deliberations within FSOC, that I can tell you today that we have been in conversation with other members of FSOC on these issues. We are examining these issues. I am very hopeful there will be a release from FSOC on this issue soon.

Mr. BARR. Do you anticipate any adjustments given the pandemic or the post-pandemic market, adjustments to your proposed GSE capital framework, or are you going to stay the course?

Mr. CALABRIA. I think we are going to stay the course, because more of the reasons for a number of the buffers is to, essentially, account for unquantifiable risks. And at this point—while again, of course, we all hope we don't get another pandemic, the chance of that is certainly not zero, but it is extremely hard to quantify within the capital rule. And this is why I think it has been so important that we have buffers, we have a leverage ratio that goes beyond simply measuring credit risks, because there are so many unaccountable factors that affect the impact of climate, such as the impact of the pandemic that we simply, at this point, don't have to get into appropriately model or quantify them the right way.

Mr. BARR. Director, thanks for your service, and thanks for your work, especially during these challenging times.

And, Madam Chairwoman, I yield back.

Mr. CALABRIA. Thank you so much, Congressman.

Chairwoman WATERS. Thank you very much, Mr. Barr.

I now recognize the gentleman from Connecticut, Mr. Himes, for 5 minutes, and then I will turn the gavel over to Mr. Sherman.

Thank you very much. Mr. Himes is not available.

I will now recognize, Mr. Casten, the gentleman from Illinois for 5 minutes. Mr. Casten, are you unmuted? Okay. Let us move on.

Mr. Calabria, thank you for your patience. I am going to call a 5-minute recess. Thank you very much.

[brief recess]

Chairwoman WATERS. The committee will return to order, and thank you very much for your patience. We had to have a 5-minute recess, but we will now move on.

Mr. MCHENRY. Madam Chairwoman, may I inquire why we needed a 5-minute recess? We had two Republicans who were waiting in line for recognition, because the Democrats weren't available.

Chairwoman WATERS. We had an emergency, thank you.

Mr. MCHENRY. I hope everyone is okay. I hope it was not a health emergency, but I hope everything is okay.

Chairwoman WATERS. Everything is okay now. Thank you.

I will now recognize the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Director Calabria, thank you for coming before us today in this virtual setting. As many of my Republican colleagues have mentioned today, I appreciate that the FHFA has been one of the most proactive agencies throughout the COVID-19 pandemic.

Back in early March, before we passed the CARES Act, you had already suspended evictions and offered forbearance for borrowers of federally-backed mortgages. I think these were productive steps to take when there was such uncertainty surrounding this virus.

Now with that being said, I am starting to worry about the lengths that some of these provisions have been in effect. In Texas, alone, where I come from, there are 1.7 million single-family rental homes, and the majority of these are owned by mom-and-pop landlords. By preventing evictions and allowing people to go without paying rent for an extended period, we are shifting the burden from the renters to their landlords. The underlying problem is not being fixed, and someone down the line is not getting paid the money they are rightfully owed.

Most of these landlords are not massive companies that are sitting on millions of dollars to cover the costs of owning property without any rent being collected. The stop in rental income does not mean that landlords suddenly do not need to pay property taxes, for example, or that maintenance and repair expenses go away, or that the mortgage payments are no longer owed every month.

So I am very concerned about these second, and third order effects that ultimately implicate the GSE balance sheet if a great deal of mortgage payments are no longer to be paid.

So, Mr. Director, again, thank you for being with us today. And I want to get your thoughts on, if you think that a national eviction moratorium could introduce safety and soundness issues within the housing system? In other words, what problems are we creating for the apartment owners who have their cash flow interrupted through nonpayment of rent?

Mr. CALABRIA. Congressman, thank you for that question. And, foremost, let me really emphasize this is particularly the case for any landlords who are listening. If you have a Fannie or Freddie loan, you are eligible for forbearance as a landlord during this time, in which we can give you some relief if your tenants aren't paying.

So I really do want to emphasize, for landlords who have a Fannie and Freddie loan, please contact Fannie and Freddie. Let's get you into a forbearance program. Let's try to provide you relief. I do appreciate, also, that the forbearance program only delays the inevitable, because the mortgage payments will have to be paid back. But, again, I do want to make sure that within the Fannie and Freddie space, those landlords are aware of what their options are to deal with this stress.

On the broader question of—we certainly are taking a look at the mortgage market, as has been mentioned. We do essentially have a two-tract housing market now, we have an extremely healthy single-family market, which we are, unfortunately, we have a lot of stress on the rental side. I am concerned that continued stress in the multifamily side, particularly, ends up being a threat to Fannie and Freddie. We are seeing that in Fannie and Freddie student lending, for instance, which is under distress. Fortunately, at this point, it is not so large to be systemic, but it is an issue, and it is an issue we continue to watch.

Mr. WILLIAMS. Thank you. In August, the FHFA reproposed a capital plan for Fannie Mae and Freddie Mac. This is an important step to get these Enterprises out of government control and on sound financial footing for the future, which we talked about.

While I think the new framework is a step in the right direction, I was hoping it would utilize the private sector, and the benefits of credit risk transfers to a greater extent. The private sector is willing and able to shield taxpayers from potential losses and reduced volatility if the housing market takes a turn for the worse.

So, Mr. Director, can you discuss why the capital credit for CRTs and the new proposals was reduced for the Enterprise's capital requirements?

Mr. CALABRIA. Thank you for that question, Congressman. First of all, let me emphasize that the CRT treatment under the new rule is still considerably more generous than that under the bank treatment. The change from 2018 was funneling money. And in 2018, there was no perception, no intention of actually raising outside capital. So it was appropriate in the 2018 rule to incentivize CRT, if you will, because there was no additional capital. But moving forward in a world where we expect there to be actual capital built up on the Fannie and Freddie balance sheet, we see that CRT should play a more calibrated role. I do emphasize that I see a role for CRT in the future. I don't see CRT going away.

But under some circumstances in the 2018 rule, a dollar of capital relief was given for a dollar of CRT. And again, because CRT relief is only tied to a specific reference pool, it is not functional against all losses, but we think it is quite obvious that a dollar of CRT is not equal to a dollar of capital.

So, again, the question here is, what is the right calibration? We had a listening session last week. We will continue to talk with people, and we will continue to work on that element of the rule.

Chairwoman WATERS. The gentleman's time has expired.

Mr. WILLIAMS. Thank you for being here today. I yield back.

Chairwoman WATERS. Thank you. I will turn the gavel over to Mr. Sherman, and Mr. Hill will be the next Member to be recognized. Thank you.

Mr. SHERMAN. [presiding]. Thank you, Madam Chairwoman. The gentleman from Arkansas is now recognized for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman. And, Madam Chairwoman, thank you for the opportunity to be with Director Calabria today on this timely hearing about how FHFA and Fannie Mae and Freddie Mac are handling the pandemic and trying to help our families across this country that are hurting from the coronavirus.

Mr. Calabria, let's have a little fact check, could you tell me what Freddie Mac and Fannie Mae's market share is as you measure it, say, from 2019 versus 2008?

Mr. CALABRIA. Certainly, on the multifamily side, there is just over 40 percent, about 42 percent of the market in 2019. I believe on the single-family side combined, it is close to about 60 percent of the market, if I recall correctly, approximately. And, obviously, on both those metrics, they are much, much larger than they were in 2008, where they were less than 50 percent of the market. Certainly, single-family is close to the 40 percent. And I believe the multifamily book back in 2008 was much closer to, say, 20 percent. Let me double-check the numbers for the record. But off the top of my head, that was my recollection.

Mr. HILL. So, they have increased market shares in the past 2 years, is that right?

Mr. CALABRIA. Absolutely, without a doubt.

Mr. HILL. And to Mr. Sherman's point earlier, are the Government-Sponsored Enterprises, Fannie and Freddie, they private corporations?

Mr. CALABRIA. By statute, they are private corporations.

Mr. HILL. And they were put into conservatorship when?

Mr. CALABRIA. They were put into conservatorship in September 2008.

Mr. HILL. And has the Federal Government taken any steps to take them out of conservatorship since that time?

Mr. CALABRIA. I had taken steps consistent with my obligations under statute to repair them so that they potentially could exit conservatorship, as is required under law.

Mr. HILL. Would you consider them wards of the State right now? They are in conservatorship, right? They solely exist because we have a $250 billion line of credit to them, isn't that right?

Mr. CALABRIA. I think it is an open legal question. I would certainly say legally, they are not wards of the State. Conservatorship, of course, is essentially administrative bankruptcy. Lots of companies go into a bankruptcy court and don't become wards of the State. Of course, bankruptcy judges are employees of the State.

So I don't think simply being in a conservatorship—I guess—the number of court cases specifically on this—and I believe you are the lawyer, not me, but my understanding is that the litigation in this issue is ruled on whether the conservatorship is governed—

Mr. HILL. Let me move on. I am not a lawyer, so I don't want a lawyer's answer. Thank you very much. I have one lawyer in my family, I am married to her, and one lawyer per couple is my view.

Did the Federal Government order these companies to take certain actions to help our families during the pandemic?

Mr. CALABRIA. Yes.

Mr. HILL. And you have talked this morning about the cost of that. What did you just tell Mr. Stivers, what is the approximate cost of these measures?

Mr. CALABRIA. That would be $6 billion to $15 billion. I sincerely emphasize that a number of private institutions, such as banks, took action, sort of forbearance actions. So I believe pretty much all of the actions that we have taken to help the market through Fannie and Freddie are really what any institution would do, public or private.

Mr. HILL. So, since the State ordered these two companies that are in bankruptcy conservatorships to this, you believe Congress should make up that difference instead of sticking our families with these fees, is that a fair assessment?

Mr. CALABRIA. I am leaving it up to Congress to decide how to recoup these fees. I think that is a better question for this body to answer rather than me.

Mr. HILL. On the subject of your capital rule, what is the leverage of the GSEs right now, Mr. Calabria?

Mr. CALABRIA. They are 250-to-1.

Mr. HILL. And what does your proposed capital rule suggest their leverage be?

Mr. CALABRIA. 25-to-1. Which I will note is twice the leverage of our largest banks. To clarify some previous questions, in no way does the capital rule require Fannie and Freddie to hold bank-like levels of capital.

Mr. HILL. But you believe that 25 times leverage, which is really an agency-type leverage ratio—the brokerage companies, before they were all forced to become banks in the crisis, many of them operated around 25 times leverage, while the banks were closer to 10. But they were an agency business, not a principal risk business. Are the GSEs taking principal risks?

Mr. CALABRIA. They are taking principal risks.

Mr. HILL. So, a 10 times leverage ratio might be more appropriate, given that mix of business?

Mr. CALABRIA. I do believe there is an argument for that.

Mr. HILL. Thank you, Mr. Calabria, I appreciate the time. And, Madam Chairwoman, and Mr. Chairman, I yield back.

Mr. SHERMAN. Thank you. I am an optimist, and I believe that we will, next year, make Fannie and Freddie government agencies. But I am a pessimist as to whether we can continue the hearing right now, because I have been informed by our staff that they would like me to declare a 5-minute recess, and that is what I am doing.

[brief recess]

Mr. SHERMAN. The committee will return to order. I know Mr. Tipton wanted us to move forward.

And it is now my pleasure to recognize Mr. Foster, the gentleman from Illinois.

Mr. FOSTER. Thank you, Mr. Chairman. First off, Director Calabria, I want to thank you for what I regard as a very competent execution of a very misguided concept, which is to steer us toward the eventual recapitalization and release of these entities, which I don't think was ever really the intention when this was passed more than a decade ago now, but, as you correctly point out, that is what you inherited.

I also want to concur in your respect for what was done on an emergency basis here to deal with the COVID crisis and the relief you have been able to provide. And so, you can go through the list there, your announcement of, limit the number of payments servicers are required to make, the eviction moratoria, all of those sorts of things.

My question, though, is, do you think that the GSEs could have provided this much relief and this quickly if they were, in fact, fully private companies, out of conservatorship, with a primary duty to maximize shareholder profits? And what cautions should be made when we try to think about what charter they might or might not be released on?

Mr. CALABRIA. First, Congressman, I would say, if these Enterprises were out with meeting capital standards, they could actually have provided even more relief without danger of endangering the system.

And let me say broadly, I believe the statute requires me to get them out of conservatorship. I would certainly be delighted with Congress, if Congress would clarify the situation of what the status of these Enterprises should be. I certainly think that is an appropriate thing for the committee to address.

Mr. FOSTER. Yes. I worry specifically about their countercyclical mission, which is not the natural response to private entities.

Now, a second general question having to do with the implementation of the capital rule. When the capital rule is implemented, there is going to be, I don't know, a fraction of the trillion dollars of retained capital in Fannie and Freddie.

Have you done the analysis—there is going to be a significant market rebalancing. The market share will change and so on. And there will be, for example, when guarantee (g-fees) are, ultimately, a big fraction of them, borne by the cost of home ownership, which will keep more people in rentals longer, the rents will go up, so maybe landlords will be slightly better off.

But when you just rebalance the entire market to reflect the impact of your capital rule, where does the capital come from, and who are the winners and losers? Have you done that analysis? Are there third parties that have?

Mr. CALABRIA. First of all, Congressman, there is absolutely nothing in the rule that requires Fannie and Freddie to change their pricing. And in no way is the rule meant to drive a particular market share or market structure.

Mr. FOSTER. How do you anticipate that they will raise the money to generate that much capital? Or, in fact, could they have lowered the g-fees or something if the rule was not in place?

Mr. CALABRIA. First of all, we expect them to continue to build up retained earnings, and we are hopeful at some point that there will be a public offering. And, of course, we are hopeful that the Treasury will eventually sell off its share and recoup the taxpayer investment.

So, again, they have earnings. They can continue to have earnings. That doesn't mean they necessarily need to raise prices. That ultimately has to be their decision.

And, again, I share your observations, as well as Congressman Sherman's observations, about the tension due to the nature of the status of these companies, and I greatly encourage Congress to resolve their conflicted status.

Mr. FOSTER. Yes. No, it is a conflicted status, as you say, that we have been living with for a long time.

But I would be interested if you had a baseline implementation of the recapitalization. The way you describe it, it sounds like the losers largely would be the taxpayers, who would no longer be getting the earnings sweep. Is that correct?

Mr. CALABRIA. Congressman, I think the taxpayer would be better off, because we would have a cushion of capital to protect the taxpayer from financial instability.

Mr. FOSTER. But the retained earnings would come, as you describe it, largely by an earnings sweep that won't happen, at least to the same degree, anymore.

Mr. CALABRIA. But the bulk of capital raised would be expected to go through a public offering, which would allow Treasury to exercise its warrants and recoup its investment. In fact, I think a public offering is likely the only way the Treasury would be able to recoup its very sizable investment on behalf of the taxpayer.

Mr. FOSTER. Okay.

And what is your attitude on the tail risk? You capped a whole 100 percent capital not to have a scenario where there isn't enough capital and the government has to step in. Do you really envision a future where that would not be a possibility?

Mr. CALABRIA. There is always some possibility, whether it is our largest banks or whether it is Fannie and Freddie, that the taxpayer may step in. I recognize Title II of Dodd-Frank attempted to end all that, but I don't think anybody believes that our largest banks don't have some sort of implied backing.

Mr. FOSTER. Right. But what is missing there is a way to tax the entire industry to recapitalize the difference when that happens.

Anyway, I hear a gavel, and my time has expired. Thank you.

Mr. CALABRIA. Thank you, Congressman.

Mr. SHERMAN. Thank you.

We now move on to Mr. Tipton from Colorado.

Mr. TIPTON. Thank you, Mr. Sherman.

Dr. Calabria, thank you for being here, and I do want to thank you for all of the hard work that you are doing.

I did want to have a follow-up question in regards to Representative Wagner's question. And I will paraphrase you, if I wrote it down correctly, that you commented that you have a lot of bad choices and effectively tried to make the one that is going to do the least amount of damage.

Do you have some recommendations maybe for this committee in terms of what tools you might really need to be able to do your job? I think being able to get Fannie and Freddie out of conservatorship is probably one of the more admirable goals that we certainly ought to have. But what tools, what statutory movements do you see could be beneficial to you and your mission?

Mr. CALABRIA. Thank you, Congressman. Great question.

I would say foremost among those, unlike the bank regulators, who have authorities under the Bank Service Company Act to examine third parties, we do not.

For instance, I have no authority to examine all of the non-bank servicers who service Fannie and Freddie loans. Just like the banks, Fannie and Freddie are moving to the cloud. There is potential for a significant amount of risk about having our mortgage data in the cloud, but I lack the authority, unlike the bank regulators, to go into Amazon Web Services and make sure that data is actually protected appropriately.

So, first of all, having third-party exam authority similar to that under the Bank Service Company Act, I think would be absolutely crucial to avoid further problems. In fact, that is foremost.

I would say, having additional authority over chartering—I do ultimately believe that what benefits consumers most is competition.

I don't ultimately think a duopoly is what benefits consumers. So, I think having charter authority so that I can bring more competition to this marketplace, ultimately is what would be most protective of the consumer.

Mr. TIPTON. Great. I appreciate your thoughts on that. I think we have proven in this country that competition actually works—

Mr. CALABRIA. Absolutely.

Mr. TIPTON. —and to be able to have competitiveness.

And, listening to a couple of my colleagues—and I don't want to misinterpret their comments, but it seems that some are comfortable having conservatorship over Fannie and Freddie. Would you maybe like to explain, why is it important for the American taxpayer, and for the entities themselves, to move out of conservatorship?

Mr. CALABRIA. First, I really want to emphasize that the statutory framework is that you either fix them and they exit or you go into a receivership.

I will note, by contrast, the longest-ever bank conservatorship was 18 months. This simply is not the statutory framework.

I know it is often characterized that it is somehow my objective to get them out of conservatorship, but that is not accurate. I am just carrying out the law. My objective is to see the law carried out.

But, more importantly, the process to get them out of conservatorship is the same process that it would take to make them safe and sound: building up capital; dealing with supervisory concerns; and changing the culture at these companies, making them good citizens, good corporate citizens. All of these things that you would need to do to exit a conservatorship are all of the things you would want to do to make sure that they are safe and sound and that they are good actors.

Mr. TIPTON. You have taken some admirable steps to be able to build up capital prior to COVID-19. I don't know if you have done any analysis in terms of, had you not made those efforts, what would the impacts have been?

Mr. CALABRIA. Thank you, Congressman. That is a great question.

I will remind the committee that when I walked in the door, in April of 2019, Fannie and Freddie were leveraged 1,000-to-1. No institution survives trouble in a 1,000-to-1 leverage.

So we were able, in conjunction, working with Treasury Secretary Mnuchin, to raise the amount of retained capital. So, instead of the $6 billion that they had combined coming in, we were able to get them up to about $20 billion. So, again, we were able to take some losses.

If we had not been able to do that, we would have been forced to raise these adverse market fees back in the spring, which I think would have been the absolute worst timing. And if we had been able to build even more capital, we could have delayed this even further.

So, again, I think the process of having built capital from day one that I have been here is appropriate to try to bring some safety and soundness to Fannie and Freddie and to bring stability to our system.

Mr. TIPTON. Great. But, I guess, following up a little bit on this, since the pandemic, have your views on the importance of capitalization changed at all, just given the marketplace?

Mr. CALABRIA. If anything, the pandemic has really proven how important it is to have adequate capital and also how modest we need to be in not thinking that solely risk-based should be solely based on credit risk that you can measure going back. The pandemic and, again, thoughts about climate change and such really emphasize, we need to have an adequate buffer of capital that protects us from the unknown.

Mr. TIPTON. Great. Thank you.

With that, I yield back, Mr. Chairman.

I appreciate it, Dr. Calabria.

Mr. SHERMAN. Thank you.

I now recognize the gentlelady from New York, Mrs. Maloney, who is also the Chair of the House Committee on Oversight and Reform.

Mrs. MALONEY. Thank you so much, Mr. Chairman. And thank you for your service, Dr. Calabria.

You stated that one of your top priorities is to release Fannie Mae and Freddie Mac from conservatorship. I think we all agree that we can't keep Fannie and Freddie in conservatorship forever, but we want to make sure they have enough capital and that the right regulatory regime is in place before we release them.

I think we need to be very cautious about this. I am very concerned that the Administration is going to rush a number of major decisions before the end of the year, and certainly before January 20th. I think rushing to release Fannie and Freddie before the end of the year would be catastrophic.

So, with that in mind, can you commit that you will not, under any circumstances, release Fannie and Freddie from conservatorship before the end of the year?

Mr. CALABRIA. Congresswoman, I very much share your concerns. I can't envision a scenario where they would be ready to leave before the end of the year.

Mrs. MALONEY. So, I will take that as a, "yes."

You have also stated that you hope to have IPOs for Fannie and Freddie in 2021 or 2022, even before they are released from conservatorship. So, will you also commit that you will not rush an IPO of either Fannie or Freddie before the end of the year?

Mr. CALABRIA. I promise you, absolutely, this is not calendar-dependent; this is process-dependent. Under no circumstances would I release them if they were not ready to be released. I can absolutely commit that to you.

Mrs. MALONEY. Okay.

And, as you know, one of the key missions of Fannie and Freddie is to increase access to credit for underserved communities. However, as Chairwoman Waters and Congresswoman Velazquez touched upon earlier, some commentators have argued that your proposed capital rule will harm access to credit for underserved communities by increasing costs for the very borrowers they were chartered to help.

Given these concerns, how do you justify a capital rule that would have a disproportionate impact on underserved borrowers?

Mr. CALABRIA. I appreciate the question, Congresswoman.

We have yet to see any evidence that the capital rule would have a disproportionate impact on borrowers. In fact, we believe it would disproportionately benefit low-income communities by helping avoid financial crises. As we have repeatedly painfully learned, it is low-income, minority communities who pay the price during financial crises, and this capital rule is meant to avoid financial crises.

Mrs. MALONEY. Has FHFA bothered to conduct an analysis of how this rule might impact Black, Latino, and underserved borrower communities?

Mr. CALABRIA. There was an internal fair lending analysis done in regard to the 2018 rule. We made a number of changes in the reproposal. For instance, we eliminated the grids on single borrowers, which disproportionately impacted African-American women, for instance. We also removed the penalty that was on small-dollar lending.

So we have made a number of changes to the 2018 proposal that the advocacy community requested us to do, as well as in response to the fair lending analysis that we conducted on the rule.

Mrs. MALONEY. Four days after the national emergency was declared, I led a letter with more than 100 of my colleagues requesting that your agency immediately institute a nationwide moratorium on all foreclosures and evictions from GSE-backed mortgages. The very next day, the FHFA announced it had directed the GSEs to suspend foreclosures and evictions.

At the end of July, I requested that the FHFA extend this moratorium again to the end of 2020. At the end of August, FHFA did just that. Thank you.

The GSEs implemented these moratoria and other forbearance programs quickly when millions were at risk of losing their homes. However, the private mortgage markets have struggled to do the same. Do you think that the GSEs could have provided this relief as quickly if they were private companies out of conservatorship?

Mr. CALABRIA. I do; I believe they could have provided it more quickly. I believe they actually could have been more supportive because they would have had the capital to absorb even more losses.

So I do think, as a fully capitalized set of private companies—which, of course, they are private companies today—but I believe if they had capital, they could move far more quickly.

Mr. SHERMAN. Mr. Davidson is now recognized for 5 minutes.

Mr. DAVIDSON. Thank you. And thank you all for coordinating this hearing.

And, Director Calabria, thank you for your work, really, to keep our FHFA and the duties and responsibilities of that first and foremost and just for bringing the great experience you have into a, as we can tell from this hearing, sometimes very thankless job. So, I appreciate it.

A lot of the things that you oversee are things that the private-sector market, the free market, wouldn't actually create some of these products, right? So, I guess I am curious, if you could list a few of those things that you do that the Federal Government has decided that we really think it is important to have these programs? Could you highlight some of those programs that you oversee?

Mr. CALABRIA. That is a good question, Congressman. I am not sure, on a daily basis, I divided that kind of bucket, but I will try to do my best here for you.

I would probably create two broad categories.

One, I would say, on one hand, there is an extremely large amount of Fannie and Freddie business that is extremely high-quality. The number of loans that Fannie and Freddie make where the loan-to-values are less than 70 percent, where it is substantial downpayments, very high FICOs, very low debt-to-income, that any lender would feel comfortable making, is very significant. And I would maybe say that is as much as perhaps 80 percent of Fannie and Freddie's business.

There is probably another 15 percent of their business that, under most terms of the private sector, would do, but I would say that maybe—and, again, I want to emphasize, some real approximations, so please don't hold me to it—probably around 5 percent or less of their business is business—and, of course, I am not counting this—that would otherwise go to the FHA—but this is business that most private lenders would probably say that this is simply too risky, or else they would have to price considerably higher.

And most of what Fannie and Freddie do in that regard—again, whether we want to explicitly subsidize that small amount of the overall amount certainly is a decision for Congress to make. But, of the loan products, most of what they do, the private sector, the rest of the private sector, rather, would and could do.

Mr. DAVIDSON. Yes. Thanks for that.

So that, without naming the exact programs, gets to the heart of what I am concerned about. So much of the portfolio would truly be able to be priced, in a sense that the market could provide a price. And I think it is really important that that part is able to re-enter the market. And the tool to do that is the credit risk transfer, or structured credit market. It's incredibly important, whether you are talking in any of the four main sectors of it, but certainly a big portion comes under FHFA.

And so, when you think about how important that is, the structured credit market is a massive part of how we have kept nominal rates low for the vast majority of borrowers. Because the yield is able to happen primarily because of liquidity, right?

So, if the vast majority of things entering the structured credit market are really things that the market understands, have priced, would price, then when you pass that on into the secondary market, then the market knows how to price that. Even if it is a standalone vehicle or bundled up together, it consists of market risks, things the market would do.

But I guess my concern is, there are certain things—you referred to it as maybe 5 percent of the portfolio—that the market really wouldn't do. Now, I am not debating whether the Federal Government should or shouldn't do those things. I guess my concern is that they shouldn't really enter into the credit risk transfer pool and be considered market risk.

Now, a lot of people know that, okay, it is in there, so you have to cover for it and dilute it with other things. But why would you put poison into an otherwise healthy food chain?

What are your thoughts on how to protect the market from non-market risk in that sense?

Mr. CALABRIA. That's a great set of questions and points.

And let me first say, I think the CRT market has been so helpful in illustrating that there actually are investors who want to take mortgage credit risk. And, certainly, for a very long time, one of the arguments for keeping Fannie and Freddie in their current condition was that nobody else would take mortgage credit risk, and so I think CRTs demonstrate that there is an appetite for that.

I think the way that the GSEs have traditionally done, but the point—your point is that they have had rather high, what you call attachment points. And so, until you hit the attachment point, Fannie and Freddie take the first loss of the CRT. So, if you take my example of, say, 5 percent of the pool is not what the private sector would necessarily want, where the structure of the pool generally leaves that first 5 percent or so with Fannie and Freddie.

Mr. DAVIDSON. Thank you so much. I wish we had more time to talk, and I would love to, at your convenience.

My time has expired, and I yield back.

Mr. CALABRIA. Absolutely.

Mr. SHERMAN. Thank you.

And I now recognize my fellow Californian, Mr. Vargas.

Mr. VARGAS. Thank you very much, Mr. Chairman.

And I want to thank the chairwoman and the ranking member.

And, of course, Dr. Calabria, thank you very much for being here. I appreciate it.

In a normal economy, when a borrower requests early forbearance, it could be a sign that the loan was poorly underwritten and, therefore, problematic for the Enterprise to purchase. However, during the pandemic, early requests for forbearance have become more common and were likely an indication of the broader economic uncertainty, that poor underwriting or responsibility is not the issue.

Ultimately, FHFA seemed to agree with this reasoning and allowed Fannie and Freddie to purchase some loans that entered into early forbearance. In fact, FHFA's 2019 report to Congress states that, "Purchases of these previously ineligible loans help provide liquidity to mortgage markets and allow originators to continue lending."

Could you explain that to us, Dr. Calabria?

Mr. CALABRIA. Thank you, Congressman. And let me first say, I hope that you and your family have not been adversely impacted by the fires and that we are monitoring that situation as it impacts the mortgage market.

But more directly to the point, prior to COVID, if a loan had entered forbearance or any sort of delinquency after closing but yet before delivery—because it is important to keep in mind, it is not a Fannie and Freddie loan until it is purchased. So it is not a Fannie and Freddie loan at closing; it is a Fannie and Freddie loan at delivery.

Historically, Fannie and Freddie have just to buy those loans at all. And so, when COVID hit, of course, a number of lenders, originators, particularly those who are nonprofits, such as State housing finance agencies, were telling us that they were unable to keep those loans. And so, we wanted to provide a source of liquidity.

But we also wanted to make sure that large portfolio lenders, such as the Wells Fargos of the world, couldn't just move all the loans off their portfolio onto Fannie and Freddie and transfer the risk to us. So we wanted to be able to price this in a way that we are providing liquidity but we are not encouraging people to move risk to us.

And our legal analysis was that we calculated what the decline in the value of the loan was—because let me say as a broader issue, we are not intentionally supposed to overpay for loans or take losses. And so, we priced this in a way where essentially, it was meant to be if you were a buyer of last resort, so we could buy liquidity when it was needed.

Mr. VARGAS. I didn't want to interrupt you, but when you say pricing, are you talking about the 500 and 700 basis points?

Mr. CALABRIA. Yes, I am.

Mr. VARGAS. In doing that, that has put the burden, obviously, on the loan. Could you explain that a little bit?

Mr. CALABRIA. The way the loan pricing works is, we have calculated—and, again, I should say, start, as a comparison, there is an active private market for those loans, and the pricing discounts are 20 to 25 percent off. So, there are alternatives for lenders.

But what we wanted to look at this and say is, given that loans entering into forbearance have higher ultimately delinquency and loss rates, given that if it was going to be in a forbearance, you are automatically not going to get 3 months or more of interest, we had to calculate what the loss in value was.

So, again, between—and, again, let me emphasize, it has historically always been the case that anything that negatively impacts the loan between closing and delivery is a risk borne by the lender. That has always been the case. We wanted to respect that. The lenders are not Fannie and Freddie employees; they don't work for me. Ultimately, we wanted to be able to price the decline, and that is what we did.

So, quite frankly, just to be clear, it is not a penalty. It really is just, the loan is only worth this now.

Mr. VARGAS. No, I understand. Okay. And I would like to continue to work on that. And I appreciate you speaking to that.

I do want to ask you this. The issue of climate change—you asked about my family. Thank you. My family is fine. And I do appreciate that. But do you believe in climate change?

Mr. CALABRIA. I believe it represents a significant probabilistic risk that we, as financial regulators, need to account for.

Mr. VARGAS. Okay. Because I know I was in insurance for a while, and they certainly believe in it. The actuaries do. And I do think we have to prepare ourselves for that. I don't think that the fires in California and in the West and these larger hurricanes that we have are an accident. I believe it is climate change.

And I do have to say—I have a few seconds left—that I am very happy that people are starting to talk about that. I used to talk about that all the time, and Republicans said it is a fake thing, it is a hoax; it is actually a Chinese hoax. It is not. It is real. It is urgent.

And I think people like yourself, who believe in science, really need to take a look and say, how can we act as a nation to protect our people and especially protect poor people, who are mostly affected by climate change? Because I do think the people who are poor are going to be the ones who are affected most.

But, again, I thank you very much, and I would like to continue to work on forbearance. Thank you, sir. Thank you for being here.

Mr. CALABRIA. Absolutely. Thank you, Congressman.

Mr. VARGAS. My time has expired.

Mr. SHERMAN. Thank you.

I now recognize the gentleman from Georgia.

Mr. Loudermilk, are you there?

Okay. We are going to move on to the gentleman from North Carolina, Mr. Budd.

Mr. BUDD. Thank you, Mr. Chairman.

And, again, Director, thanks for being here.

I have a question about the origination flexibilities that have been put in place by the GSEs. They have been crucial to conducting mortgage transactions safely during the pandemic and have helped the mortgage market remain a bright spot in the economy during these recent times.

Now, these flexibilities, which impact areas such as appraisals, verifications of income, power of attorney, they have been extended on a month-by-month basis. But given that the current public health crisis remains ongoing for the foreseeable future—maybe after the election; we will see—are there any plans to extend these flexibilities for longer periods of time, just to provide more certainty and stability?

Mr. CALABRIA. We are currently in the process of evaluating the impact of these flexibilities. I certainly want us to make sure that we are thoughtful about making long-term changes, for instance, to the appraisal industry, as you mentioned, or the home inspectors. We want to make sure, before we make long-term changes, that we hear from those organizations, that we hear from those constituencies.

And so we are engaged in, first and foremost, right now, an internal risk review, looking back to see what has been the impact of these flexibilities on the risk. But we intend before the end of the year to issue a request for input on some of these flexibilities so that we can hear from market participants and others on what the impact has been and what we should keep and what we should extend and what we should modify.

Mr. BUDD. Thank you, Director. Just to borrow an analogy from healthcare, we are doing so much more telemedicine now, and we are seeing that we should have done that pre-COVID, and we should continue to do that post-COVID. So there are things like that, that we are seeing in home mortgages and in the home purchase process that we probably should have been doing before, and should do long after. So please keep that in mind, if you would.

I want to say that I like FHFA's efforts to move the risk of Fannie and Freddie away from the taxpayer and onto counterparties. And as we look at a longer timeframe for the recapitalization, it seems like a really good idea to protect taxpayers from another possibility of a housing downturn.

So would you be willing to commit to working with me and others on the committee to ensure that taxpayers are adequately protected during this time, particularly including during the possibility of offloading downside risk to private capital markets, reinsurers, and other qualified risk-transfer partners?

Mr. CALABRIA. Absolutely. We look forward to working with every member of the committee on these issues.

Mr. BUDD. That would be great. Thank you.

And my last question is, before the pandemic, I know your agency was involved in a comprehensive review of all of the pilot programs of Fannie and Freddie. It continues to concern me that both Fannie and Freddie set the capital standards for the mortgage insurance industry and then turned around and created mortgage insurance pilots to compete against the very industry that you oversee.

I am speaking specifically about the integrated mortgage insurance and the Enterprise Paid Mortgage Insurance (EPMI) options.

Should a GSE in conservatorship—or in any state—should it be permitted to set capital for a counterparty and then compete against them in the primary market?

Mr. CALABRIA. I share your concern, and I raised that question. We had hoped to have that issue resolved before, and then COVID hit, and, obviously, this is one of those regulatory issues that has been delayed because of COVID. But I certainly want to commit to you, Congressman, that this is an issue that we want to resolve.

Mr. BUDD. Thank you, Director. I appreciate you being here today.

And I yield back to the Chair.

Mr. CALABRIA. Thank you.

Chairwoman WATERS. Thank you. And thank you very much, Mr. Sherman.

I now recognize the gentlelady from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you, Madam Chairwoman.

My district—13 District Strong—is really hurting right now. I don't know if you have ever heard me talking about my beloved district. It is the third-poorest congressional district in the country, and the pandemic has really exposed a lot of the broken systems and programs.

The Neighborhood Stabilization Initiative (NSI) was created by your agency, correct?

Mr. CALABRIA. It was created by Congress, but it was implemented by this agency and some—

Ms. TLAIB. You all implement the policy. So, the goal was to stabilize neighborhoods that were hit hard by the housing downturn. That was the goal of Congress when they created it.

It also was to help reduce the inventory of what they call real-estate-owned (REO) properties by putting those homes in the hands of residents, correct?

Mr. CALABRIA. Absolutely, yes.

Ms. TLAIB. Yes. So, do you believe the NSI program would be useful in stabilizing neighborhoods and retaining home ownership during the pandemic right now?

Mr. CALABRIA. I believe it could be in targeted neighborhoods, yes.

Ms. TLAIB. One of the things, though, Director, is, I really think we need to ensure that we don't repeat the damage this program actually created on the ground.

And, as you know—I know you are nodding your head, but did you know that, since 2014, in my district, 15,000 homes were actually torn down and sold to deceitful or unscrupulous, kind of, companies in my district? Were you aware of that?

Mr. CALABRIA. I was not aware of those specific, particular examples, but I have certainly heard of similar cases elsewhere.

And let me very much agree with you that there was a number of ways in which the response to the 2008 crisis were not well-executed, and I think it is so important that we don't repeat those errors this time around.

Ms. TLAIB. And I am so glad to hear you say that, Director, because consumer advocates have really pleaded about making sure they repair and sell these homes and actually put them in the hands of actual residents. It is so critically important. Because I can tell you right now, NSI has left a lot of my neighborhoods in despair.

And one of the other really important things is that consumer advocates—and this is why I need your partnership—have really been pushing and urging a lot of banks that received a huge taxpayer bailout, as you know, during the last recession, to force them to lend, to give smaller loans to many of those that do benefit from the NSI program.

Also, I think it is really important—and this is something that is a really serious question, Director. To ensure that families can save money on their rent and to really help working-class Americans recover from the pain of this crisis—and, still, we don't really even know what that is going to look like on the ground—your agency needs to ensure that REO properties are getting in the hands of affordable-housing nonprofits.

How are you ensuring that happens?

Because that is one thing that went wrong, as you know. Vision, a company that woefully ignored their responsibility as owners and landlords, was able to buy thousands of REO properties from Fannie Mae, and I think they continue to hold some of those properties.

What are we doing to make sure that we are not repeating those mistakes that really hurt our families?

Mr. CALABRIA. Agreed. And that is really such an important issue. As you know, there was also some Fannie financing of some of these investment funds that were buying vacant or foreclosed properties, when they could, of course, have gone to homeowners.

So we are currently conducting a review, particularly of the issue of the vacant properties, which we know can be so devastating to communities. We want to make sure we don't repeat those errors. One of the things I impressed upon our staff when I came in the door last year was, we need to make sure the servicing side of this is up and running and that we don't repeat those problems.

So, we are certainly looking at some of these things. We certainly want to make sure that we can work with nonprofits when it makes sense. We want to make sure that we are not leaving vacant properties that are just being a blight on the neighborhood, that we are addressing those as soon as we can. And hopefully, we can avoid a number of the problems that happened the last time around.

Ms. TLAIB. And you have a partner in me. I would like a follow-up by your agency on what specific measures your agency has taken to prevent other companies from buying homes from Fannie Mae, from dodging State laws, endangering tenants, and promoting abusive lease-to-own schemes, which Chairwoman Waters and I are trying to deal with now.

Can you follow up with our office, with specifics on what those measures are? Because you can review; I can tell you, it is going to come back saying, we didn't do our due diligence to making sure this program was as it was intended by Congress to help stabilize neighborhoods.

Mr. CALABRIA. Congresswoman, let me commit to you and every member of the committee, I have no tolerance for Fannie and Freddie partnering with bad actors. Any time that anybody on this committee points me toward a bad actor, we will take a look at it, and we will try to deal with it the best we can.

Ms. TLAIB. Thank you.

And I yield back.

Chairwoman WATERS. Thank you very much.

I will now recognize the gentleman from Tennessee, Mr. Kustoff, for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman.

And thank you, Director, for testifying today.

Last November, you spoke at the Conference of State Bank Supervisors summit, and you speculated, I believe, that the GSEs could be ready to exit conservatorship, I think you said at that time, by 2022 or 2023.

Obviously, the world has changed. I think we all understand that and appreciate it. Can you talk about whether that projection is still on track and, if not, why?

Mr. CALABRIA. Let me first emphasize that my view—and I somewhat relayed this to Congresswoman Maloney in our back-and-forth—was that this is process-driven, not calendar-driven. And when I made those statements, I believe I said at the time that these were approximations, and so it would be driven by the—but, again, they won't get out until they are ready to get out.

But let me—if I can put a date around it in terms of delay, I think we have probably been delayed 4 to 6 months. But, again, I want to caveat, that really depends on what the housing market looks like going forward, what the equities market looks like going forward. Certainly, there are a lot of unknowns.

But, Congressman, what I think you should really take away is, we have to make sure that they are not going to leave until they are ready to leave, and we have a lot to accomplish for them to get out.

Mr. KUSTOFF. You just talked about trying to project what the housing market looks like. And, again, I appreciate the challenges that you have, along with everybody else. What do you think about the next 6 to 12 months in terms of the housing market?

Mr. CALABRIA. Again, repeating my earlier observation that I think we have a two-track housing market, where the single-family purchase market is going extremely well, I think it will continue to go well for at least another 6 months. I am very much concerned on the rental side and on the multifamily side. I think we are just facing a very different set of scenarios there.

But I would also say that while it is very hard to date these things, I do think we are closer to the peak of the single-family market than we are to the bottom. And so, certainly, my instincts are, probably within the next 2 years, this rally, if you will, will probably have run its course, and so we do need to be concerned about a potential downturn in the housing market.

The housing market does have a tendency after long runs to revert itself. And so, we do need to make sure that Fannie and Freddie, borrowers, lenders are all prepared for a potential stress environment in the housing market at some point.

Mr. KUSTOFF. As to that point—and I know you have been testifying, and we have been in our hearing, but the Federal Reserve Chairman today—in fact, now—is talking about interest rates, projecting interest rates, and that they are going to remain low, close to zero, at least for the next couple of years. Does that affect your projections of the housing market itself?

Mr. CALABRIA. We certainly take into consideration the Fed's projections. And, of course, I think if you ask Chairman Powell, he would say that it is hard to have much certainty, too far out, and that is the same here.

And while I certainly hope for the best, I think my role as a prudential regulator is to plan for the worst, which, of course, I hope never happens. And, again, as I have mentioned, there are a lot of unknown risks, and I think we just need to be prepared for those.

Mr. KUSTOFF. Thank you.

In terms of Fannie Mae and Freddie Mac suspending both purchases of seasoned mortgages, or mortgages that have been held on the balance sheet for over a year, my understanding was that the suspension was initially going to expire a couple of months ago, on June 30th.

The suspension is still active. I don't believe that FHFA or the GSEs have provided any guidance regarding how long the suspension will last. Can you give us any guidance?

Mr. CALABRIA. We are not at the point where we can give a date, but I would be happy to work with you and other members of the committee.

To give you some background, we were very concerned early in the crisis. We had been approached by a number of very large depositories, some of the largest banks in the country, who wanted to move considerable amounts of their seasoned mortgages, which were hitting some stress.

And so, quite frankly, we were concerned about having our largest banks, who are leveraged—while we could argue whether they are too highly leveraged or not enough—that were leveraged 10-to-

1 wanting to pass on the risk of seasoned loans to Fannie and Freddie, who were leveraged 250-to-1. And so, we certainly just wanted to make sure that these large institutions weren't using this as an opportunity to transfer their risk.

But Congressman, I do recognize that there are some smaller institutions that this has inadvertently impacted. And we would be happy to work with you on some modifications to try to facilitate liquidity to smaller institutions.

Mr. KUSTOFF. Thank you, Director.

And I yield back.

Chairwoman WATERS. Thank you very much.

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

Mr. LAWSON. Thank you. Madam Chairwoman, thank you for having this hearing.

And I welcome the Director to this hearing.

Mr. Director, I have been listening to many of my colleagues ask questions. And one of them is really on my mind, and I know it is on the mind of the chairperson. We have been receiving—I have been seeing on television different programs that occurred around the country which related to evictions.

And since the FHFA extended the foreclosure and eviction moratorium through the end of the year, I worry that we will see an influx of evictions coming January, and homelessness—this is very important—will reach a new all-time high with this pandemic.

Do you have the same concerns? And is there a plan set in place to deal with the potential outcomes?

Mr. CALABRIA. Congressman, I share your concerns. And let me commit to you that, if the data, as we approach the end of the year, suggests that we need to extend our eviction/foreclosure moratorium beyond the end of the year, we will do so.

Mr. LAWSON. Okay. Thank you.

And, from your perspective—and I know that you have heard from some of my colleagues about the HEROES Act that we sent down to the Senate, which Chairwoman Waters had a great deal to do with. The homeless program that we see out in California and we see on the streets—there are the highlights all the time. Do you have any influence in this regard when you talk to some of my Senate colleagues, as to, because of this pandemic, that we need to move on this before the end of the year?

And I have heard some of my colleagues on both sides talk about it. But what do you think is going to be the outcome as we approach the end of the year? Because this pandemic that we have been faced with is—everyone anticipated that in the early part of July or in August, everything will start to stabilize and everything will try to go down. How do you all approach that?

Mr. CALABRIA. Congressman, just a reminder for members of the committee, I am an independent regulator. I am not part of the Administration, and not part of the negotiations between the Senate and the White House. So, again, we are not privy to that conversation.

We certainly share everybody's, I hope, general feeling that we can have some resolution and deal with these issues. But our agency doesn't have a role in that process.

Mr. LAWSON. I understand that. But do they ever ask you for input from your perspective with the responsibility that the FHFA has? Do they ever call you for a recommendation?

Mr. CALABRIA. We do get inquiries on issues dealing with us. For instance, for Sections 4022 and 4023 of the CARES Act, that language was shared with us late in the process by the Senate as it was being debated. We had offered some suggestions. Some they took; some they didn't.

But we did have a conversation. But it wasn't a question about the overall bill. It really was a reach from the Senate Banking Committee in terms of the issues that directly impact our agency.

Mr. LAWSON. It is great to have you here. And I know this question might be unfair, and you don't have to answer it, but do you feel that, here, we are headed in the right direction in terms of what we would like to do for the rentals, for the landlords, which a lot of our major cities are experiencing? Do you feel that we are headed in the right direction?

Mr. CALABRIA. Are you referring to the HEROES Act? Referring to Congress? Are you referring to the economy? Could you be more specific, Congressman?

Mr. LAWSON. The HEROES Act that is pending, that is before the Congress right now, did we leave out anything? Are we headed in the right direction in what we are trying to do?

Mr. CALABRIA. Thank you, Congressman. I have not personally had an opportunity to go through the HEROES Act housing provisions, but I will do so and get back to you.

Mr. LAWSON. Okay. That will be fine.

Madam Chairwoman, with that, I will yield back.

Chairwoman WATERS. Thank you very much, Mr. Lawson.

I will now yield 5 minutes to the gentleman from Georgia, Mr. Loudermilk.

Mr. LOUDERMILK. Thank you, Madam Chairwoman.

And, Director Calabria, I appreciate your being with us today and engaging in this process.

It has been a challenging time for a lot of us across the nation, but I believe that America is strong. We have relied on our Enterprises, our private businesses, and especially our small banks, with our support, to get us through this. And our healthcare professionals have been phenomenal. And I have no doubt we are going to make it through 2020, and we are going to make it through these other challenges we have in the housing market and rental market.

But, for this, I would like to follow up with you on the Enterprise capital rule, which some of my colleagues have already discussed. My concerns are that the rule would reduce the capital benefits and other incentives for the GSEs to engage in credit risk transfers, which is a good way to reduce the risk to taxpayers.

You mentioned to Mr. Luetkemeyer that you support the CRT and that the GSEs will continue to do CRT regardless of how the final capital rule turns out. But I am concerned that we have already heard evidence to the contrary. Because, in a recent filing with the SEC, Fannie Mae disclosed that it had paused its CRT program because this rule would reduce the amount of capital relief they would get from CRT.

With that case, how can you be sure CRT will continue if the capital rule is implemented?

Mr. CALABRIA. First, let me emphasize, Congressman, that, while they are in conservatorship, we put out a conservatorship scorecard. And so I guess I would put it this way: We will be mandating that Fannie continue to do CRT during conservatorship, and because the compensation of their executives depend on them getting the scorecard, I strongly believe—I suspect they will be incentivized to do so.

Mr. LOUDERMILK. Okay.

Is the FHFA incentivizing Fannie Mae and Freddie Mac to return to pre-financial-crisis behavior with this rule? That is a concern.

Mr. CALABRIA. Just the opposite, Congressman. We are trying to deal with making sure they don't go back to their pre-crisis behavior.

Certainly, as I have emphasized in a couple of conversations today, I do believe that the model of privatized gains and socialized losses that represents the Government-Sponsored Enterprises has some deep structural flaws that are outside of my authorities to fix. So, I would certainly encourage Congress to address those issues.

But I believe having these be better capitalized—lastly, I would also add—this is a little less visible, but I would really emphasize this, because it is such a big part of this. Fannie and Freddie have what I would consider to be some of the worst corporate cultures I have ever seen in corporate America, and fixing that is a fundamental prerequisite to getting out of conservatorship. These companies must be good corporate citizens if they are to exit conservatorship, and the truth is, we have a lot of work to do on that front.

Mr. LOUDERMILK. I appreciate that. And it is refreshing to hear you say that, because I share those same concerns.

Another concern is that the capital rule would require the GSEs to hold almost double the capital for multifamily loans as compared to the single-family. That is not consistent with the historical rate of loss in multifamily, which has been much lower than that of single-family, and it could impact the supply of multifamily housing.

Following up on your conversation with Mr. Huizenga, can you confirm if you have an economic analysis to study the impact of multifamily capital requirements?

Mr. CALABRIA. Congressman, I will see what we can share, and I would be happy to share that with the committee.

Mr. LOUDERMILK. Okay. I appreciate that.

Madam Chairwoman, I will yield back the remainder of my time.

Mr. CALABRIA. Thank you, Congressman.

Chairwoman WATERS. Thank you very much.

I now recognize the gentlelady from California, Ms. Porter, for 5 minutes.

Ms. PORTER. Thank you.

Mr. Calabria, you are here today before this committee to explain why the agency that you are in charge of, FHFA, needs to charge an additional fee to homeowners who want to refinance their mortgage during a pandemic. And, as I understand it, you have said you need to do this because the coronavirus pandemic is costing your agency money. And there is money that you have said is going to come from loan losses, money from foreclosure moratorium losses, money from servicer compensation.

My question for you is, wouldn't homeowners would actually save money by refinancing their mortgages?

Mr. CALABRIA. Let me clarify: This isn't costing our agency anything; it is costing Fannie and Freddie. We are two distinct things. We are not Fannie and Freddie. We are FHFA.

Fannie and Freddie requested these fees. They said they would be distressed if they didn't get them. Obviously, a refinancing improves borrower—borrowers are in a better situation. But, again, I want to emphasize, nobody's payment goes up because of this.

Ms. PORTER. Correct. But we have this adverse market fee that we are dealing with here. This adverse market fee creates an additional fee on homeowners when they refinance, that would not exist if you had not put forth the adverse market fee.

Mr. CALABRIA. Without this fee, I am not paying to keep people who have lost their jobs in their homes. Without this fee, families are on the street. Without this fee, families are exposed to COVID—

Ms. PORTER. Reclaiming my time, Mr. Calabria, homeowners can refinance with or without this fee. By adding the adverse market fee into the refinance process, you are increasing the cost of refinancing for homeowners. Their overall mortgage payment will go down by refinancing.

Mr. CALABRIA. Correct.

Ms. PORTER. I understand how a refinance works.

Mr. CALABRIA. Thank you.

Ms. PORTER. But, as compared to no adverse market fee versus your proposal, which is an adverse market fee, homeowners are being asked to pay more.

Mr. CALABRIA. Congresswoman, I would certainly welcome your assistance in finding a way for us to pay to keep people in their home, which is my first priority here.

Ms. PORTER. Okay. Great.

Mr. CALABRIA. I appreciate the burden on people—

Ms. PORTER. But I have an idea for you, Mr. Calabria. Did you go to Congress? Instead of creating fees on families that total $5 billion or $6 billion, why didn't you go to Congress and ask them?

Mr. CALABRIA. Why didn't Congress pay for these things when the CARES Act was passed?

Ms. PORTER. Have you asked us?

Mr. CALABRIA. Was it not understood that, if you pose mandates on private companies via legislation, as was done in the CARES Act—it was widely understood when the CARES Act was passed, that costs would be placed on the mortgage market. Perhaps I naively assumed that those who voted for the CARES Act knew that—perhaps they didn't know there would be costs.

And this is why it has been delayed, to give Congress the opportunity. This is why the numbers are being presented today. So, if Congress wants to come in and provide the funding, the fee goes away. It is really quite simple.

Ms. PORTER. But, Mr. Calabria, you are in charge of the Agency. It is your job to come to us and say, "We need additional resources. One way we could get it is by increasing the cost on homeowners, who are already struggling to stay in their homes, to add cost to a refinance that is, in fact, designed to benefit homeowners—it is not our job—we are here today, so you could have come to us today and asked us for the $6 billion so that we avoid putting these costs onto homeowners.” And yet, you did not.

Mr. CALABRIA. Respectfully, Congresswoman, we have delayed the fee so that Congress can come up with a solution. The fee has not been implemented.

Ms. PORTER. Okay. So let me ask you again, have you asked Congress for this money?

Mr. CALABRIA. I have not. We can find a way to pay for it in the mortgage market. Because, again, the charters require expenses to be covered via income. I simply assumed that, by Congress passing the CARES Act and Congress having passed the charters, that Congress very clearly intended for me to recoup expenses via income, because that is the statutory framework.

Ms. PORTER. Of course, Mr. Calabria, but you—

Mr. CALABRIA. Perhaps it is naive of me—

Ms. PORTER. —you write the budget. You know how much money you need.

Mr. CALABRIA. But Congresswoman, we don’t write—these are the fees that—you have CBO. None of this went through CBO. If the CARES Act had been scored—and, again, I also want to emphasize, we don’t determine the ultimate cost to the borrower. The lender determines the cost to the borrower. This is a fee charged to lenders, not a fee charged to borrowers.

Ms. PORTER. You don’t think lenders—you, Mr. Very Free Market, don’t think lenders will pass this fee onto borrowers?

Mr. CALABRIA. That is a question for lenders. Just like any costs out of Dodd-Frank are ultimately passed on to borrowers—

Ms. PORTER. Have you had any conversations with lenders that suggest that they will absorb this fee rather than passing it on to homeowners?

Mr. CALABRIA. Some of them said they would absorb it.

Ms. PORTER. Really?

Mr. CALABRIA. Yes. I am happy to connect—

Ms. PORTER. Would you provide to the committee those lenders that have agreed to absorb the fees?

Mr. CALABRIA. I would be happy to connect you to lenders that said they would absorb some of it.

Ms. PORTER. Thank you.

Mr. CALABRIA. Thank you.

Chairwoman WATERS. The gentlelady’s time has expired.

Thank you very much, Ms. Porter.

I now recognize Mr. Hollingsworth, the gentleman from Indiana, for 5 minutes.

Mr. HOLLINGSWORTH. Good afternoon, Director Calabria. I really appreciate you being here and I appreciate the time that you have invested to talk about some of these very important issues.

I know that a lot of language has been thrown at you today and a lot of adversarial conversations have been had. I wanted to just maybe step back from some of those conversations and get at the underlying construct by which we put this fee into place.

And so, as you have articulated both in your testimony and several times today, there are $6 billion to $10 billion in real costs that the Enterprises expect to incur on account of COVID-19. That is correct, right?

Mr. CALABRIA. That is correct.

Mr. HOLLINGSWORTH. And I imagine, if we just close our eyes and put our heads in the sand, that those costs aren't going to go to zero under any circumstances. Those are real and tangible costs that we can expect, right?

Mr. CALABRIA. Correct.

Mr. HOLLINGSWORTH. And the question before us, and I think the question that you have very thoughtfully and artfully answered several times now is, are we going to have rate payers at the end of the day pay the full cost of originating, servicing, and securitizing those mortgages, or are we going to ask taxpayers to pay part of those costs of originating, servicing, and securitizing those mortgages?

And I think, philosophically, you and I have been aligned that, ultimately, it should be rate payers that bear the full cost of that, of the cost over time. Is that correct?

Mr. CALABRIA. That is correct.

If I could add for little more detail, the median income of households who refinanced in the second quarter is $110,000. So, again, as you are getting at, we are essentially asking lower-income taxpayers to help subsidize higher-income people to refinance, is what the argument I have heard today is, and that doesn't sound terribly progressive to me.

Mr. HOLLINGSWORTH. I think that is well-put. And I continue to hear from many constituents who are deeply concerned about where the deficit is today and that taxpayers generally are being asked to fund more and more of that, which should be borne ultimately by rate payers.

And I continue to believe that, ultimately, in setting forth a fee to compensate for those costs, you have appropriately placed the costs on rate payers instead of bearing the burden on taxpayers, and coming to Congress and asking for that money but instead recouping it, as you said, through income.

And so, I wanted to ask very specifically, you set forth a 58-basis-point adverse market fee. You said we are going to start that in September.

We are going through an epic refinance boom right now. Some of that boom is going to be behind us by December when it goes into effect, which I think, because the $6 billion to $10 billion isn't going away, means you are going to have to perhaps have a larger fee, or perhaps that fee will have to be in place for even longer, because you have less volume on which you can recoup those costs.

Could you speak to that a little bit, how the delay might actually lead to higher costs or longer-term this cost being in place because there will be less volume?

Mr. CALABRIA. Thank you, Congressman. And, first, let me clarify, since there are a number of methods, is it not a 50 basis point addition to the fee. Nobody is going to pay 350 instead of three—

Mr. HOLLINGSWORTH. I get that. I understand that. And I understand that is not going to translate directly to 50 basis points, increase the interest rate, it is on the purchase. I am sorry for misspeaking on that, but I get you and I understand.

Mr. CALABRIA. I think you got it right. I was clarifying that for other members of the committee. But you are absolutely right, that if we miss the refinance wave, we ultimately may have to have a higher fee, for longer, because we will be forced to spread this over fewer loans. And so, the direction here is to minimize the loan impact by being able to capture the refinance wave.

Mr. HOLLINGSWORTH. And the reality of where we stand today with where mortgages rates are, at historic lows, and I think, as you well-articulated this 50 basis point fee, may translate into 5 basis points, I think, you testified earlier on the ultimate mortgage cost to the consumer, that if we miss this opportunity—this is something I have been talking about—if we miss this opportunity through this huge refinance boom, that cost may be higher later on, on those who are trying to refinance. Also, while rates may be going on, a double whammy for the housing market later on while we miss this epic refinance boom today. Is that something that you think as well?

Mr. CALABRIA. That is absolutely the tradeoff we face. Again, what I have tried to do is—we have probably had nothing but bad choices, trying to pick the least bad that minimizes the impact and targets the benefits of those most in need.

Mr. HOLLINGSWORTH. And to ensure the basic philosophical principle that rate payers pick up that full cost, versus taxpayers subsidizing the cost, I think that is the basic principle we need to stick with. With that, I yield back.

Mr. CALABRIA. Thank you, Congressman.

Chairwoman WATERS. Thank you very much.

I now recognize the gentlelady from Iowa, Mrs. Axne, for 5 minutes.

Mrs. AXNE. Thank you, Madam Chairwoman, and thank you, Director Calabria, for being here. I very much appreciate it.

I want to talk a little bit about how renters have been protected during this pandemic. As you are fully aware, we have a new eviction moratorium from the CDC that is intended to protect eligible renters, and basically all properties. I think we all know that that is a temporary measure that unfortunately will still leave people owing money, rent money on January 1st with no ability to pay for that. But I am going to continue to support rental assistance for people to provide a long-term solution to this problem.

But for now, I want to take a look at how things have gone so far. We are already seeing reports of legal challenges to the CDC moratorium, as well as landlords illegally refusing to accept declarations from renters. Obviously, that is a major problem, one we are going to have to look at moving forward, but it brings me to some issues that we are seeing with the moratorium under the CARES Act.

Hundreds of Iowa families have been kicked out of their homes, unfortunately, and at least 10 percent of these were done illegally in violation of the State or Federal moratorium. The CARES Act created a 120-day moratorium on evictions for federally-backed properties.

Director, can you outline what properties that protection covered?

Mr. CALABRIA. Thank you, Congresswoman. Let me say before we get to the question, we very much share your concern. I do want to emphasize that renters, particularly landlords facing stress, if they have a Fannie and Freddie loan, they should reach out to us so we can get them in forbearance and provide some relief. In terms of the authorities that we have to provide a moratorium on eviction, we can only stop eviction on foreclosures and properties that we actually own, "we," being, Fannie and Freddie.

Mrs. AXNE. Thank you, first and foremost, for that offer. We are going to be getting ahold of your office because I have heard from Iowa Legal Aid, who found most of these illegal evictions, and they worry that their list is incomplete because of bad data. We have seen circumstances where this is happening. They can pretty much find everything that is backed by the VA and the FHA, but they are struggling with the lookup tools from Fannie Mae and Freddie Mac. It is just not giving them what they need. Those are not only difficult to use, but they are very incomplete, which is the biggest part of the problem, missing some properties that should have been covered.

So, instead of being able to quickly check the property to help the renter facing eviction, now they are spending their time searching these records, which means they can't help people as quickly as they need to, in a really difficult time. This kind of thing, of course, allowed landlords to go ahead and file illegal evictions, because it makes it easier for them to get away with it.

Director Calabria, can you commit to making sure that Fannie and Freddie get these tools working properly so that we can get the transparency that America's renters need?

Mr. CALABRIA. Well, we are, and what I will mention that I think will be particularly impactful, is we recently revamped the search engines. So, unlike the single-family program where if you are an owner, you enter your Social Security number, which is obviously unique, so they can find the mortgage. Unfortunately, if you think about it, if a renter lives in a property that is called something like Gardens Manor and they search Garden Apartments, they may not find it. So what we have done is set this up so the renter can now search by ZIP Code, and they will get a list of all the Fannie and Freddie rentals in their ZIP Code.

Again, I would really emphasize, as you know, we set this lookup tool up for the first time in this crisis, and I will be the first to say, was it perfect when it went out? No. But we thought it was better to have something that was 80 percent correct than have nothing at all. And we continue to have updates on that, and we will continue to try to make sure we can get it to 100 percent.

Mrs. AXNE. Please let me know what you are looking at for 100 percent, what kind of timeline that is? We literally have people being kicked out on the street because of this and the inaccuracy of the tools and the inability for people to get that information.

I have many examples that I can go into, but they are long stories, unfortunately, sad, long stories.

I did want to mention, too, and I appreciate you working on that, so thank you so much. But I am a little disappointed that making sure renters knew if they were protected, wasn't the biggest focus of your organization, and that instead, there was a lot of effort put into that capital proposal that was put out in May, in the middle of this crisis, as we have been trying to focus everything on helping people during this crisis.

We have talked a little bit about that today. The standards you put out in May would be questionable, even in good times, but during a crisis like this, it seems almost disconnected with the realities that people and the economy need. Raising the cost of the average mortgage by $350 a year, which Fannie and Freddie both say is basically what is going to happen, is not what we need during this crisis.

So, I would urge you to reconsider the proposal. I have heard the conversation today. But given the impact that this can have on our economy and on a family's ability to pay their bills and own their homes, I hope you can reconsider. Thank you so much. My time has expired, so I yield back.

Chairwoman WATERS. Thank you very much. I now recognize Mr. Gonzalez of Ohio for 5 minutes. Thank you.

Mr. GONZALEZ OF OHIO. Thank you, Chairwoman Waters, for holding today's hearing, and thank you, Director Calabria, for being with us today.

Director, first, I want to start by thanking you overall for your work throughout the pandemic. There have been multiple times where myself, or members even from my community, have wanted to connect with you and your office to get guidance in helping figuring out sort of the direction that FHFA is going, and you have always been incredibly receptive. And I just want you to know on behalf of myself and my community, I really thank you for that, because it is not normal, I think you know that, but it is appreciated.

First of all, I will start with a question. In your testimony, you reference your earlier recommendation to Congress that FHFA give additional regulatory and supervisory authorities. Looking at the June annual report to Congress, those recommendations included supervisory primary market, specifically nonbank mortgage lenders. Can you explain further the kind of authority that you are seeking over this segment of the market?

Mr. CALABRIA. Thank you, Congressman, for that, and to clarify, I am not looking to regulate anybody that I am not already regulating. I certainly have my hands full with the companies I already regulate. What I am looking is simply to have exam ability, similar to that of the Bank Service Company Act, where we can go in to essentially those who provide services or counterparts of the GSE. So as it relates to nonbank servicers, it will essentially allow us to go in, take a look at their financials, and know what kind of shape they are in financially, whether they are a strong counterparty. But it would not put us in the place of being a regulator for nonbank servicers. Just to clarify, exam authority, but not regulatory authority.

Mr. GONZALEZ OF OHIO. Are you worried about any overlap from an exam standpoint? That is sort of the comment that I hear most often.

Mr. CALABRIA. That is one of the reasons that I raise that. We are not looking for regulatory authority. As you know, most nonbank servicers are regulated at the State level. I think that is certainly appropriate. We work well with the State regulators, and we want to keep it that way. We certainly just want to make sure that we continue to make sure that Fannie and Freddie are only doing business with strong institutions that are good corporate citizens.

Mr. GONZALEZ OF OHIO. And shifting to something that has been covered ad nauseam, the adverse market fee. I was pleased to see that you put in place a threshold of $125,000, in order to help low-income homeowners. I am just curious, because I know you are a data-driven guy, what information went into that? Is $125,000 the right number? What are we expecting to avoid having to pay, let's say, by putting $125,000 versus, say, $200,000 or $250,000, or something like that?

Mr. CALABRIA. Great questions. I also want to emphasize that we have also excluded Fannie and Freddie's HomeReady products, both affordable products from both agencies. And so, there is a much less liquid market for small-dollar loans, and, of course, given that income is related to the size of the loan, what we end up doing is cutting off, making sure the fee does not apply to predominantly households that are under 80 percent of area median income.

Mr. GONZALEZ OF OHIO. Okay. That is helpful. And then what about, I know, this is always hard to do, but expanding it depending on market, right? So, New York City is going to have a different mortgage market than Cleveland.

Mr. CALABRIA. Certainly, there are two issues with that, where obviously, the more we cut out, the higher the ultimate fee may have to be, because—and I think Congressman Hollingsworth mentioned this, we have to fix the model ultimately, we are going to have to recover.

So, again, we cut out purchases, because, again, we didn't want to have an adverse impact on the purchase market. So as we shrink that, the ultimate fee may be higher. But, secondarily, it is not clear to me that Fannie and Freddie have the IT capacity to be able to come up with a price differential brief market, but we can look into this. We did go back and forth with a number of different parameters. And, again, unsurprisingly, sometimes Fannie and Freddie both do things very differently. So some of this is, again, what are the mechanics in the administrative process to set this up?

Mr. GONZALEZ OF OHIO. Thank you. I have some more questions, but I will submit them in writing, as I see my time is almost up.

And, again, thank you, Director Calabria, for just being accessible and for all of your work. Thank you, and I yield back.

Chairwoman WATERS. Thank you very much.

Mr. Casten, you are now recognized for 5 minutes.

Mr. CASTEN. Thank you, Madam Chairwoman, and thank you, Director Calabria, for being here today, and for being patient, because I know it has been a long day, especially when you are down at the bottom of the dais.

With all of these horrific wildfires raging out West, have you done any modeling yet to assess what the impact is of those fires, or is it premature to have started that?

Mr. CALABRIA. Anything now has to be preliminary. We have done some internal analysis. We think that in terms of financial impact on Fannie and Freddie, it will be small. But, again, as we know the fires are still raging in many areas, so the ultimate impact is far from being known.

Mr. CASTEN. That is helpful. As Mr. McHenry pointed out, this is the earliest year ever with an "S" named hurricane. Have you done any preliminary modeling of what this hurricane season is going to do to the GSEs?

Mr. CALABRIA. We have some numbers that we are putting together. Some numbers on the—let me, overall, say, the overall impact, because it has mostly been a wind, rather than a flood event, doesn't look like it is going to be very large numbers for Fannie and Freddie. Again, we are happy to share our preliminary numbers with you. But I wouldn't say the broader point that Congressman McHenry touched upon, which is, we do need, essentially, a broader look at this in terms of what the future impacts are going to be, particularly, for many changes in climate to make sure as well that lenders aren't necessarily transferring risk to Fannie and Freddie that we are not aware of. So, these are all things that we are looking at.

Mr. CASTEN. I am glad you asked that question, and I would like to ask unanimous consent to enter into the record a New York Times piece called, "Climate Risk and the Housing Market Has Echoes from the Sub Prime Prices From 2019."

Chairwoman WATERS. Without objection, it is so ordered.

Mr. CASTEN. This article notes that starting in 2004, every time we had a hurricane that caused at least $1 billion in damages, lenders increased by almost 10 percent a share of those mortgages that they sold to Fannie Mae and Freddie Mac. It sounds like the private sector figured out, way back in 2004, that this was an issue and started offloading it onto the taxpayers.

After that study was released, what analysis did FHFA undertake to understand that exposure? Because this is not just loss, this is exactly what you just described, increasing the shares of those mortgages that are held by Fannie and Freddie.

Mr. CALABRIA. Let me first say, having read the article as well, and having read the underlying research, I might take issue with some of the methodology, but I broadly share the qualitative conclusion of the article and the underlying research.

As you know, I came on board last year with a number of issues to deal with. We are expanding our capacity. For instance, we are going to be hiring an environmental economist to start doing modeling in this area. I am very concerned that this risk is being passed from lenders off to Fannie and Freddie. And, again, when I came on, we didn't have the research capacity to really look at this issue, thoroughly, and we have been building that out.

Mr. CASTEN. Okay. Have you done any modeling of more systemic risks throughout your portfolio? There have been estimates as much as $900 billion of property, coastal property has a risk of increased flooding. Have you looked at the systemic risk from any of those losses or modeled what that could do to GSEs?

Mr. CALABRIA. We have looked at some of that. And Freddie, particularly, has done some work in this area. I can certainly see what we can share with you. But the broader overall issue, I would certainly agree that Fannie and Freddie are not prepared for systemic climate.

Mr. CASTEN. In FHFA's proposed capital requirement rule, you acknowledged that climate change is a, "potentially material risk to GSEs," but the final rule says there is no risk-based capital requirement for the risks that climate change could pose to property values in some localities.

Given, as you said, that you are doing this research right now, how did you come to such a dogmatic conclusion?

Mr. CALABRIA. Congressman, what issue is it that you see as dogmatic? I am confused on—

Mr. CASTEN. The final rule says that there is no risk-based capital requirement for the risk that climate change could pose. I am wondering what research FHFA has conducted to make that decision to say that there is categorically no risk, and are purposely excluding climate risk, especially when the private sector has apparently decided that it is not worth them holding that risk?

Mr. CALABRIA. To clarify, Congressman, the rule doesn't say that we don't believe there is any risk. What the rule is saying is that we have included this within the buffers, because we are not at the point where we have the data to be able to come up with precise estimates. And so, the credit part of the capital is based on historical data, but we have the credit losses. We don't have that quality and level of data. So I do want to be clear, and I apologize if what the rule says has been misunderstood.

Mr. CASTEN. My time has expired. But I would just point out there is a significant systemic risk, and I am sadly disappointed in speaking with you, and with Treasury Secretary Mnuchin, that there seems to be a lot of non-climate people assuring me that we don't need to worry about this. I yield back. Thank you.

Chairwoman WATERS. Thank you very much. The gentleman's time has expired. I now recognize Mr. Garcia, the gentleman from Illinois, for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Chairwoman Waters, and Ranking Member McHenry for convening this hearing. And thank you, Director Calabria, for joining us today.

I represent a working-class immigrant district that has been hit particularly hard by both COVID and our economic crisis. Most of my constituents are renters, and our State's eviction moratorium expires in 3 days. The CDC's eviction protections are an important step, but we don't know how they will play out in the eviction courts across the country. And none of the measures that are in place so far help tenants or landlords deal with the overdue rent payments that have piled up for months.

Director Calabria, the Heroes Act included $100 billion in rental assistance funds to help tenants who can't pay their rent, but the Senate won't pass it. Landlords in my district are feeling the strain of so many missed rent payments, even with mortgage forbearance. What is the projected risk to Fannie and Freddie of so many borrowers who enter into default because they can't collect rent payments? And would rental payment assistance minimize that risk?

Mr. CALABRIA. First, Congressman, as I think you know, we are offering forbearance to landlords with Fannie and Freddie loans who are experiencing difficulty collecting rents. So, we are trying to deal with that in terms of the Fannie and Freddie portfolio. We don't have exact numbers. That is within the overall $4 billion we have calculated for credit losses from COVID that is part of the reasons for the adverse market fees to recoup those losses. And so, I certainly share your overall concern about problems in the rental market going forward.

Mr. GARCIA OF ILLINOIS. And would rental assistance payments help?

Mr. CALABRIA. Yes.

Mr. GARCIA OF ILLINOIS. Are you asking the Senate to possibly take action on that? Are you encouraging that?

Mr. CALABRIA. Congressman, I have had conversations. We have provided numbers. I do want to emphasize, again, that I am an independent regulator. I am not part of the Administration. I have no authority, and no ability to negotiate on behalf of the Administration. I am not part of the negotiations.

Mr. GARCIA OF ILLINOIS. Do you think it is good policy?

Mr. CALABRIA. I think coming up with something to deal with renters is certainly something that makes sense in good policy. Let me say to the committee overall, I am very sympathetic, because the Senate doesn't always do what I want them to do either.

Mr. GARCIA OF ILLINOIS. The skies in Chicago have been gray for 2 days now because of the fires out West. The smoke reached us here in Washington yesterday. It doesn't take a scientist to see that fires, floods, hurricanes, and droughts are becoming a bigger part of life in our country. Black and Brown communities in New Orleans, in Houston, in New York, and in Chicago have suffered some of the worst destruction from these events. But homeowners in communities like mine are the least able to bear the financial burden of climate change. REALTORS, mortgage lenders, and insurance companies are factoring climate risks into their business decisions.

How about the FHFA? What data is the FHFA putting together about individual properties and their climate risks, and do you have an estimate of the exposure of the GSEs to climate risk?

Mr. CALABRIA. Congressman, when I came on last year, we did not have the analytical capacity, or the staffing to do that. We are in the process of hiring and bringing on that staffing. So what I would say to you today is, I share those concerns. I don't think Fannie and Freddie are prepared for a systemic climate event. One of the reasons I think we need strong capital is to be able to prepare for that unknown. But I certainly want to commit that the very questions that you have raised are questions that I want us to get to the bottom of, and we are in the process of staffing the office so that we can try to figure out what the answers are.

Mr. GARCIA OF ILLINOIS. Okay. Thank you, Dr. Calabria.

Madam Chairwoman, I yield back.

Chairwoman WATERS. I now recognize Ms. Adams, the gentlelady from North Carolina.

Ms. ADAMS. Thank you, Madam Chairwoman. And thank you to our guest for being here today.

Director Calabria, I am glad to hear that you are continuing in your efforts to diversify the agency staff by recruiting at Historically Black Colleges and Universities (HBCUs). Building a pipeline of diverse talent into the financial sector is critical to providing all Americans more equitable access. So, please continue to look to these pillars of our education system as you move forward.

The FHFA recently announced the pandemic relief measure that would permit the GSEs to purchase loans that have gone into forbearance before delivery, but at a significant fee. And I am concerned that this change will impact creditors' lending decisions and end up disproportionately limiting access to credit for communities of color and other historically underserved communities. What are you actively doing to prevent this?

Mr. CALABRIA. Thank you, Congresswoman, for that question. Let me first say that we thought we were required under statute to be able to price these loans appropriately. I think the positive is, we are no longer at a point where lenders are going to be surprised by COVID, so, certainly, in the underwriting decisions that are going on, and I heard from a number of people that when they have gone, they had to maybe sign a form, saving their job.

So I think what we have seen is some better underwriting in response to COVID, so that lenders are no longer surprised. We are carefully, on a regular basis, monitoring our incoming credit quality. We have not seen big changes in the quality of credit or the demographics of our incoming book. I get application summary data from Fannie Mae and Freddie Mac on a weekly basis, so we are able to have an inside look into what the coming pipeline is. And we continue to monitor that. And, certainly, if we think and we see evidence of problems in the marketplace, we will take offsetting action.

Ms. ADAMS. So, you will reduce the fee if you see it happening, or—

Mr. CALABRIA. We will come up with some alternative, because again, and I guess I certainly should characterize, it is not as much a fee as it is a reflection of the climbing value of the price. We certainly are just paying for the value of the loans for what they are. And we also just want to make sure at this point that lenders aren't putting borrowers into loans they can't afford.

As you recall, I'm sure, Dodd-Frank imposed ability-to-repay tests on lenders. So even today, lenders have to make sure that when a borrower is put into a loan, they have the ability to pay it back. And, of course, that rule in itself has some sort of post-cyclical effect so that when we are in the kind of economic stress, lenders are going to pull back because of that rule. But we are making sure that doesn't have an adverse impact.

Ms. ADAMS. Okay, good. Let me ask, I want to touch on the reproposed capital requirements for the GSEs. My concerns have to do with the strength of this rule and will require the GSEs to raise a significant amount of capital, which could raise g-fees and the cost of the mortgages for consumers. And, so, the adverse market fee for refinancing could negatively impact consumers when it takes effect in December.

What are you reproposing, or why are you doing it now at a time of economic stress when consumers need as much relief as they can get?

Mr. CALABRIA. Thank you, Congresswoman. Let me separate out the question on the capital rule from the one on the adverse market fees. Those are two separate issues. First, let me remind the committee that Congress told us to do a risk-based capital standard in 2008. So I would say that given as an agency, we are 12 years behind schedule on that, that we haven't been moving too quickly, but rather moving too slowly. This, again, was a reproposal that we put together. We delayed for a couple of months. It was originally supposed to come out in March.

It is important to recognize that first, there is nothing in the capital rule that requires Fannie and Freddie to change their pricing, but more importantly, it will be implemented over time. So there won't be an immediate impact in the interim. And in terms of the average market fee, because we were provided no funding to offset the impact of the CARES Act, we were forced by charter by those statutes to be able to recoup that via income.

And so, again, we would have preferred to delay this indefinitely, but the very solvency of Fannie and Freddie is at risk, and so, the statute requires that we recoup that for income. I will just wrap up by saying we are simply following the law. And of course, if Congress wants to write a different law, we will follow that.

Ms. ADAMS. Thank you, Madam Chairwoman, and I yield back.

Chairwoman WATERS. Thank you very much. I now recognize Ms. Dean, the gentlelady from Pennsylvania, for 5 minutes.

Ms. DEAN. Thank you, Madam Chairwoman.

Dr. Calabria, I thank you for your testimony today. As everybody has indicated, and as you well know, we are in unprecedented times that require extraordinary response from Congress and the Administration. The pandemic has upended people's financial security and well-being, leaving many people unable to pay their mortgage, their rent, their utility bills. That is why my colleagues and I are so puzzled by the fact that you have put forth a new refinance fee, which could further burden, and will further burden American families as they navigate this pandemic.

In particular, in my district, which is Montgomery and Berks County, suburban Philadelphia, Pennsylvania, I have heard from my constituents about their concerns for housing relief. I have talked with homeowners, with tenants, as well as landlords.

So my first question is, considering that as many as 30 million Americans could face eviction, what additional relief and resources do you think Congress should provide to both tenants and landlords to navigate this pandemic?

Mr. CALABRIA. Thank you for the question, Congresswoman. I really want to emphasize that the adverse market fee that has been proposed by Fannie and Freddie is to pay for the efforts to keep people in their homes. As I mentioned, for instance, we had 200,000 families facing eviction in March when COVID hit. We paid their property taxes for 6 months, for instance, for those families. We paid their housing price costs, so we can do that for another 6 months. So, I do want to emphasize, we have done that without any assistance.

Ms. DEAN. Just for timing, and I do appreciate that explanation, does that mean, then, in follow-up to Ms. Porter's question, you would recommend that Congress pass relief so that you do not have to tack on an adverse fee?

Mr. CALABRIA. I am neither asking nor telling you not to charge it. I am laying out that if you do, and, again, if you want—first, let me get to a number.

Ms. DEAN. Sir, yes or no?

Mr. CALABRIA. I am not asking you to do it. I am giving you the opportunity.

Ms. DEAN. You are comfortable adding the fee? Would you be asking us to move forward with the very important bill that was part of the HEROES Act, which was the $100 billion in rental relief that would get the small landlord assurance that his and her rent is being paid? That is the Heck bill.

Mr. CALABRIA. Again, I want to emphasize that I am not part of the Administration, and not part of the negotiation. I haven't done the analysis as to whether or not that is the right number. I would just say broadly, as I said to other members, that I certainly think rental assistance could be helpful and appropriate. But we certainly aren't part of the negotiations, and have not done any analysis to know what the right number is.

Ms. DEAN. I would think you might want to do that analysis so you that could be informed and better inform us as well. I am certainly in support of that rent stabilization bill, and those dollars.

Another issue I would like to highlight is transparency and consumer notification. It is critical we provide tenants and borrowers with notice of their rights, particularly, to our most vulnerable. I championed a bill, along with our chairwoman, the Know Your Housing Rights Act of 2020, which would ensure Federal agencies develop resources and provide notice to tenants of their housing rights and relief and assistance during COVID. There are other bills for homeowners as well.

Dr. Calabria, can you clarify what FHFA is doing to notify all tenants of their rights under the CARES and options at this time?

Mr. CALABRIA. Absolutely, and foremost, for those listening, I want to encourage any homeowners, any renters, if you need assistance, if you need information, to go to CFPB.gov/housing, which is a website that we developed with the Consumer Financial Protection Bureau (CFPB), in a partnership with FHFA, and there's a tremendous amount of information there. So, that is first and foremost.

We have also worked with Fannie and Freddie to establish detailed websites, with videos, fact sheets, and flyers.

Ms. DEAN. Whose obligation is it to notify tenants of their rights?

Mr. CALABRIA. It is the landlord's obligation.

Ms. DEAN. So you actually believe that you tell the landlord that they should tell their tenants of their rights as a result of COVID? You don't think that is within your responsibility?

Mr. CALABRIA. I don't have the statutory authority to make them do that. We are not a consumer-facing agency. We have no actual relationship with the tenant. Again, there are other agencies. We tried to make sure we provide this information.

So, for a multifamily property owner to enter into forbearance, we require them to tell the tenant. We don't have any way to reach the tenant, to be quite frank about it.

Ms. DEAN. What tools do you have to make sure that they are compliant?

Mr. CALABRIA. We work with community groups. People can give us—when we hear complaints, we can investigate it. We won't have any enforcement authority over the landlords, ultimately, however. All we can do is declare them to be in default of their loan.

Chairwoman WATERS. Ms. Dean, your time has expired.

Thank you very much. I would like to thank Dr. Calabria for his 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 his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 3:45 p.m., the hearing was adjourned.]

A P P E N D I X

September 16, 2020

Written Testimony
Dr. Mark A. Calabria, Director
Federal Housing Finance Agency

House Committee on Financial Services
"Prioritizing Fannie's and Freddie's Capital Over America's Homeowners and Renters? A Review of the Federal Housing Finance Agency's Response to the COVID-19 Pandemic"

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

The Federal Housing Finance Agency (FHFA) has acted swiftly and prudently to respond to COVID-19. Thanks in part to our efforts, the housing market has largely been a bright spot in the pandemic economic data. We continue to update our policies as the challenges facing renters, borrowers, and market participants evolve.

FHFA's Actions to Protect Agency Workforce and Maintain Mission Focus

FHFA's hard-working employees are the Agency's greatest asset, and their well-being is my top priority. Our teleworking flexibilities have enabled our staff to remain safe and manage at-home obligations, while continuing to fulfill the Agency's vital mission.

The FHFA team has gone above and beyond in carrying out FHFA's statutory responsibilities while also rising to meet the challenges presented by COVID-19. In March, our telework test transitioned the very next day into a full-time mandatory telework period for the Agency that is still ongoing. With critical support from the Office of the Chief Operating Officer, FHFA employees quickly adapted to the new environment, allowing the Agency to maintain continuity of operations during this crisis.

The Office of Technology and Information Management has kept the FHFA workforce productive and connected by rapidly deploying remote tools and staff training, meeting employees' IT equipment needs, and safeguarding the Agency's network capacity, connectivity, and security. The Office of Facilities Operations Management has established and continually updated protocols and procedures for keeping our employees and headquarters safe and healthy, working tirelessly to provide employees with the equipment and office supplies needed to set up and sustain their remote workstations. The Office of Human Resources Management has been instrumental in ensuring employees have the support they need to remain engaged and productive, including by developing new work schedule and leave flexibilities, expanding the Agency's Employee Assistance Program, and meeting special accommodation requests resulting from our remote-work posture.

Across the board, the FHFA team has seamlessly transitioned to a virtual environment. This includes the hiring, on-boarding, and training processes that are essential for FHFA to continue developing and retaining a highly talented and effective workforce. The Office of

Budget and Financial Management and the Enterprise Program Management Office, working with FHFA's COVID-19 Task Force, have helped the Agency stay coordinated on the updated guidance provided by various government entities, health officials, and local authorities. I am proud of the flexibility, cooperation, and hard work of every member of the FHFA team during this pandemic.

The Office of Congressional Affairs and Communication has remained engaged with and accessible to members of Congress and their staff. Since March, FHFA's legislative affairs team has held dozens of remote congressional meetings and briefings to discuss Agency policies and provide technical assistance with legislation. This is a testament to FHFA's dedicated staff and our ongoing commitment to responding to congressional inquiries in a timely manner, maintaining transparency, and connecting the Agency's many subject matter experts to legislative staff.

FHFA has also worked closely with our peer financial regulators and other federal agencies to respond to the COVID-19 national emergency. Through regular communication channels, FHFA and these agencies continue to share, in real-time, challenges, ideas, and solutions to help each other develop best practices based on the latest guidance available. Timely information sharing has enabled FHFA to respond to evolving COVID-19 related challenges in a rapid, nimble, and effective manner.

We have continued to prioritize our work to foster an environment where everyone feels safe, respected, and valued for our differences. The senseless violence and loss of innocent life that have roiled our nation in recent months – and that have torn apart too many communities across the country for too long – highlight the importance of this work both in the workplace and beyond. They also have strengthened our resolve to uphold the Agency's core values of fairness, diversity, and inclusion. At the beginning of this year, we established the Office of Equal Opportunity and Fairness in order to elevate equal employment opportunity practices and conflict resolution resources to the division level. As the Agency announced earlier this week, FHFA has hired Debra Chew as the first permanent Director for the office.

I commend FHFA's Office of Minority and Women Inclusion (OMWI) for its steadfast support of the Agency's workforce during this time. This includes OMWI's work, with my support, to launch FHFA's Diversity Advisory Council, which aims to ensure diversity in all aspects of the Agency's employment and contracting practices and to create regular programs that engage employees on professional and personal diversity and inclusion issues. OMWI is playing an essential role in helping FHFA employees affected by the recent events and tensions across the country, offering training, listening sessions, and other resources. And tomorrow OMWI is partnering with our Office of Human Resources Management to continue recruiting the next generation of FHFA personnel from Historically Black Colleges and Universities at the Atlanta University Center Consortium virtual career fair. This kind of recruitment is only one of the examples of how the Agency continues to build a diverse pipeline of talent for its future workforce. FHFA already has one of the most diverse workforces amongst federal regulatory agencies. Our diversity is – and will remain – a key source of FHFA's success.

Across all divisions and offices, FHFA's employees have remained united in our efforts to enable American families to stay safe in their homes during this public health emergency. We have worked closely with our regulated entities, Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBanks), to support borrowers and renters, while ensuring the proper functioning of the mortgage market both during and after this crisis. Our actions have been – and continue to be – data driven.

FHFA's Strong Research Capabilities Are Key to Agency's Data Driven Policymaking

Through oversight of the regulated entities, FHFA collects and analyzes a significant amount of data on trends in the housing and mortgage markets. This enables the Agency to respond appropriately to market developments, promote market efficiency and stability, and disseminate information to improve the public's understanding of housing finance markets. Economic research and data analytics are core competencies of effective safety and soundness supervision, which is essential to preparing the Agency and the Enterprises to responsibly exit and operate safely outside of conservatorship. That is why, from the beginning of my term, one of my top priorities has been to strengthen FHFA's research and data analysis capabilities.

For instance, the Agency has enhanced the accessibility of existing data products, such as quarterly and monthly house price indexes (HPIs). FHFA produces the nation's only public, freely available HPIs that measure changes in single-family house prices based on data that cover all 50 states and over 400 American cities and extend back to the mid-1970s. The HPIs are built from tens of millions of home sales and offer insights about house price fluctuations at the national, census division, state, metro area, county, ZIP code, and census tract levels. In May, with the publication of 2020's first HPI Quarterly Report, FHFA launched a new interactive dashboard, available on the Agency's website, that illustrates house-price trends across the top 100 Metropolitan Statistical Areas. In August, with the publication of 2020's second HPI Quarterly Report, FHFA enhanced the HPI Calculator, a popular website tool that now enables users to compare house price changes over time at the metro area and state levels.

In addition to increasing the exposure of existing data products, FHFA has taken several steps to elevate and expand the Agency's research capabilities and contributions. In January 2020, as part of an organizational realignment, FHFA created the Division of Research and Statistics (DRS) to strengthen the Agency's data collection and analysis capabilities. DRS is FHFA's center for economic and market research, data development, and statistical analysis to support the Agency's divisions and offices engaged in oversight, supervision, rulemaking, and policy development. The division examines trends and risks in housing and housing finance markets, advances modeling capabilities, develops and maintains data, evaluates policy impacts, and engages with research communities outside of the Agency.

The research and data analysis capabilities that FHFA created and continues to strengthen within DRS have been critical to supporting the Agency's data-driven response to COVID-19. For instance, DRS has enhanced FHFA's capacity to monitor housing and mortgage markets by leveraging existing data sources and seeking out new ones. This has provided a comprehensive view of the state of the mortgage market prior to the pandemic and it has enabled FHFA to understand, in real time, how circumstances have changed over the course of the crisis.

The State of the Market Before and During COVID-19 Crisis

At the start of 2020, the American housing market was in a strong position. A low interest rate environment and stable labor markets drove robust demand and price appreciation. Home price growth in the first quarter of 2020 outpaced annual growth from the same period a year before as falling interest rates and shrinking inventories for sale led prices higher just prior to the COVID-19 crisis. Nationwide, house prices increased 1.7 percent in the first quarter of 2020, a 5.7 percent increase from the first quarter of 2019. FHFA's seasonally adjusted monthly index for March was up 0.1 percent from February.

Since early 2019, existing home sales had been on a steady upward trajectory, after declining throughout 2018 due to rising rates. The National Association of Realtors' months' supply of existing homes for sale in February reached its lowest level since the series started in 1999, driving home prices upward at a faster rate in the first quarter. Single-family housing starts in February 2020 reached the highest three-month rate since November 2006, on a seasonally adjusted basis, after more than 10 years of slow but steady increases.

In response to COVID-19, financial markets endured a severe dislocation in March. Uncertainty over the public health and the economic impacts of the pandemic constrained financial liquidity, significantly disrupting the financing, lending, and hedging activities of mortgage lenders and many other market participants. Spreads between the 30-year fixed mortgage rate and the 10-year Treasury yield widened. Treasuries experienced rising yields as a market-wide demand for cash led investors to sell off their most liquid assets in response to redemption demands.

FHFA's Policy Response: Supporting Borrowers and Renters

From the beginning of this crisis, FHFA's policy, conservatorship, and research teams have worked together to produce forecasts and estimates of the future impact of COVID-19 on the mortgage market based on key indicators such as unemployment insurance claims and house prices. They have also developed models to support decision making regarding loan modifications, servicing, and other issues. This internal research, monitoring, and analysis have helped to inform and guide FHFA's policy actions.

One of our top priorities has been to support renters and homeowners struggling to pay for housing because of COVID-19. To do this, FHFA has directed the Enterprises to put in place certain protections. The Enterprises own or guarantee approximately $6.0 trillion in mortgages. That includes about 43 percent of multifamily units, about 8.6 million households, and more than half of single-family mortgages. FHFA's policies apply to all single-family homeowners and multifamily property owners with an Enterprise-backed mortgage. FHFA's policies also help to set workable standards for the entire market.

FHFA's policies have built on the lessons learned from the failures of the 2008 financial crisis, focusing particularly on improving the process for borrowers and renters in need of assistance. As a result, borrowers today do not have to navigate excessive and often confusing rounds of paperwork with their servicers, such as those that resulted from the multiple Home Affordable Refinance Program (HARP) and Home Affordable Modification Program (HAMP) programs during the post-housing crash foreclosure crisis.

For homeowners facing foreclosure before COVID-19, we suspended all single-family foreclosures and foreclosure-driven evictions through the end of 2020. This policy has protected more than 28 million homeowners and enabled roughly 200,000 families facing foreclosure pre-COVID to stay in their homes.

For borrowers financially impacted by COVID-19, we allowed homeowners to take a timeout from mortgage payments through forbearance for up to 12 months. The Enterprises worked with servicers to develop loan modification options and repayment plans. This ensured borrowers would not face payment shock and could remain safely in their homes.

We then allowed borrowers in forbearance who return to making monthly payments to repay what they missed when they sell their home or refinance their loan. This new payment deferral option simplifies options for borrowers and provides an additional tool for mortgage servicers.

From the beginning of the pandemic, we have emphasized that those who can make their mortgage payments should continue doing so. Of the borrowers with an Enterprise-backed mortgage in forbearance, about one-quarter continue to make payments. FHFA directed the Enterprises to treat such borrowers as current if they want to buy a new home or refinance.

FHFA also took action specifically to protect renters struggling to pay rent because of COVID-19. It is important to recognize that the Enterprises do not have a contractual relationship with tenants. Their relationship is with the property owners or landlords. Therefore, if a multifamily loan is performing and the property owner does not seek forbearance, the Enterprises cannot impose requirements on the landlords.

On March 23, FHFA announced the Enterprises' policies providing a forbearance option for multifamily property owners with an Enterprise-backed mortgage. Importantly, these policies prohibit tenants from being evicted for the nonpayment of rent during a property owner's forbearance period. In late June, we allowed multifamily property owners in forbearance to extend for an additional three months on the condition that they adopt stronger renter protections. And in August, FHFA announced that multifamily landlords with new or modified forbearance must notify tenants of their rights under the forbearance agreement.

While the single-family forbearance program was modeled on prior disaster response efforts, the nationwide multifamily forbearance programs with tenant protections were developed from the ground up. After putting these programs in place, FHFA directed the Enterprises to create online lookup tools that allow renters and borrowers to determine whether either of the

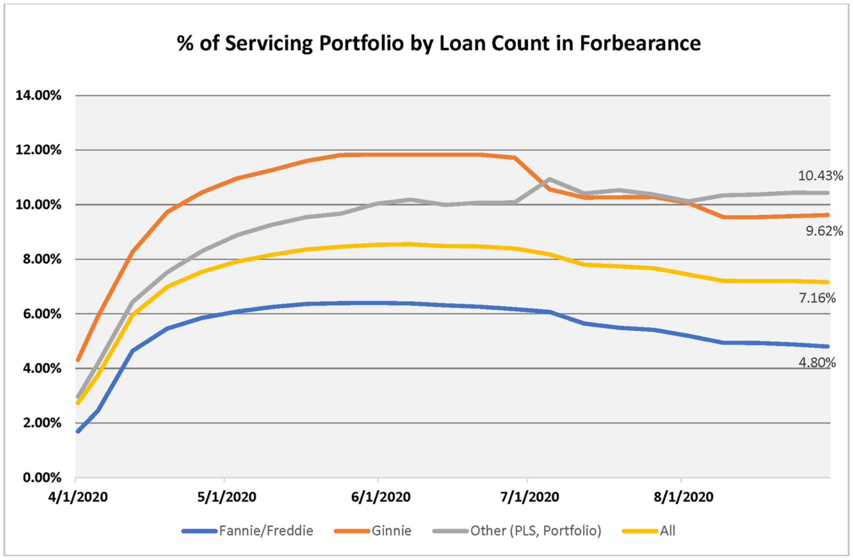
Enterprises own or guarantee the mortgage on the property where they live and therefore whether they are eligible for eviction protection or forbearance.

Since implementing the single-family and multifamily forbearance programs, FHFA has closely monitored the data to understand the responses by borrowers and the market. As a staffer on the Senate Banking Committee during the 2008 financial crisis, I saw firsthand the importance of resisting the pressure to "act first, analyze later" that arises in a period of financial stress. In a crisis, panic can lead to ill-conceived policy responses and send confounding signals to the market. It is imperative to remain calm and make decisions based on careful, thoughtful analysis of the most up-to-date data available. The hardworking professionals of FHFA have ensured that the Agency has fulfilled this fundamental objective during the COVID-19 national emergency.

Early in the crisis, there were a wide variety of predictions about the future effects of COVID-19 on housing markets. Some observers contended that forbearance rates would reach as high as 25 to 50 percent. Given the unprecedented nature of the pandemic and the high degree of uncertainty about the economic impact, FHFA carefully monitored the data we generated internally and the data we received from the Enterprises and market participants. This has ensured that we develop and update our policies in response to the facts on the ground. At this point, I remain encouraged by what the data is telling us about the trajectory of forbearance rates.

Data developed internally at the Enterprises and by industry groups indicate that Enterprise forbearance rates remain manageable. After rising precipitously in April, the rate of forbearance uptake slowed during the last few weeks of May and then began to consistently decline week over week. According to data released by the Mortgage Bankers Association, as of May 24, 6.4 percent of total Enterprise-backed mortgages were in forbearance, compared to 11.8 percent of mortgages backed by Ginnie Mae. By the end of August, the Enterprise single-family mortgage forbearance rate had fallen to 4.8 percent, compared to 9.6 percent of Ginnie Mae loans (see Figure 1). FHFA's internal analysis shows that renters in approximately 170,000 units of multifamily housing are eligible for eviction protection because they live in properties receiving forbearance from Fannie Mae or Freddie Mac. This represents about 1.9 percent of outstanding multifamily mortgage balances at the Enterprises.

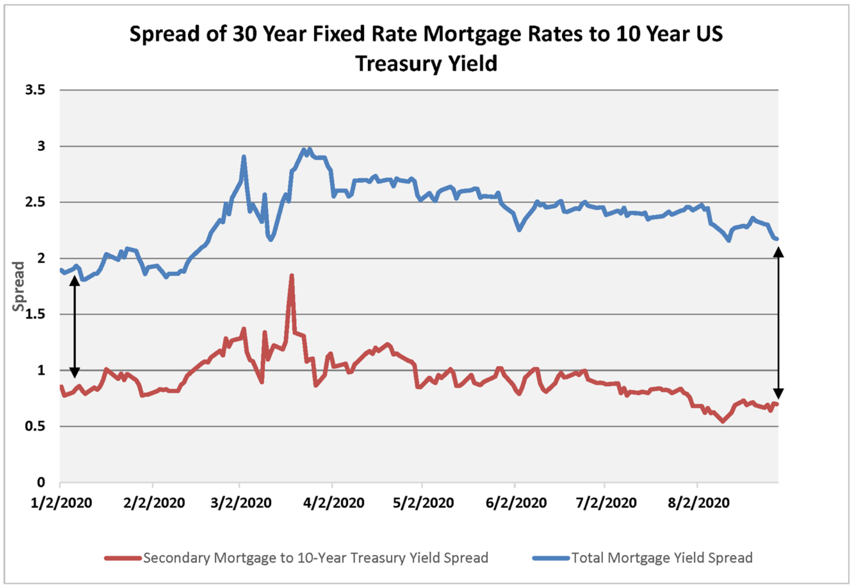
Figure 1



**Source: Mortgage Bankers Association, data through August 30*

The mortgage market still faces some challenges. Responding to substantial federal support in the form of MBS purchases by the Federal Reserve, spreads between the current coupon MBS and 10-year U.S. Treasury have fallen below levels observed at the beginning of 2020, at least for the to-be-announced (TBA) market. On the other hand, spreads between the 30-year fixed mortgage rate and the 10-year Treasury yield remain high. These primary market spreads have declined, but they have not yet returned to pre-crisis levels (see Figure 2).

Figure 2



**Source: Freddie Mac Primary Mortgage Market Survey, Bloomberg, U.S. Treasury*

However, current mortgage rates reported by Freddie Mac and the Mortgage Bankers Association are at the lowest point on record in the series dating back to 1971 and 1990, respectively. FHFA continues to work with the Enterprises to ensure that borrowers can access new purchase and refinancing opportunities at historically low rates. This includes the policy of treating as current borrowers in forbearance who continue to make payments. In addition, borrowers' credit history will not be negatively impacted by entering a COVID-19 related forbearance plan.

We have also helped clarify consumers' options. We updated the scripts that servicers use when talking to borrowers about forbearance. We translated those scripts and the associated forbearance application into the top five languages of borrowers with Limited English Proficiency: Spanish, Chinese, Vietnamese, Korean, and Tagalog. We have emphasized to servicers and the public that no lump sum repayment is required at the end of forbearance. We partnered with the Consumer Financial Protection Bureau (CFPB) to launch the Borrower Protection Program, which allows FHFA to leverage CFPB's consumer complaint database to identify problematic servicing practices. And FHFA helped develop a website that consolidates federal information about mortgage relief options, renter protections, and how to avoid scams.

To help ensure that borrowers qualify for mortgages they can afford, FHFA will share with the CFPB aggregated data on loans that enter forbearance before delivery to the Enterprises. This will allow FHFA to fulfill its obligation under the Qualified Mortgage (QM) Patch to ensure that loans sold to the Enterprises are complying with the intent of Dodd-Frank's ability to repay provisions.

FHFA's Policy Response: Ensuring the Proper Functioning of the Mortgage Market

Working with our regulated entities, FHFA has also taken several steps to ensure the mortgage market continues to function properly both during and after this crisis.

To ensure the safety of market participants, FHFA authorized several loan-closing, employment-verification, and appraisal flexibilities. The changes include allowing desktop and exterior-only appraisals, providing alternative methods to demonstrate construction completion and satisfy borrower documentation requirements, allowing renovation disbursements, and expanding the use of power of attorney, appraisal waivers, and remote online notarization. FHFA put these flexibilities in place for 60 days and then extended them through at least September 30.

In April, FHFA recognized that nonbank servicers needed clarity to serve the market through the crisis. In response, we instituted a four-month limit on servicers' obligations to advance principal and interest payments on loans in forbearance. With respect to mortgage loans in MBS, prior to COVID-19, Fannie Mae servicers with a scheduled payment remittance had been responsible for advancing the principal and interest payment regardless of borrower payments. Freddie Mac servicers, who are generally responsible for advancing scheduled interest, are only obligated to advance four months of missed borrower interest payments. FHFA's policy established a four-month advance obligation limit for Fannie Mae scheduled servicing, which is consistent with the current policy at Freddie Mac.

To keep the mortgage market working for current and future borrowers, and to help originators continue lending, FHFA enabled the Enterprises for a limited period of time to purchase certain single-family mortgages in forbearance that meet their criteria. Charging a fee for these transactions is consistent with FHFA's statutory mandate to "preserve and conserve assets" and the Enterprises' charter requirement to purchase only those loans that meet the standards imposed by private institutional mortgage investors. Prior to this, the Enterprises had never purchased loans in forbearance. Our policy provides a new option to lenders and the Enterprises.

Additionally, FHFA took several steps to ensure the Federal Home Loan Bank System could continue to support member liquidity and housing finance markets. We relaxed liquidity requirements in a countercyclical fashion. We reminded the FHLBanks of their obligation to offer advances up to 10 years in maturity to meet their members' needs and their ability under

FHFA regulations to provide below-cost advances during disasters like the COVID-19 pandemic.

We allowed the FHLBanks to accept Paycheck Protection Program loans as collateral when making loans to their members and allowed them to accept as collateral loans that have been modified or that are in COVID-19 related forbearance. To avoid exacerbating potential liquidity problems, FHFA deferred certain deadlines related to the FHLBanks' transition from LIBOR-based exposures, while continuing our efforts to prepare for the eventual end of LIBOR. To protect the safety and soundness of the FHLBanks, FHFA issued guidance related to collateral and pricing policies aimed at ensuring that all members are treated fairly and that every FHLBank can continue to provide liquidity to institutions and communities in its district.

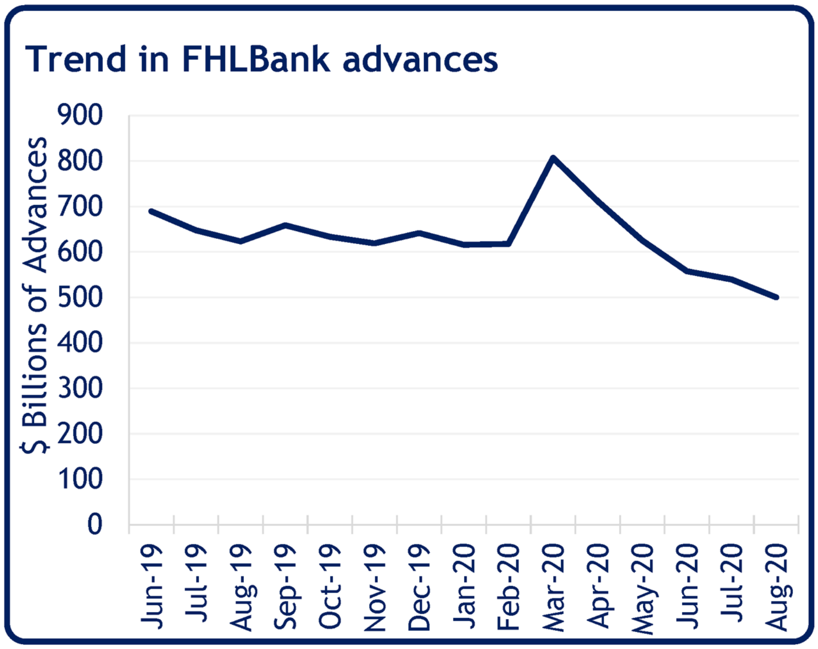
It is important to recognize the vital support that the FHLBanks provided to the market in response to the financial stress caused by the pandemic. A core function of the FHLBanks is to provide liquidity in times of stress. This support is critical for small and community banks that often do not have access to other sources of low-cost funding. When the COVID-19 crisis began, the FHLBanks stepped up to keep liquidity in the market, meeting unprecedented advance demand from their member financial institutions.

In March, while other liquidity sources dried up, FHLBank System advances grew by \$189.4 billion – or 30.7 percent – at their peak. For the quarter ending March 31, FHLBank System advances increased 25.8 percent to \$806.9 billion. While access to long term debt markets was severely limited, the System was able to fund this increased advance demand largely through discount notes and floating rate bonds indexed to the Secured Overnight Financing Rate (SOFR). For the first quarter of 2020, outstanding debt increased to \$1.18 trillion, growing at the fastest pace in recent history.

As advances and assets grew, earnings decreased significantly because of reduced net interest spread and mark-to-market accounting effects. Compared to the fourth quarter of 2019, net interest income fell a substantial \$350 million (28.6 percent) to \$872 million, and net income decreased \$262 million (29.5 percent) to \$627 million. Nevertheless, for the first quarter of 2020, FHLBank System retained earnings grew \$141 million to \$20.7 billion, or 1.6 percent of total assets.

Following the injections of liquidity provided by the Federal Reserve and The Coronavirus Aid, Relief, and Economic Security Act, the FHLBanks' balance sheets – both advances and debt outstanding – fell to or below pre-crisis levels (see Figure 3). This is exactly what the FHLBanks are supposed to do as counter-cyclical providers of liquidity. And it is why FHFA is focused on protecting the System's safety and soundness. It is critical that the Banks remain capable of being a source of liquidity when their members and the economy need it most.

Figure 3



** Source: FHLBanks*

I am proud of FHFA's response to this pandemic. Our actions have helped homeowners, renters, and the housing market deal with this crisis. But they have also come at significant cost.

Conservative estimates price COVID-19 related costs for the Enterprises at roughly $6 billion. As reported on the Enterprises' 10-Q disclosure forms, $4 billion is from expected loan losses due to projected forbearance defaults. The expected losses associated with the foreclosure moratorium amount to at least $1 billion. Other forbearance-related expenses and fees, such as the $500 fee the Enterprises pay to servicers for loss mitigation, account for another $1 billion. Again, these are conservative estimates of the costs of responding to COVID-19. The Congressional Budget Office (CBO) projects the Enterprises' annual earnings in 2020 will be reduced by $10 billion as a result of the coronavirus pandemic[1]

[1] Congressional Budget Office, "Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions," https://www.cbo.gov/publication/56511, August 2020.

To cover these projected losses, starting December 1, the Enterprises will be adding an adverse market fee of 0.5 percent when they purchase select refinance mortgages.

The fee applies to refinance mortgages and will not impact new purchase mortgages, including first-time homebuyers – a key element FHFA required of the Enterprises. Additionally, the fee is expected to have minimal impact on low-income borrowers, as nearly 95 percent of recent refinance acquisitions have credit scores at or above 700 and nearly 80 percent have loan-to-value ratios at or below 80 percent.

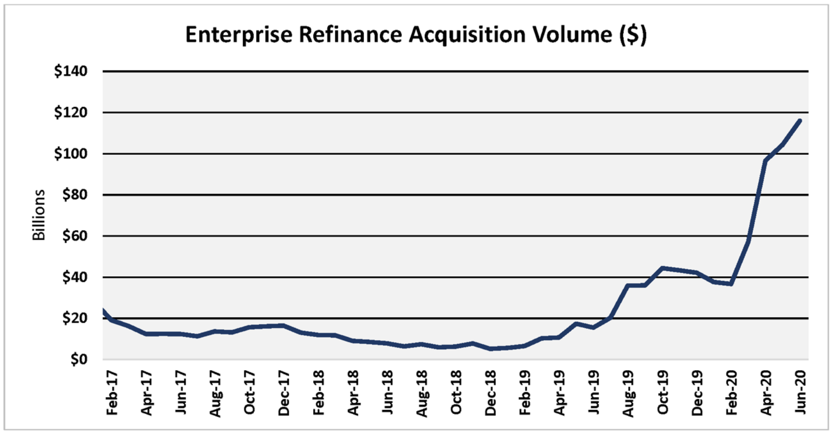
FHFA tailored the fee to ensure low-income borrowers can continue accessing record-low rates to reduce their monthly mortgage payments. Exempt from the fee are borrowers with loan balances of $125,000 or less, nearly half of whom are at or below 80 percent of area median income. Also exempt are affordable refinance products, Home Ready and Home Possible.

The losses this fee covers are the result of policies that have helped millions of Americans stay safe in their homes during a global pandemic. Although Congress has not provided any funding to offset the costs of these policies, the Enterprises' congressional charters require that expenses must be recovered via income.

The fee increase was originally scheduled to go into effect September 1. After listening to feedback, including from the Committee, FHFA delayed implementation until December 1. This recognizes that Congress may take the opportunity to review alternatives.

Delaying this fee will help provide certainty to the market and borrowers; however, the total amount raised through the fee will be unlikely to cover the cost of Enterprise assistance to borrowers and renters during the pandemic. Low mortgage rates have already significantly elevated the rate of Enterprise refinance acquisitions (see Figure 4), and delaying the fee reduces the number of transactions the cost can be spread over. If Congress takes action to support these programs before the new implementation date, such a change will factor into the costs borne.

Figure 4



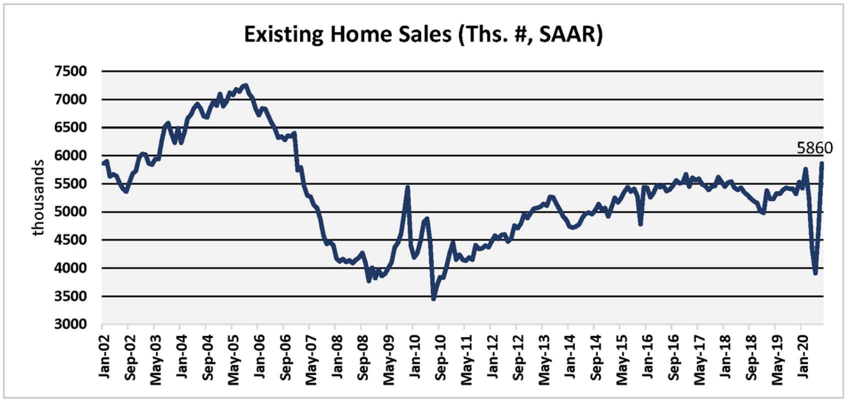
**Source: FHFA*

Assessing FHFA's Policy Response: The State of the Market Today

FHFA's response to COVID-19 has significantly helped borrowers, renters, and the housing market deal with this crisis. But we also recognize that more work remains. The crisis caused by COVID-19 is not over. The full economic and financial impact of the pandemic is not yet known. The future state of the labor market remains uncertain. For these reasons, FHFA is still hard at work to ensure our policies continue to respond to the challenges as they evolve. We remain committed to working with other federal agencies, Congress, our regulated entities, and stakeholders to get through this difficult time. With that said, the housing market has been a bright spot in the economic data so far.

Following some contraction in mortgage market activity in March and April, the purchase market rebounded in a strong V-shaped recovery. In the second half of May, purchase mortgage applications surpassed its year-over-year level. Between June and August, applications are on track to be more than 20 percent higher, on average, compared to the same period in 2019. Existing home sales (EHS) in August reached their highest level since December of 2006 at 5.9 million, according to the National Association of Realtors (see Figure 5). While they have not completely returned to pre-COVID levels, housing starts are also showing strong signs of recovery.

Figure 5



**Source: National Association of Realtors*

House prices were supported by this rebound in market activity. After falling slightly in May relative to April, house prices rose by 0.9 percent in June as local economies re-opened and transactions picked up. Nationwide, house prices increased 0.8 percent in the second quarter of 2020, a 5.4 percent increase from the second quarter of 2019.

Based on the Enterprises' second quarter acquisitions of purchase mortgages in 2019 and 2020, loan risk factors such as average credit scores, debt-to-income (DTI), and loan-to-value (LTV) ratios have changed only slightly this year compared to last. Refinance acquisitions in the second quarter had higher credit scores, lower DTIs and lower LTVs. The Enterprises, at the direction of FHFA, will continue to take measured and responsible steps to maintain a prudent risk profile and address layered risks. Moving forward, FHFA will continue to closely monitor all sources of market data and let the data drive our decisions.

At this point, I am encouraged by what the data tells us about the state of the mortgage market and the capacity of servicers following FHFA's robust policy response.

Total monthly Enterprise principal and interest payments at the beginning of the crisis were approximately $32 billion. Of that, about 40 percent, approximately $13 billion, of the advance obligation rests with the Enterprises. About $11 billion, approximately a third, rests with depositories. Therefore, roughly $8 billion, approximately a quarter, of the potential monthly advance obligation rests with nonbanks. At a 4.8 percent forbearance rate this translates into approximately $384 million per month of nonbank incremental advance needs. As a result of FHFA's four-month limit on servicers' obligations to advance principal and interest payments on loans in forbearance, nonbanks' total four-month obligation is approximately $1.5 billion. However, as noted above, a quarter of borrowers in forbearance have not stopped making mortgage payments.

In addition, both Fannie Mae and Freddie Mac programs allow servicers to use a portion of mortgage payoffs from refinancings to help cover these advance obligations. This has a significant impact especially under the Fannie Mae program.

At FHFA's encouragement, servicers have been increasing their available liquidity. Total nonbank liquidity among Enterprise counterparties increased by 9 percent to $36 billion in the first quarter of 2020. Of that, unencumbered cash and equivalents made up $13 billion, an increase of 19 percent from December 31, 2019. By the end of June, servicers drawing down their lines of credit reduced their official overall liquidity, but unencumbered cash and equivalents significantly increased by 38 percent to $18 billion.

Looking Ahead: The Urgent Need to Build Capital at the Enterprises and Advance Housing Finance Reform

FHFA's strong response to COVID does not mean that all is well. Most notably, the Enterprises lack the capital to withstand a serious housing downturn. This jeopardizes their important mission to support borrowers in housing finance markets during periods of stress.

Fannie Mae and Freddie Mac are private companies created by Congress to perform a public mission. A core element of that mission, stated in their congressional charters, is to "promote access to mortgage credit throughout the Nation." They do this by buying mortgages from lenders, which allows more mortgages to be made, and by guaranteeing the principal and interest payments on behalf of borrowers to investors in mortgage-backed securities.

For most families, homeownership is a key step toward achieving financial security and building a brighter future for their children. But under the wrong conditions, it can be financially devastating, resulting in foreclosure, eviction, destroyed credit, displacement, and worse. The factor that makes the biggest difference between these two outcomes is not the mortgage rate today but the borrower's ability to repay the loan in the future.

There is no rate low enough to make a mortgage beneficial for a borrower who experiences a severe financial shock like unemployment before they have a chance to build any meaningful equity in their home. This is demonstrated by the fact that borrower debt-to-income has been one of the strongest predictors of forbearance and by the lived experiences of too many Americans in the last financial crisis. We must remember the lessons of the housing crash that shattered the financial future of countless families.

It started with a push to expand mortgage lending at all costs, even if it meant saddling low-income and minority borrowers with extreme levels of debt. While leverage maximizes the upside in good times, it also maximizes the downside in bad times. From 2001 to 2005, African American and Hispanic mortgage borrowing increased 78 and 116 percent, respectively. Then from 2005 to 2015, the collapse of the housing bubble drove the number of minority borrowers down by about 63 percent.

These communities lost significant amounts of wealth. Between 2007 and 2010, household wealth declined 31 percent for African American families and over 40 percent for Hispanic families.[2]

Looking back on the housing bubble, it is clear that the most important financial achievement for many Americans was not getting into homeownership but staying in. When the bottom fell out, families were left to pick up the pieces.

Another of the Enterprises' core purposes stated in their congressional charters is to "provide stability" to the housing finance system. But to provide stability, they must be stable themselves. And in 2008, Fannie Mae and Freddie Mac were anything but stable.

My job and my statutory mission is to make sure that the Enterprises never again fail the millions of families whose financial futures depend on a stable mortgage market. To do this, they must build capital.

Capital is the portion of the Enterprise's funds that is not owed to anyone and protects against unexpected losses. That is the core purpose and function of capital. Capital absorbs losses and enables the Enterprises to continue supporting borrowers when other sources of credit disappear. The more capital an Enterprise has, the more losses it will be able to absorb, and the more support it can provide.

FHFA has made progress in building capital at the Enterprises. Their combined leverage ratio improved from roughly 1,000 to 1 when I started last year to roughly 250 to 1 today. But much more work remains.

This May, FHFA took a critical step toward solving this problem when we released a re-proposed capital framework for Fannie Mae and Freddie Mac. The framework targets an eventual 25 to 1 leverage ratio, or capital equal to roughly 4 percent of Adjusted Total Assets. This is the amount of loss-absorbing capital that FHFA estimates each Enterprise will need to remain a viable going concern, both on its balance sheet and in the eyes of creditors and counterparties, amid a house price shock on par with the 2008 crash.

Meeting the requirements in this capital framework, when combined with effective prudential supervision, will make Fannie Mae and Freddie Mac financially safe and sound. That must be our goal. Safety and soundness at the Enterprises means safety and soundness for millions of homeowners and renters across America.

Capital is what will allow the Enterprises to support borrowers and renters who fall on hard times through no fault of their own, like those struggling because of COVID. Capital is what will allow them to continue providing liquidity to the mortgage market.

---

[2] Signe-Mary McKernan, Caroline Ratcliffe, Eugene Steuerle, and Sisi Zhang, "Less than Equal: Racial Disparities in Wealth Accumulation," Urban Institute, https://www.urban.org/sites/default/files/publication/23536/412802-less-than-equal-racial-disparities-in-wealth-accumulation.pdf, April 2013.

And capital is what will allow Fannie Mae and Freddie Mac to weather a crisis and continue doing their part to help ensure all Americans have an affordable place to call home, whether it is rented or owned. This is the foundation of reliable mortgage credit access during periods of financial stress.

The primary beneficiaries of a financial system's safety and soundness are the families it serves. Avoiding another housing crisis and recession benefits all families, but it is especially important for low-income and minority families who are first to lose their jobs and savings when downturns hit.

As the COVID crisis has clearly shown, there are still critical vulnerabilities in our mortgage system that put taxpayers and our housing market at risk. The longer our housing finance system continues without needed reforms, the greater the risk that the American housing market collapses again when it comes under strain.

FHFA has the statutory responsibility and authority to stabilize the Enterprises and to restore them to safety and soundness with appropriate capital requirements and effective prudential regulation. The Agency has made great progress in matching the Enterprises' risk to their capital, and FHFA's new rule will require enough loss-absorbing capacity for them to be able to fulfill their counter-cyclical mission.

But only Congress can enact the full range of reforms necessary to fix the structural flaws in our housing finance system. To that end, in June of this year, I included in FHFA's recent Annual Report to Congress several legislative recommendations to strengthen FHFA with additional regulatory and supervisory authorities on par with those of other independent federal financial regulators.

I stand ready to work with all who share the goal of building a stronger, more resilient housing finance system in America.

STATEMENT FOR THE RECORD

ON BEHALF OF THE NATIONAL MULTIFAMILY HOUSING COUNCIL

AND THE

NATIONAL APARTMENT ASSOCIATION

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

FOR A HEARING ENTITLED

" PRIORITIZING FANNIE'S AND FREDDIE'S CAPITAL OVER AMERICA'S HOMEOWNERS AND RENTERS? A REVIEW OF THE FEDERAL HOUSING FINANCE AGENCY'S RESPONSE TO THE COVID-19 PANDEMIC"

SEPTEMBER 16, 2020

The National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) appreciate the opportunity to submit testimony for the record for the hearing entitled, "Prioritizing Fannie's and Freddie's Capital over America's Homeowners and Renters? A Review of the Federal Housing Finance Agency's Response to the COVID-19 Pandemic." Your examination of the Federal Housing Finance Agency (FHFA) issuance of a new capital framework for Fannie Mae and Freddie Mac and FHFA's response to the COVID-19 pandemic on residents of rental housing and the owners and operators who provide that housing is critical as Congress continues its efforts to respond to the crisis.

For more than 25 years, NMHC and NAA have partnered on behalf of America's apartment industry. Drawing on the knowledge and policy expertise of staff in Washington, D.C., as well as the advocacy power of NAA's more than 150 state and local affiliated associations, NAA and NMHC lead as the voice for developers, owners and operators of multifamily rental housing. One-third of all Americans rent their housing, and 40 million of them live apartment homes.

NMHC and NAA appreciate the efforts to date by Congress to provide relief to American families and businesses negatively impacted by the COVID-19 pandemic, and we agree that further Congressional action is needed to ensure the financial viability and stability of the rental housing industry and its residents.

State of the Industry

As states around the nation begin phased reopening efforts, millions of Americans remain unemployed. These jobs may never return and, with unemployment benefits set to expire and savings becoming depleted, more Americans will find themselves unable to pay their everyday expenses—chief among them, rent. In fact, renters are expected to be particularly hard hit by the economic situation.

Data from the U.S. Census Bureau's Household Pulse Survey, which covers all rental households, and data from the NMHC Rent Payment Tracker, which covers professionally managed apartments, both show that the majority of renters are paying their rent now. But the Census survey also shows that this may not be a continued phenomenon—27%[1] of renter respondents in the Census survey reported no or slight confidence in whether they can pay their rent the following month. Even if that rent is actually paid, it suggests financial instability for many rental households. The recovery rebates and are depleted and additional federal unemployment support ended in July. The University of Chicago estimates that 43% of all jobs lost to COVID will not return, so many individuals face continued unemployment or, at best, underemployment. They will struggle to make their rent payments and, as a result, housing providers will have less income and the cascade of negative impacts on housing communities, lenders and local governments will play out. Some current economic signs are good, however, the nation faces significant uncertainty

[1] Census Bureau Household Pulse Survey, September 1,2020

NATIONAL MULTIFAMILY HOUSING COUNCIL NATIONAL APARTMENT ASSOCIATION

that in the next six months, the benefits of that growth will be enough to buoy struggling renters.

All this underscores the need for continued support for the over 40 million residents in multifamily housing. The significant government financial support for those experiencing income disruption in the wake of the COVID-19 crisis is likely to be insufficient for an alarming number of renters impacted over the long haul. And if residents are unable to pay their rent, apartment firms will also be unable to pay their mortgage, property taxes or payroll. This cascading economic impact would be devastating for the housing industry, and the broader U.S. economy.

As an example, multifamily property owners have $1.6 trillion in outstanding mortgage debt. The federal government backs nearly half of those multifamily mortgages with FHFA as the regulator for the vast majority of those loans Without rental payments, we will certainly see a wave of foreclosures that could surpass those during the Great Recession, creating a significant drag on the U.S. economy and the government's ability to intercede.

The effects of significant rental payment shortfalls would trickle down to state and local economies, which are already under tremendous revenue and budget pressures. Nationally, apartments contribute a total of $58 billion in property taxes. If that revenue dries up, cities and states will be forced to make cuts to essential services such as schools, emergency services and other important local needs.

FHFA's Capital Rule and its Potential Impact

NMHC and NAA believe that the continuous availability of appropriately priced financing under both Fannie Mae and Freddie Mac's (the "Enterprises") multifamily programs is essential to enable the nation's apartment industry to meet the country's growing need for apartment housing.[2] It is critical, therefore, that FHFA adopt a final rule on Enterprise Capital Requirements that is properly calibrated to the risks of each Enterprise's multifamily program.

NMHC and NAA support the overarching purpose for the new regulatory capital framework for the Enterprises. We agree that the Enterprises' regulatory capital framework should maintain safety and soundness and enable the Enterprises to fulfill their mission across all economic cycles. We believe, however, that the Proposed Rule needs several important revisions and recalibrations to avoid harming the liquidity, stability and affordability of the multifamily housing market. This is critical during the ongoing impacts to the general economy and rental housing being felt from COVID-19.

NMHC and NAA provided extensive, substantive comments on the 2018 FHFA proposed capital framework. Our recently submitted comment letter, found in Attachment 1 herein, described, in detail, the principles we believe FHFA should apply in amending the Enterprises' regulatory capital requirements and made specific recommendations to ensure the continued availability of multifamily financing at an appropriate cost. We submit that our comments on the 2018 FHFA Proposal remain relevant and should be integrated into the Proposed Rule.

The following describe the key principles NMHC and NAA believe FHFA should incorporate into the Enterprises' regulatory capital framework and our principal concerns for revisions to the Proposed Rule in summary. Our recommended revisions will achieve the stated purpose for the Proposed Rule while preserving the market utility of the Enterprises' multifamily housing programs and their beneficial effects for financing the country's apartment housing.

Key Principles

NMHC and NAA believe that the regulatory capital framework applicable to the Enterprises' multifamily programs should retain the successful components of the Enterprises' existing multifamily programs to preserve the continuous availability of appropriately priced multifamily financing and avoid causing detrimental market impacts. We recommend that FHFA amend the Enterprises' regulatory capital framework in accordance with three key principles:

1. Consistency with maintaining an explicit federal guarantee for multifamily mortgage-backed securities.
2. Recognition of the unique multifamily risk management characteristics of the Enterprises' multifamily businesses, which differ from their single-family businesses.
3. Maintenance of the differences between the risk-sharing executions of each Enterprise without advantaging one Enterprise over the other.

Regulatory capital amendments that conform to these principles would promote the Enterprises' role in a liquid, efficient, competitive and resilient multifamily housing market while avoiding unintended adverse consequences.

Principal Concerns and Summary Recommendations

The stated purpose of the Proposed Rule is to enhance the Enterprises' regulatory capital framework to ensure safety and soundness and continue the Enterprises' ability to fulfill their statutory mission of providing stability, liquidity and affordability to the mortgage market across good and bad economic cycles.[3] While the 2018 FHFA Proposal serves as the foundation of the Proposed Rule, the Proposed Rule would augment the 2018 FHFA Proposal in several ways.

Among other changes, the Proposed Rule would alter the capital treatment of credit risk transfer ("CRT") structures, including a minimum capital requirement on senior tranches of CRT structures retained by an Enterprise and an adjustment to reflect that CRT do not have the same loss-absorbing capacity as equity capital. The Proposed Rule is intended to simplify the lookup grids and risk multipliers. The Proposed Rule would also supplement capital requirements based on the framework for banks adopted by the Basel Committee on Banking Supervision ("Basel Committee"). Further, the Proposed Rule would revise the method for determining operational risk capital requirements, including setting a higher floor.

NMHC and NAA agree with FHFA that the 2018 FHFA Proposal should be carefully amended to achieve the objectives of ensuring the Enterprises' safe and sound operations and ability to fulfill their missions during and after the end of the conservatorships. However, we believe the Proposed Rule would have significant negative impacts on the multifamily housing market if FHFA adopts the Proposed Rule without changes.

Our principal concerns and summary recommendations for changes to the Proposed Rule are set forth below. We believe that FHFA must engage in a deliberate, thoughtful rulemaking process that carries out these recommendations.

1. The prudential floor for CRT will have a detrimental impact on pricing, capital and business models in the multifamily housing market.
2. The Proposed Rule provides insufficient information regarding the derivation of the lookup grids and risk multipliers applicable to multifamily mortgage exposures.
3. The lookup grids and risk multipliers applicable to multifamily housing would undermine the affordable and workforce housing markets and the Enterprises' related initiatives.
4. The lookup grid would require the Enterprises to hold more capital against multifamily housing exposures than the capital a bank must hold against the same exposure under the Basel and U.S. bank capital framework.
5. The Proposed Rule does not address the pro-cyclicality of the multifamily housing market.

[3] 85 Fed. Reg. at 39275.

6. The Proposed Rule fosters incongruent treatment of multifamily and single-family housing.
7. The leverage ratio requirements may be the predominant binding capital requirement, overshadowing the risk-based capital requirements.
8. The Proposed Rule fails to properly address differences in the Enterprises' multifamily business models

Conclusion

The unique nature of the rental housing industry puts apartment operators and employees on the front lines of responding to the COVID-19 outbreak in communities across the nation. The enormity of the challenges we are facing as a nation and as an industry are evolving on a daily or even hourly basis. We remain committed to working with Congress and FHFA on solutions to these complicated problems to ensure that the millions of Americans who live in apartments nationwide have a safe, secure place to call home.

NATIONAL MULTIFAMILY HOUSING COUNCIL

NATIONAL APARTMENT ASSOCIATION

ATTACHMENT 1

August 31, 2020

Filed to FHFA website

Alfred M. Pollard, Esq.
General Counsel
Attention: Comments/RIN 2590–AA95
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street, SW
Washington, DC 20219

Re: Notice of Proposed Rulemaking on Enterprise Capital Requirements

Dear Mr. Pollard:

The National Multifamily Housing Council ("NMHC") and National Apartment Association ("NAA") appreciate the opportunity to comment on the notice of proposed rulemaking on Enterprise Capital Requirements ("Proposed Rule") published in the *Federal Register* by the Federal Housing Finance Agency ("FHFA") on June 30, 2020.[4] This notice of proposed rulemaking is a re-proposal of the Enterprise Capital Requirements notice of proposed rulemaking published by FHFA in 2018 (the "2018 FHFA Proposal").[5] NMHC and NAA filed comments on the 2018 FHFA Proposal.

For more than 20 years, NMHC and NAA have partnered on behalf of America's apartment industry. Drawing on the knowledge and policy expertise of professional staff in Washington, DC, as well as the advocacy power of more than 160 NAA state and local affiliated associations, NMHC and NAA provide a single voice for developers, owners and operators of multifamily rental housing.

NMHC and NAA believe that the continuous availability of appropriately priced financing under both Fannie Mae and Freddie Mac's (the "Enterprises") multifamily programs is essential to enable the nation's apartment industry to meet the country's

[4] 85 Fed. Reg. 39274 (June 30, 2020).

[5] 83 Fed. Reg. 33312 (July 17, 2018).

growing need for apartment housing.[6] It is critical, therefore, that FHFA adopt a final rule on Enterprise Capital Requirements that is properly calibrated to the risks of each Enterprise's multifamily program.

The stated purpose of the Proposed Rule is to establish a new regulatory capital framework for the Enterprises during and after their conservatorships that ensures each Enterprise operates in a safe and sound manner and facilitates the Enterprises' fulfillment of their statutory mission to provide stability and ongoing assistance to the secondary mortgage market across good and bad economic cycles.[7]

FHFA developed the Proposed Rule with the intent to preserve and refine the mortgage risk-sensitive aspects of the 2018 FHFA Proposal, to increase the quality and quantity of the Enterprises' capital both during and after their conservatorships and to address the pro-cyclicality of the risk-based capital requirements of the 2018 FHFA Proposal.

NMHC and NAA support the overarching purpose for the new regulatory capital framework for the Enterprises. We agree that the Enterprises' regulatory capital framework should maintain safety and soundness and enable the Enterprises to fulfill their mission across all economic cycles. We believe, however, that the Proposed Rule needs several important revisions and recalibrations to avoid harming the liquidity, stability and affordability of the multifamily housing market.

NMHC and NAA provided extensive, substantive comments on the 2018 FHFA Proposal.[8] Our comments described the principles we believe FHFA should apply in amending the Enterprises' regulatory capital requirements and made specific recommendations to ensure the continued availability of multifamily financing at an appropriate cost. We were disappointed that FHFA neither integrated our comments into the Proposed Rule nor articulated any basis for not doing so. We would expect FHFA to adhere to all administrative rulemaking mandates as it promulgates the final rule on Enterprise Capital Requirements, including by considering and responding to all significant comments. We submit that our comments on the 2018 FHFA Proposal remain relevant and should be integrated into the Proposed Rule.

Our comments on the Proposed Rule describe the key principles NMHC and NAA believe FHFA should incorporate into the Enterprises' regulatory capital framework and our principal concerns and recommendations for revisions to the Proposed Rule in summary and more detailed forms. Our recommended revisions will achieve the stated

[6] *See* NMHC and NAA Letter Regarding Enterprise Capital Requirements; Comments on RIN 2590-AA95 (Nov. 16, 2018), *available at https://www.gpo.gov/fdsys/pkg/FR-2018-07-17/pdf/2018-14255.pdf.*
[7] 85 Fed. Reg. at 39275.
[8] *See* NMHC and NAA Letter Regarding Enterprise Capital Requirements; Comments on RIN 2590-AA95 (Nov. 16, 2018), *available at* https://www.gpo.gov/fdsys/pkg/FR-2018-07-17/pdf/2018-14255.pdf.

NATIONAL MULTIFAMILY HOUSING COUNCIL

NATIONAL APARTMENT ASSOCIATION

purpose for the Proposed Rule while preserving the market utility of the Enterprises' multifamily housing programs and their beneficial effects for financing the country's apartment housing.

I. Key Principles

NMHC and NAA believe that the regulatory capital framework applicable to the Enterprises' multifamily programs should retain the successful components of the Enterprises' existing multifamily programs to preserve the continuous availability of appropriately priced multifamily financing and avoid causing detrimental market impacts. As we indicated in our comment letter on the 2018 FHFA Proposal, we recommend that FHFA amend the Enterprises' regulatory capital framework in accordance with three key principles:

1. Consistency with maintaining an explicit federal guarantee for multifamily mortgage-backed securities.
2. Recognition of the unique multifamily risk management characteristics of the Enterprises' multifamily businesses, which differ from their single-family businesses.
3. Maintenance of the differences between the risk-sharing executions of each Enterprise without advantaging one Enterprise over the other.

Regulatory capital amendments that conform to these principles would promote the Enterprises' role in a liquid, efficient, competitive and resilient multifamily housing market while avoiding unintended adverse consequences.

II. Principal Concerns and Summary Recommendations

The stated purpose of the Proposed Rule is to enhance the Enterprises' regulatory capital framework to ensure safety and soundness and continue the Enterprises' ability to fulfill their statutory mission of providing stability, liquidity and affordability to the mortgage market across good and bad economic cycles.[9] While the 2018 FHFA Proposal serves as the foundation of the Proposed Rule, the Proposed Rule would augment the 2018 FHFA Proposal in several ways.

Among other changes, the Proposed Rule would alter the capital treatment of credit risk transfer ("CRT") structures, including a minimum capital requirement on senior tranches of CRT structures retained by an Enterprise and an adjustment to reflect that CRT do not have the same loss-absorbing capacity as equity capital. The Proposed Rule is intended to simplify the lookup grids and risk multipliers. The Proposed Rule would also supplement capital requirements based on the framework for banks adopted

[9] 85 Fed. Reg. at 39275.

by the Basel Committee on Banking Supervision ("Basel Committee"). Further, the Proposed Rule would revise the method for determining operational risk capital requirements, including setting a higher floor.

NMHC and NAA agree with FHFA that the 2018 FHFA Proposal should be carefully amended to achieve the objectives of ensuring the Enterprises' safe and sound operations and ability to fulfill their missions during and after the end of the conservatorships. However, we believe the Proposed Rule would have significant negative impacts on the multifamily housing market if FHFA adopts the Proposed Rule without changes.

Our principal concerns and summary recommendations for changes to the Proposed Rule are set forth below. We believe that FHFA must engage in a deliberate, thoughtful rulemaking process that carries out these recommendations.

1. **Concern: The prudential floor for CRT in the Proposed Rule will have a detrimental impact on pricing, capital and business models in the multifamily housing market.**

Recommendations:

- *FHFA should abandon the CRT prudential floor for multifamily altogether as its current treatment could undermine the Enterprises' business models.*
- *FHA and the Enterprises should conduct an impact analysis on the impact that the CRT prudential floor will have on the Enterprises' risk management policies and procedures, their business models as a whole and existing CRT programs.*

2. **Concern: The Proposed Rule provides insufficient information regarding the derivation of the lookup grids and risk multipliers applicable to multifamily mortgage exposures.**

Recommendations:

- *We recommend that FHFA provide more information on the derivation of the lookup grids and risk multipliers, including the data set on which FHFA relied. The Proposed Rule does not provide sufficient information to conduct a sound analysis of the derivation of the proposed lookup grids and risk multipliers for multifamily mortgage exposures.*
- *Providing this information is important because to the extent that the data set FHFA used relies on unrepresentative or otherwise incorrect data, the Enterprises could be required to hold capital beyond what would be necessary to maintain the Enterprises' safety and soundness and enable them to fulfill their mission. This has the potential to have a significant negative impact on the availability of multifamily financing.*

3. **<u>Concern: The lookup grids and risk multipliers applicable to multifamily housing would undermine the affordable and workforce housing markets and the Enterprises' related initiatives.</u>**

Recommendation:

- *Affordable and workforce housing ("WFH") are fundamental components of the Enterprises' statutory mission and business models. The treatment of multifamily mortgage exposures with higher mark-to-market-loan-to-value ("MTMLTV") and lower debt-service-coverage ("DSC") ratios will result in a significant amount of capital held against WFH. We recommend that FHFA reconsider and recalibrate the lookup grid and risk multipliers to avoid adverse impacts on the market for WFH.*

4. **<u>Concern: The lookup grid in the Proposed Rule would require the Enterprises to hold significantly more capital against multifamily housing exposures than the capital a bank must hold against the same exposure under the Basel and U.S. bank capital framework contrary to FHFA's expressed intent to base the Proposed Rule on the bank framework.</u>**

Recommendation:

- *FHFA should adopt a regulatory capital framework for the Enterprises that applies to their unique business models rather than forcing the capital framework for banks onto the Enterprises' business models. The bank capital framework was designed to address the unique nature of the business of banking and is ill-suited to the Enterprises' distinct business models. Forcing the capital framework for banks onto the Enterprises risks adopting a capital framework that negatively impacts the multifamily housing market. In fact, when compared to the treatment of multifamily exposures under the Basel and U.S. bank capital framework, the Proposed Rule would require the Enterprises, under certain circumstances, to hold significantly more capital against multifamily exposures than banks hold.*

5. **<u>Concern: The Proposed Rule does not address the pro-cyclicality of the multifamily housing market.</u>**

Recommendation:

- *FHFA should implement measures to address the pro-cyclicality of the multifamily housing market. We believe that countercyclical adjustments for multifamily mortgage exposures' MTMLTV must be implemented in the Proposed Rule. This adjustment should only be made where the overall value of the Enterprises' multifamily mortgage exposure fluctuates by a certain percentage, and should not be based on an index. In addition, FHFA could further mitigate cyclicality by using loan-to-value ratios at origination, not a market-to-market metric, or a collar on mark-to-market values.*

6. **Concern: The Proposed Rule fosters incongruent treatment of multifamily and single-family housing.**

Recommendations:

- *FHFA should carefully examine those situations in which multifamily mortgage exposures are treated differently than single-family exposures and eliminate any differences that serve to materially disadvantage multifamily exposures. Careful examination would help ensure that the Enterprises' regulatory capital framework better reflects the unique risk management characteristics and demonstrated credit performance of the multifamily businesses as compared to the single-family businesses.*

- *FHFA should provide greater transparency regarding the data underlying the Proposed Rule, and in particular, FHFA should provide the analytical approach it employed that results in a risk capital treatment for multifamily that is 2x that for single-family. Historic and recent loss experience do not support FHFA's position.*

7. **Concern: The leverage ratio requirements may be the predominant binding capital requirements, overshadowing the risk-based capital requirements.**

Recommendations:

- *The proposed leverage ratio requirements exceed the risk-based capital requirements, as demonstrated for the third quarter of 2019, but it is unclear if this is the binding constraint over a time series. We recommend that FHFA carefully calibrate the leverage ratio requirements to avoid establishing a regulatory capital framework in which the leverage ratio requirements are the binding capital mandate overshadowing the risk-based capital requirements.*

- *FHFA should provide more information on the derivation of the proposed leverage ratio requirements including the data set on which FHFA relied. FHFA should also run a time-series of capital requirements and not just on the single data point provided in the Proposed Rule. Providing this data set would provide transparency to the rulemaking process, enabling NMHC and NAA to offer more specific comments.*

8. **Concern: The Proposed Rule fails to properly address differences in the Enterprises' multifamily business models.**

Recommendation:

- *FHFA should take steps to provide greater capital credit to Fannie Mae, for multifamily exposures recognizing that, according to FHFA, "Fannie Mae has used loss-sharing transactions through a delegated underwriting system which has produced low losses since it was first offered in 1988"*[10] *but has been required to hold a larger amount capital relative to Freddie Mac.*

The rest of our letter provides a comprehensive explanation of the reasoning behind each of our concerns and recommendations in the same order they are described above.

III. Explanation of our Concerns and Recommendations

1. **The prudential floor for CRT in the Proposed Rule will have a detrimental impact on pricing, capital and business models in the multifamily housing market.**

The Proposed Rule would introduce a prudential floor of 10 percent for the risk weight assigned to each tranche in a CRT transaction. FHFA believes this floor would "mitigate potential risks associated with a CRT, including the structuring, recourse, and other risks associated with these securitizations."[11]

The Proposed Rule requests comments on the treatment of CRT under the Proposed Rule, including whether the 10 percent prudential floor is properly calibrated and whether a different approach should be taken. [12] We believe that the prudential floor is not properly calibrated. FHFA should take a different approach that does not involve the prudential floor for several reasons.

[10] *See* Fannie Mae & Freddie Mac Multifamily Businesses, *available at* https://www.fhfa.gov/Policy/ProgramsResearch/Policy/Pages/Reducing-Fannie-Mae—Freddie-Mac-Multifamily-Businesses.aspx, last accessed on August 30, 2020.
[11] 85 Fed. Reg. at 39322.
[12] *Id.* at 39331.

First, the Proposed Rule provides insufficient justification for a 10 percent floor, stating only that the floor is "less than the 20 percent minimum risk weight under the US banking framework for securitization exposures."[13] This absence of foundational information for the proposed floor significantly inhibits our ability to offer granular comments and raises questions about the basis for the proposed floor.

Second, the Proposed Rule would apply a blanket CRT prudential floor without giving due consideration to the differences between single-family CRT and the more robust and well-developed multifamily CRT. The Proposed Rule generally ignores the significant support provided by the involvement of the private market and the mortgage market generally in transferring risk from the Enterprises.[14] We recommend that FHFA acknowledge and incorporate the unique multifamily risk management characteristics of the Enterprises' multifamily business models as compared to their single-family business models into the Proposed Rule before it is finalized.

The prudential floor will also have numerous detrimental effects on the multifamily housing market. The introduction of the CRT floor for multifamily mortgage exposures may change the Enterprises' risk management policies and procedures and their business models. FHFA should conduct an impact analysis to determine the Proposed Rule's impact on the Enterprises' business models and require the Enterprises to provide an evaluation of the potential impact on how they manage their existing CRT programs. It is important to note that the existing multifamily CRT programs used by each Enterprise are well developed, vetted and resulted in no cost to taxpayers during the 2008 financial crisis. Should the CRT floor result in a change on the use of CRT for multifamily mortgage exposures, current and future involvement of the private market in CRT will be curtailed and the Enterprises are likely to experience a significant increase in risk.

2. **<u>The Proposed Rule provides insufficient information regarding the derivation of the lookup grids and risk multipliers applicable to multifamily mortgage exposures.</u>**

The Proposed Rule requires the use of lookup grids and multipliers when assigning credit risk-weighted assets for multifamily mortgage exposures. NMHC and NAA filed comments on the multifamily credit risk grid and multipliers in the 2018 FHFA Proposal;

[13] *Id.*

[14] *See* Hearing on Housing Finance Policy Before the House Financial Services Committee, 116th Cong. (Oct. 22, 2019) (Statement of Steven Mnuchin, Secretary of the Treasury); Prepared Remarks of Dr. Mark A. Calabria, Director of FHFA at MBA 2019 Annual Convention & Expo (Oct. 28, 2019); Remarks before the American Enterprise Institute, *A Case for Housing Finance Reform,* Jerome Powell, Chairman of the Board of Governors of the Federal Reserve System (Jul. 6, 2017).

however, FHFA neither integrated our comments into the Proposal Rule nor provided any indication that our comments were considered. The Proposed Rule offers no analytical support on the derivation of the grids and multipliers or their calibration, which were largely left unchanged from the versions included in the 2018 FHFA Proposal. The absence of analytical support significantly inhibits our ability to comment on the Proposed Rule and calls into question the basis for the proposal.

The Proposed Rule requests comments on whether the risk weights and multipliers for multifamily mortgage exposures are properly calibrated and whether there are any adjustments, simplifications or refinements that should be considered.[15] However, the Proposed Rule does not provide sufficient information to conduct a sound analysis of the derivation of the proposed lookup grids and risk multipliers for multifamily mortgage exposures. Providing this information is important to a proper rulemaking process. To the extent that the data set FHFA used relies on unrepresentative or incorrect data, the Enterprises could be required to hold capital beyond what would be necessary to maintain the Enterprises' safety and soundness and enable them to fulfill their mission. This has the potential to have a significant negative impact on the multifamily housing market.

3. **The lookup grids and risk multipliers applicable to multifamily housing would undermine the affordable and workforce housing markets and the Enterprises' related initiatives.**

As stated previously, the Proposed Rule requests comments on whether the risk weights and multipliers for multifamily mortgage exposures are properly calibrated and whether there are any adjustments, simplifications or refinements that should be considered.[16] Under the Proposed Rule, the capital requirements that would apply to multifamily housing exposures would have a significant negative impact on higher MTMLTV and lower DSC loans, including workforce and affordable housing ("WFH") loans. For numerous fixed-rate and adjustable-rate mortgages, the Enterprises would be required to hold more than 150 percent capital against certain WFH loans with a DSC ratio below 1.36 and a MTMLTV ratio of 70% or more. The capital requirements could be increased further upon application of the multipliers.

WFH is an essential part of the Enterprises' businesses, helping the Enterprises fulfill their statutory missions and the annual multifamily affordable housing goals set by FHFA rules pursuant to the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.[17] Separate from the mission and regulatory mandates for WFH, as conservator of

[15] 85 Fed. Reg. at 39324 and 39327.
[16] *Id.*
[17] 12 C.F.R. Part 1282; 83 Fed. Reg. 5878 (Feb. 12, 2018).

the Enterprises, FHFA has required the Enterprises to explore opportunities to further support liquidity in multifamily WFH.[18]

FHFA must engage in a more tailored approach to the capital treatment of multifamily WFH to avoid undermining the Enterprises' mission to promote WFH and adversely affecting the markets for WFH. The 2018 FHFA Proposal provided a 0.6 risk based multiplier for Government Subsidized loans (Low-Income Housing Tax Credits ("LIHTC") and Section 8), yet this multiplier is absent in the Proposed Rule. It is unclear whether this result was oversight or an advertent decision. If FHFA intended this result, it should disclose the basis, including new data, that supports eliminating this multiplier. The CohnReznick LLP[19] annual study of the LIHTC market, *Housing Tax Credit Investments: Investments and Operational Performance,* found that the foreclosure rate of LIHTC properties since 2000 was less than 0.1% per year and that the cumulative foreclosures during that time was 0.65%. This performance is significantly better than the conventional marketplace.

4. **The lookup grid in the Proposed Rule would require the Enterprises to hold significantly more capital against multifamily housing exposures than the capital a bank must hold against the same exposure under the Basel and U.S. bank capital framework contrary to FHFA's expressed intent to base the Proposed Rule on the bank framework.**

The Proposed Rule would force bank capital requirements developed for banks' business models onto the capital framework for the Enterprises' business models. The Proposed Rule requests comments on whether the U.S. banking framework should be used for purposes of the Enterprises' capital requirements.[20] NMHC and NAA believe that this retrofit of the Basel and U.S. bank regulatory capital framework is inappropriate for the Enterprises' unique business models.

The Basel capital standards were created for the largest and most complex international financial institutions. The nature of these banks' businesses, balance sheets, funding and credit risk is materially different from the multifamily financing businesses of the Enterprises. In addition, banks have deposits that can be subject to fluctuation, the

---

[18] *See* FHFA, *2018 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* (Dec. 2017), *available at* https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2018-Scorecard-12212017.pdf.
[19] CohnReznick, *Housing Tax Credit Investments: Investment and Operational Performance* (Nov. 18, 2019).
[20] *See, e.g.*, 85 Fed. Reg. at 39301.

Enterprises are match-term funded which makes the models far more predictable than that of banks.

Moreover, while the Basel capital standards may be fully vetted and widely accepted for the largest international banking institutions, the application of these capital standards to the Enterprises' multifamily businesses is inappropriate, unexamined and potentially detrimental. The application of bank capital standards to businesses for which they was not designed or intended to apply should be examined more broadly, including by soliciting input from the Basel Committee and the U.S. bank regulators. Their input would enable FHFA to limit potential unintended consequences and properly tailor the Proposed Rule to reflect the important role the Enterprises play in America's housing market. Even minor missteps in this regard can have significant impacts on the multifamily housing market, with resulting harm to families that are least able to sustain any adverse availability and cost impacts.

The Proposed Rule would require the Enterprises to maintain risk-weighted capital and adjusted capital ratios of 8 percent of risk-weighted assets. The risk weight assigned to multifamily exposures would be dependent on the MTMLTV and DSC ratios outlined in the proposed risk grids. This approach is inconsistent with the bank capital framework because the Enterprises may be required to hold greater capital against multifamily exposures than is necessary to maintain safety and soundness and enable the Enterprises to fulfill their mission.

Additionally, the risk weights under the Proposed Rule are significantly higher than those applicable to the same exposures under the bank capital framework. Certain risk weights provided in the lookup grid in the Proposed Rule can substantially exceed 100 percent and may be as high as 255 percent for adjustable rate mortgages with a DSC ratio greater than 1.00 or more and a MTMLTV of more than 100%. The Basel and U.S. capital framework assign a 100 percent risk weight to multifamily loans at origination, and a 50 percent risk weight one year after origination if there is evidence of timely principal and interest payments and if the loan meets specific credit criteria.[21]

Further, the mark-to-market requirement in the Proposed Rule would be more stringent than the bank capital regime. Banks are not required to use mark-to-market metrics for multifamily exposures. Rather, banks are required to review the loan value only at origination when generating capital calculations. The mark-to-market requirement in the Proposed Rule would necessitate a significantly higher capital charge for multifamily mortgage exposures during adverse market conditions, even where the loan is performing.

[21] *See, e.g.,* 12 C.F.R. § 324.32(i).

5. **<u>The Proposed Rule does not address the pro-cyclicality of the multifamily housing market.</u>**

The Proposed Rule purports to address the pro-cyclicality of the risk-based capital requirements of the 2018 FHFA Proposal, however, the Proposed Rule focuses primarily on single-family housing and not on multifamily housing. For example, the Proposed Rule includes a countercyclical adjustment for each single-family mortgage exposure's MTMLTV ratio when national housing prices are 5.0 percent above or below the inflation-adjusted long-term trend. The Proposed Rule provides no such adjustment for multifamily housing, which runs counter to the expressed goal of FHFA.

The Proposed Rule requests comments on the approach that should be taken to mitigate pro-cyclicality of credit risk capital requirements for multifamily mortgage exposures.[22] Without a clearer understanding of the treatment of single-family and multifamily mortgage exposures, we must withhold specific recommendations, and instead note that FHFA could take a myriad of approaches to address pro-cyclicality in the multifamily housing market. For example, the countercyclical adjustment applicable to single-family exposures could be applied to multifamily exposures. However, we believe that the Proposed Rule should be modified to eliminate the use of FHFA's U.S. all-transactions house price index. Countercyclical adjustments should only be made when the value of the Enterprise's portfolio increases or decreases by a certain percentage.

Further, we also suggest that FHFA evaluate the elimination of the use of MTMLTV in exchange for the loan-to-value ratio at the time of origination. FHFA could also cap mark-to-market values or permit decreases in mark to market values to limit pro-cyclicality in the multifamily housing market.

6. **<u>The Proposed Rule fosters incongruent treatment of multifamily and single-family housing.</u>**

The Proposed Rule requests comments on whether the methodologies used to calibrate credit risk capital requirements for multifamily mortgage exposures are appropriate given the potential risk of loss that could be experienced in a financial crisis and where any changes should be made in calibrating credit risk capital requirements.[23] The Proposed Rule would require greater capital for multifamily exposures than for comparable single-family exposures. This is a significant change in policy that lacks proper justification or discussion through rulemaking or stakeholder engagement. NMHC and NAA recommend that FHFA conduct separate analyses of the single-family and multifamily frameworks, to prevent any unintended influence of one framework on the other and to best reflect the

[22] 85 Fed. Reg. at 39324.
[23] *Id.* at 39322.

NATIONAL MULTIFAMILY HOUSING COUNCIL

NATIONAL APARTMENT ASSOCIATION

unique risk management characteristics and demonstrated credit performance of the multifamily businesses as compared to the single-family businesses.

The Proposed Rule fails to address the pro-cyclicality of multifamily mortgage exposures, despite creating countercyclical adjustments for single-family exposures. If adopted without change, the Proposed Rule would require additional capital to be held against multifamily exposures as compared to single-family exposures. Although this would diminish the availability and cost of multifamily housing, the Proposed Rule does not provide any explanation or justification for this difference in treatment.

As of September 30, 2019, under the Proposed Rule's standardized approach, the Enterprises' average risk weight for single-family mortgage exposures would have been 26 percent, and the Enterprises' average risk weight for multifamily mortgage exposures would have been 51 percent. This difference leaves multifamily exposures at a distinct disadvantage in the mortgage marketplace. The 2018 FHFA Proposal viewed this inconsistent result as a problem, but instead of providing a remedy, the new Proposed Rule continues the problem, does not provide a remedy and fails to provide a rationale for the different treatment. In the absence of any explanation of the rationale for the inconsistent treatment of multifamily and single-family exposures, we are offering comments on the proposed result.

7. **The leverage ratio requirements may be the predominant binding capital requirements, overshadowing the risk-based capital requirements.**

The Proposed Rule states that FHFA views the leverage ratio requirements as "a credible backstop to the risk-based capital requirements."[24] Since FHFA intends that the leverage ratio requirements would backstop the risk-based capital requirements, one would expect that the Enterprises' risk-based capital requirements would exceed the supplemental leverage ratio requirements most of the time. However, the leverage ratio requirements in the Proposed Rule would exceed the risk-based capital requirements currently, as FHFA acknowledges, and it is not at all clear when this result may change in the future. The Proposed Rule requests comments on whether the leverage ratio is appropriately sized to serve as a credible backstop to risk-based capital requirements and whether the leverage ratio should be based on a metric other than adjusted total assets.[25]

NMHC and NAA believe that FHFA should carefully calibrate the leverage ratio requirements to avoid establishing a regulatory capital framework in which the leverage ratio requirements are the binding capital mandate overshadowing the risk-based capital

[24] *Id.* at 39281.
[25] *Id.* at 39295.

requirements in most circumstances. Our views are aligned with FHFA's stated intent, but the Proposed Rule falls short in implementing the proper calibration. FHFA should calibrate the leverage ratio requirements to avoid the leverage ratio becoming the dominant, binding capital requirement for the Enterprises.

To accomplish this, we recommend that FHFA provide foundational information on the derivation of the proposed leverage ratio requirements, including the data set on which FHFA relied. FHFA should also run a time-series of capital requirements using different scenarios. Relying only on the single data point provided in the Proposed Rule is insufficient. Providing this data set would provide transparency to the rulemaking process, enabling NMHC and NAA to offer more specific comments to assist in achieving our shared objective of having the leverage ratio requirements backstop the risk-based capital requirements.

8. **The Proposed Rule fails to properly address the differences in the Enterprises' multifamily business models.**

The Proposed Rule states that the Enterprises' regulatory capital frameworks account for differences in the Enterprises' multifamily business models, where appropriate,[26] but the Proposed Rule does not accomplish this. The foundation of Fannie Mae's multifamily business model is a Delegated Underwriting and Servicing program with common underwriting and servicing guidelines for a defined group of multifamily lenders. By contrast, Freddie Mac's multifamily business model is a structured, multi-class securitization program in which K-Deals are the largest securitization program.

Due to these differences in the Enterprises' multifamily business models, the Proposed Rule would require Fannie Mae to hold significantly more capital than Freddie Mac. However, FHFA continues to recognize that "Fannie Mae has used loss-sharing transactions through a delegated underwriting system which has produced low losses since it was first offered in 1988"[27] and historically, FHFA has provided greater capital credit to Fannie Mae holdings for this reason.

[26] *Id*. at 39321.

[27] *See* FHFA, Fannie Mae & Freddie Mac Multifamily Businesses, *available at* https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Reducing-Fannie-Mae--Freddie-Mac-Multifamily-Businesses.aspx (last accessed on August 16, 2020).

NATIONAL MULTIFAMILY HOUSING COUNCIL NATIONAL APARTMENT ASSOCIATION

Although the Proposed Rule purports to account appropriately for differences in the Enterprises' multifamily business models, and highlights CRT as an example of these differences, the Proposed Rule instead fails to account properly for the fundamental differences in the Enterprises' multifamily businesses. If adopted without change, the Proposed Rule would cause Fannie Mae to hold substantially greater capital than Freddie Mac due to these differences.

The Delegated Underwriting and Servicing Peer Group has indicated that the Proposed Rule would require Fannie Mae to hold more capital than Freddie Mac due in large part to the size and scope of CRT relative to Freddie Mac,[28] and we agree. NMHC and NAA recommend that FHFA amend the Proposed Rule to ensure greater capital credit for Fannie Mae's multifamily business thereby assuring fairer competition between the Enterprises.

* * *

[28] The Delegated Underwriting and Servicing ("DUS") Peer Group Letter Regarding (RIN) 2590–AA95 FHFA Proposed Rule on Enterprise Capital Requirements (Nov. 16, 2018), *available at* https://www.fhfa.gov//SupervisionRegulation/Rules/Pages/Comment-Detail.aspx?CommentId=15284.

NMHC and NAA thank FHFA for the opportunity to provide these comments on the Proposed Rule. We agree with FHFA that the Enterprises' regulatory capital framework should maintain safety and soundness and enable the Enterprises to fulfill their mission across all economic cycles. We believe, however, that the Proposed Rule must be revised to accomplish this goal. Our comments recommend several important revisions and recalibrations to avoid harming the liquidity, stability and affordability of the multifamily housing market.

NMHC and NAA believe that FHFA should revise the regulatory capital framework applicable to the Enterprises' multifamily programs in accordance with three key principles:

1. Consistency with maintaining an explicit federal guarantee for multifamily mortgage-backed securities.
2. In recognition of the unique multifamily risk management characteristics of the multifamily business compared to the single-family business and the differences between the Enterprises' risk-sharing executions.
3. Retention of the successful components of the Enterprises' existing multifamily programs.

Regulatory capital amendments that conform to these principles would promote the Enterprises' role in a liquid, efficient, competitive and resilient multifamily housing market while avoiding unintended adverse consequences.

We would welcome the opportunity to discuss our comments. If you have any questions or if you would like to discuss our comments, please contact David Borsos, Vice President, Capital Markets at NMHC by telephone at 202-974-2336 or by email at dborsos@nmhc.org.

Sincerely,

Doug Bibby President	Robert Pinnegar, CAE President & CEO
National Multifamily Housing Council	National Apartment Association

Questions for the Record
House Financial Services Committee
Full Committee Hearing, "Prioritizing Fannie's and Freddie's Capital over America's Homeowners and Renters? A Review of the Federal Housing Finance Agency's Response to the COVID-19 Pandemic"

Chairwoman Waters

Capital Rule Proposal

1) **Chairwoman Waters, Congressman Clay, and Congressman Heck wrote to you on July 27th to express concern with the proposed capital rule's disproportionate impact on consumers of color. Black and Latinx homebuyers, for example, are currently overcharged a cumulative $765 million compared to other borrowers. In your response you ignored the request in the letter to provide "a detailed analysis on how the rule will affect access to credit for underserved borrowers, including estimates of how many borrowers could be denied access to credit and how much more on average a borrower will have to pay for a mortgage under this rule." Please provide the Committee with the information requested.**

On November 17, 2020, FHFA announced the publication of its final Enterprise Regulatory Capital Framework Rule. Although the premise of your question implies an impact on costs or access to credit for borrowers, the re-proposed or final rule does not require Fannie Mae or Freddie Mac (the Enterprises) to change their pricing, nor is it meant to drive a particular market share or market structure.

In developing the re-proposed Enterprise Regulatory Capital Framework Rule, the Agency undertook its normal review of factors that could be affected by a change in capital standards and took into account public comments received as important to the adoption of a final rule. Throughout the rulemaking process, FHFA remained bound to the statutory requirements of Congress in the Housing and Economic Recovery Act of 2008 (HERA), as specified in Section 1110 of HERA.

The decision to impose a risk-based capital standard on the Enterprises was a decision made by Congress in 2008. Accordingly, Congress has already judged the benefits of such a rule as exceeding any potential costs.

FHFA monitors effects under current Enterprise practices and standards on all market segments, and for the May 2020 re-proposed rule the Agency completed a fair lending analysis to help inform the final rule. In line with statutory requirements, the comments provided on the Proposed Capital Rule were considered for analyses provided on the impact across the range of market participants.

2) **During the September 16th Financial Services Committee hearing, Director Calabria stated that "[t]here was an internal fair lending analysis done in regard to the 2018 rule. We made a number of changes in the reproposal." Was a fair lending analysis conducted in regard to the reproposed rule? If so, can you please provide a summary of what that fair lending analysis showed? And if not, why not?**

FHFA's re-proposed Regulatory Capital Framework Rule for Fannie Mae and Freddie Mac (the Enterprises) is based on the same structure as the prior proposal that was issued in July 2018. For the July 2018 proposed rule, the Agency completed a fair lending analysis on certain risk multipliers and that analysis led to changes incorporated into the May 2020 proposed capital rule. In summary, there were changes from the first proposal that were mission-driven and informed by this analysis. They include removal of risk multipliers assigned to the number of borrowers and loan balance, which had a notable impact on loans to one borrower and small balance loans. In particular, more than half of loans purchased by the Enterprises are loans to one borrower; the removal of the number-of-borrowers multiplier in the re-proposed rule significantly impacts the risk capital distribution and promotes fair lending and mission objectives.

Similarly, for the May 2020 re-proposed rule, the Agency completed a fair lending analysis to help inform the final rule. Results of the analysis indicated that the May 2020 re-proposed rule reduced disparities for Black borrowers compared to the July 2018 proposal. As with the process followed with the 2018 proposal, the FHFA analysis of fair lending is used to address any needed changes in a rule and those changes are affected prior to finalization and publication of the rule.

Regulating the Enterprises as Utilities

3) **Many industry stakeholders are calling for the GSEs to be regulated as utilities by regulating their permissible return on equity to further the GSEs' public mission and curb risky business practices. Regulating their pricing directly is another method to accomplish this goal. Do you support utility regulation for the GSEs? Why should the GSEs be turned over to private operation and be allowed to charge homebuyers whatever they can get away with? Shouldn't there be some limits to ensure the GSEs fulfill their statutory public interest mission?**

Although there are circumstances under which regulating the Enterprises as utilities could be desirable, the actual details around this model would be incredibly important. In order to evaluate the desirability of a utility model, I would highly encourage proponents of a utility model to circulate or introduce legislation. Otherwise, there is not enough detail to know whether a utility model would be an improvement over the status quo. As I have stated in my most recent Annual Report to Congress, only Congress has the authority to enact the legislative reforms necessary to address the structural flaws in the current model. FHFA stands ready to assist Congress by providing technical assistance on any legislative proposals.

The current conservatorship is legally and functionally a "private operation." The Enterprises continue to be, as statute requires (for instance see Section 1117 of HERA), private companies and not part of the federal government. And, the only reference to pricing in their charters (see Section 304(a)(2) of Fannie Mae's charter) is a requirement that the Enterprises do not *underprice in order to gain business. To the extent that Congress finds that the Enterprises are not fulfilling their statutory public interest mission, as outlined in their charters, FHFA stands ready to assist Congress by providing technical assistance on any legislative proposals.*

I would suggest that one legislative remedy to address pricing, as referenced in your question, is to encourage a competitive marketplace. FHFA has requested that Congress grant the Agency chartering authority, similar to other financial regulators, that would promote a more diverse and competitive housing finance marketplace.

Adverse Market Refinance Fee

4) **During the September 16th Financial Services Committee hearing, Rep. Porter asked Director Calabria whether he thought lenders would pass the proposed adverse market refinance fee onto borrowers. Dr. Calabria responded that he had spoken to lenders who said they would absorb the fee and that he would provide the Committee with the names of such lenders. Please provide the Committee with a comprehensive list of the lenders who have communicated to FHFA that they would absorb the fee without passing it onto borrowers.**
    a. **Additionally, please elaborate on the following: Describe the nature of your outreach to lenders. Did you discuss the question of fee absorption with a broad set of lenders, reflecting institutions of varying sizes and business models? Did these lenders provide other meaningful details on their ability to absorb the fee, including whether their ability to do so would vary by consumer type or by market? Did these lenders indicate for how long these fees would be absorbed—would they absorb the initial fee for those loans already committed, or would they absorb it permanently?**

FHFA has communicated with a range of stakeholders, including individual lenders, regarding the adverse market refinance fee. We met with lenders reflecting various sizes and business models, and they did provide details along the lines described in your question. Please note that since the conversations took place with confidence assured to participants, we are unable to release details. Releasing the names and details of confidential conversations between FHFA and market participants would harm our ability to carry out our duties as a regulator and work with them going forward.

How much, if any, of the fee is assessed to borrowers is at the discretion of the lender. As noted in my written testimony, spreads between the 30-year fixed mortgage rate and secondary mortgage yields remain high due, in large part, to the elevated levels of refinance activity which is taxing the capacity of the industry. This elevated spread translates to significant gains for lenders who make mortgage loans in the current rate environment. However, MBA's October 2020 forecast predicts a nearly 50 percent decline in refinance volume in 2021 compared to 2020. As refinance volume declines over the coming months, lenders will have to compete more intensely for business, driving spreads closer to long-run levels. Because this will happen as the fee is being introduced, competition should lead to declining spreads that will either partially or fully offset the increased fee. Therefore, it is reasonable to expect that market forces in the current economic environment will shield borrowers from some, or all of the increase in guarantee fee.

There is extensive academic literature, both theoretical and empirical, on the incidence of cost changes between producers and consumers. It is, in fact, one of the largest areas of study within economics with several robust findings. As one survey of the literature found,[1] only in the rare instances of where either demand is completely inelastic or supply perfectly elastic would consumers bear 100 percent of a cost increase. Neither of these conditions appears to hold in the residential mortgage market. Therefore, the very strong consensus finding in the economics literature suggests that lenders will bear some portion of this increase. In addition, the fact that borrowers can completely avoid the fee by using non-GSE lending channels, implies that GSE dependent lenders will likely have to absorb part of the fee in order to compete. That said, since such lenders receive tremendous benefits from the GSEs, it is in the interest of such lenders that the GSEs avoid failure.

Loan Level Price Adjustments (LLPAs)

5) **In order for borrowers to qualify for Fannie Mae's HomeReady product, at least one borrower must complete either homeowner education requirements or housing counseling through a HUD-approved housing counseling agency. Currently, HomeReady loans where the borrower has completed HUD-approved housing counseling qualify for LLPA credit in the amount of up to $500 that is paid to the lender. While some lenders are receiving the LLPA, they are not always passing fees onto housing counseling agencies that are providing counseling services to HomeReady borrowers.**
    a. **How many lenders have received the housing counseling LLPAs and how much has gone to lenders thus far? How many loans are receiving the LLPA? What percent of borrowers are opting for homebuyer education as opposed to housing counseling?**
    b. **Can FHFA require both Fannie and Freddie to provide funding for housing counseling services delivered to their borrowers and ensure that HUD-approved housing counseling agencies are adequately compensated?**

From the launch of HomeReady through June 2020, 235 sellers delivered 11,791 loans to Fannie Mae which received the housing counseling LLPA credit. This represented 2.6% of the 446,284 HomeReady loans that received either one-on-one housing counseling or homeownership education.

For HomeReady purchase transactions wherein all occupying borrowers are first-time homebuyers, at least one borrower must complete homeownership education or housing counseling. When the borrower chooses to complete housing counseling from a HUD-approved agency, the seller is eligible for a LLPA credit of $500, which is a reduction in what Fannie Mae would charge the lender to purchase the loan. A Certificate of Completion of Housing Counseling is required to be submitted and retained by the lender to document that this requirement was met. Because the LLPA credit is given in the form of a credit to the seller, and available to any seller delivering a HomeReady loan with housing counseling, Fannie Mae has limited control over how the lender utilizes the credit.

---

[1] Kotlikoff, Laurence J. and Lawrence H. Summers. "Tax Incidence," The Handbook of Public Economics, edited by Alan J. Auerbach and Martin Feldstein, (1987), pp. 1043-1092.

FHFA does not require the Enterprises to provide funding for housing counseling services delivered to their borrowers. However, Fannie Mae offers Framework, an online homeownership education tool free of charge to consumers seeking to engage in the homebuying process. Fannie Mae also works with HUD-approved housing counseling agencies to provide one-on-one housing counseling to borrowers seeking additional pre- and post-purchase assistance. Freddie Mac provides borrowers with CreditSmart HomeBuyer U, also a free homebuyer education tool and works with counselors through borrower help centers for origination and servicing questions.

6) **LLPAs added after the housing crisis have substantially increased costs with severe disparate impacts on borrowers of color. With an over-reliance on credit score and loan-to-value ratio, the Loan Level Price Adjustments are a crude method of pricing borrowers' risk. Do you agree that the LLPAs are having an unnecessary disparate impact on underserved borrowers? Have you considered removing them?**

Upfront fees charged to lenders based on a borrower's LTV ratio and credit score have been in place at the Enterprises since the conservatorships began, with the last revisions having been implemented in 2015, which predate my tenure as Director. Given the length of time since their last change, FHFA is preparing to review these upfront fees to better understand how these fees relate to loan performance and credit loss for owner-occupiers. We can follow-up with you or your staff to keep you informed of the outcome of this analysis once it's complete in 2021. Until such a review is completed, FHFA is not in a position to judge whether such LLPAs are having a disparate impact.

It should be noted that credit scores are the most consistent and strongest predictor of mortgage default, as noted in a recent survey of over 100 academic studies on the issue.[2] *The reliance on credit scores has led to a significant expansion in the access to mortgage credit.*

<u>**Borrower Protection Program**</u>

7) **The new CFPB and FHFA servicer data sharing initiative, known as the Borrower Protection Program, has the potential to enhance fair lending oversight, particularly in light of the disproportionate impact that the pandemic and its economic fallout are having on Black and Latinx communities.**
    a. **Please provide the Committee with a list of the types of data that are being collected through the program and whether they include race, ethnicity, English proficiency, age, or other protected classes, or proxies for such classes, under the Fair Housing Act and the Equal Credit Opportunity Act.**

FHFA was pleased to announce the Borrower Protection Program as a joint initiative with CFPB on April 15, 2020. The program was created to enable CFPB and FHFA to share servicing information in order to protect homeowners seeking assistance during the coronavirus national emergency. Under the program, CFPB has made complaint information

[2] Jones, Timothy, and G. Stacy Sirmans. "The Underlying Determinants of Residential Mortgage Default." Journal of Real Estate Literature 23, no. 2 (2015): 169-206.

available to FHFA via a secure electronic interface. In return, FHFA has made information available to CFPB about forbearances, modifications, and other loss mitigation initiatives undertaken by the Enterprises.

Currently, FHFA has been surveying the types and frequency of complaints. FHFA has been reviewing particular complaints that have been made against individual firms identified in the complaint database as well as complaints made in the press, Congressional inquiries, or by other means. We have also been conducting more regular searches for complaints made against a subset of servicers. The Agency will, as applicable, use what it learns to inform its routine interactions with the Enterprises, highlighting opportunities for additional follow-up or investigation to ensure that Enterprise policy is being carried out in accordance with the seller/servicer guides.

b. Will the FHFA share granular demographic data with the CFPB and will any fair lending analyses of the data be conducted? If so, please provide the Committee with such analysis.

If FHFA identifies disparate outcomes that it believes Enterprise or FHFA policy changes could address, the Agency will work to address them using all available authority. The Agency does not have enforcement or examination authorities related to mortgage servicers.

c. If conducted, will the analyses be made available to the public? Will the complaints be used to inform litigation, enforcement, and supervision work?

Given that the Borrower Protection Program is quite new, it is simply too early to know what we will find and what information can be shared publicly. FHFA will look to share whatever findings can be appropriately and legally made public. However, at the present time, FHFA does not have plans to publish any findings or actions based on data related to the complaint database, as it is owned and controlled by CFPB. As such, FHFA believes any publication of such data should be conducted by CFPB. When any changes or adjustments are made to a policy based on complaints lodged with CFPB, FHFA or the Enterprises will make those policy decisions public through news releases or guide changes. The data are used to inform supervision of the Enterprises' counterparty activities. As a reminder, FHFA does not have supervision, enforcement, or examination authority over Enterprise counterparties.

Delay of the Uniform Residential Loan Application Form

8) A recent Fannie Mae survey revealed that 53 percent of Black borrowers and 69 percent of Latinx borrowers were unfamiliar with mortgage relief options compared to 13 percent of Asian borrowers and 44 percent of White borrowers. This raises red flags. We know Black and Latinx homeowners were disproportionately hit by the foreclosure crisis nearly a decade ago because they were targeted with predatory subprime loans. Latinx borrowers were also disproportionately affected because they lacked in-language services and information. In fact, according to the results of a 2013 national Latinx survey, 74 percent either mainly use Spanish or are bilingual.

a. **In 2019, you delayed lender implementation of the Uniform Residential Loan Application (URLA) until 2021. At that time, you also removed a critical language access question and housing counseling information, and also repositioned a military service question on the form to a misleading place below the signature line. These questions and information are critical to ensure borrowers receive consistent and adequate servicer from mortgage servicers. Mr. Green introduced H.R. 4783, the "LEP Data Acquisition in Mortgage Lending Act" which would reinstate the preferred language question and housing counseling information on the URLA form, as well as H.R. 8252 which would restore the military service question to a prominently displayed position on the URLA form. Do you support both H.R. 4783 and H.R. 8252, and will you commit to reincorporate the language access question and housing counseling information, and to place the military service question above the signature line where veterans can easily see the question and information about VA lending options before signing the form?**

In August 2019, FHFA directed the Enterprises regarding changes to the Uniform Residential Loan Application (URLA) and released them from any previous directives that required adherence to instructions that were inconsistent with FHFA's limited authorities as a conservator. The URLA was transferred back to the Enterprises after the design and development phase was completed. As a result, the Enterprises have transitioned to industry's implementation of the URLA form and collection of data that will modernize the Enterprises' underwriting systems. The new form and data collection began its testing in March 2020, will become effective in January 2021, and then become mandatory in March 2021.

FHFA committed to developing an optional standardized format and question for use by stakeholders regarding housing counseling information. This standardized format would enable standardized data collection for those stakeholders using and collecting such data.

FHFA has not had the opportunity to review the legislation mentioned in your question. That said, as FHFA is not a consumer-facing agency, FHFA believes that such activities as counseling, consumer awareness and education would best be carried out by the CFPB, which is a consumer-facing agency with the necessary resources and expertise. CFPB is also the appropriate agency given its role regulating mortgage servicers, authorities which FHFA lacks. As FHFA cannot speak on behalf of the CFPB, we encourage the Committee to engage further on this issue with the CFPB.

Appraisals

9) **A 2019 report from the Brookings Institution showed that the systemic devaluation of homes in majority-Black neighborhoods, when compared to homes in neighborhoods with few or no Black residents, amounted to $156 billion in extracted wealth from Black communities. Similarly, a study published this month found that the gap between appraised home values in predominately White versus predominately Black and Latinx neighborhoods has grown from $86,000 to**

$164,000 between 1980 and 2015. This is of serious concern to our committee, especially as the current administration continues to abandon enforcement of fair housing and fair lending laws, and as the number of majority-Black cities continues to grow. In fact, today there are 1,262 Black-majority cities, which is about 100 more such cities than what existed over the last decade. Can you tell us whether FHFA is looking at this issue and what authority it has to ensure appraisals are fair and free from discrimination?

If FHFA identifies disparate outcomes that it believes Enterprise or FHFA policy changes could address, the Agency will work to address them using all available authority. The Agency does not have regulatory authorities related to appraisers, but nonetheless recognizes the important role appraisals play in the housing market and their impact on FHFA's regulated entities. In light of temporary changes in appraisals and other underwriting practices during the COVID-19 emergency, we expect to issue a Request for Information on appraisal modernization later this year.

Constitutionality of FHFA Director

10) **The Supreme Court recently ruled that the restrictions on the removal of the CFPB Director that were designed to protect the independence of the agency are unconstitutional. The FHFA Director is subject to similar restrictions on removal, which have also been challenged in court. You have stated that this Supreme Court decision does not directly impact the constitutionality of your post, but a certiorari petition filed by FHFA and the Treasury Department in this lawsuit argued that it was unnecessary for the court grant review of this question of constitutionality because the Supreme Court was already reviewing the question in the CFPB case.**
    a. **Do you think there are meaningful distinctions between the FHFA Director and the CFPB Director that warrant a different decision on the question of the constitutionality of your post?**

Yes, I believe there are meaningful distinctions between the FHFA Director and CFPB Director under the law. Congress provided a great deal more direction to FHFA and its regulated entities than other regulators as to what can be undertaken and what cannot. For instance, FHFA does not have the broad ability to address a wide range of activities and/or act against firms and interpret the meaning of terms such as "unfair and deceptive practices." FHFA regulates, pursuant to direct statutory language, Fannie Mae, Freddie Mac, and the eleven Federal Home Loan Banks in their role as secondary market parties. Congress provided direct policy guidance to the regulator and the regulated entities. "At will" removal, which was available to Congress, was not employed but, rather, Congress provided "for cause" removal for conduct running contrary to its explicit statutory directions. The Director of FHFA is very different from the CFPB Director and other federal financial regulators because of these greater congressional controls, which merits honoring the congressional determination regarding for-cause removal. A Director may be removed for cause not only for conduct relating to regulatory responsibilities but also for violations on laws applicable to the conduct of federal employees. When FHFA was designed in the Housing and Economic Recovery Act of 2008, its structure was modelled on the OCC (and the then-OTS).

b. **Now that there is a risk that a subsequent Administration could remove you without cause, how does this impact your agenda to remove the GSEs from conservatorship and the anticipated timeline? I wonder if this perhaps is part of the reason why you have been rushing forward with the capital rule despite the national emergency.**

No, FHFA remains committed to preparing the Agency and the Enterprises to responsibly exit and operate safely outside of conservatorship. The decision to impose a risk-based capital standard on the Enterprises was a decision made by Congress in 2008; given that the Agency has had 12 years to complete the rule, it is reasonable to implement this Congressional mandate. I do not view taking 12 years to implement a Congressional mandate as "rushing forward." FHFA's process is following well established precedents in this regard. For instance, bank capital regulations were negotiated and updated during the Great Recession and the largest foreclosure crisis since the Great Depression. Congress was also able to find time during the worst foreclosure crisis since the Great Depression to pass the Dodd-Frank Act.

On November 17, 2020, FHFA announced the publication of the final Enterprise Regulatory Capital Framework Rule which was a re-proposal of the 2018 proposed rule and utilized the same process. The goal of the final capital rule is to ensure that the Enterprises have a sufficient level of high-quality capital needed to survive a downturn while fulfilling their countercyclical mission and balancing the need to preserve affordability in the mortgage market. Ensuring that the Enterprises are appropriately capitalized to their risk helps to ensure that they can continue to fulfill their mission to support homeownership and affordable rental housing.

Political Appointments at FHFA

11) **Please provide a list of the names of all political appointees hired by or detailed to FHFA since January 1, 2019. For each political appointee listed, please indicate their appointment type (e.g. Schedule C), their title, and the office which they staff. For each detailee listed, please indicate the agency from which they were detailed and the length of the detail.**

The Office of Personnel Management publishes a notice of agency-specific authorities established or revoked each month, as well as an annual notice of the consolidated listing of all Schedule A, B, and C appointing authorities, current as of June 30, in the Federal Register. These are listed by agency name, organization name, and title. More information can be found at the Federal Register here: https://www.govinfo.gov/content/pkg/FR-2020-03-06/pdf/2020-04274.pdf; https://www.govinfo.gov/content/pkg/FR-2020-04-02/pdf/2020-06889.pdf

Governmentwide Schedule C and other political appointments are also listed in the publication entitled "United States Government Policy and Supporting Positions" or "Plum Book": https://www.govinfo.gov/collection/plum-book

Currently, FHFA has no Schedule C appointees either detailed to, or from, another agency and has 11 Schedule C employees out of the total 651 full-time Agency employees, representing 1.7% of Agency employees.

Given that the names of FHFA Schedule C appointees you requested will be made public if listed here, FHFA will follow up to provide the Committee with a separate confidential list, not available for publication, in order to preserve their privacy.

12) **Please provide a list of the names of all FHFA political appointees that have requested permission from the Office of Personnel Management to seek a career civil service position at FHFA since January 1, 2019.**

FHFA is currently seeking the Office of Personnel Management's approval to appoint a former Schedule C appointee with the Department of Treasury from 2010 - 2017, who joined the Agency prior to January 1, 2019, into a permanent excepted service position. There are no employees who have joined the Agency since January 1, 2019 who have requested such permission.

Diversity and Inclusion

13) **A recent report by the Government Accountability Office entitled, "Fannie Mae and Freddie Mac: Efforts to Promote Diversity and Inclusion," indicates that there has been a lack of growth in workforce diversity and in the inclusion of diverse businesses at Fannie Mae and Freddie Mac. Specifically, the report shows that the percentage of women of color in senior management roles at both Fannie and Freddie remained in the single digits from 2011 to 2019. How does FHFA plan to improve its oversight over the GSEs' diversity plans to hold them accountable to increasing their diversity and inclusion results?**

FHFA shares concerns about promoting diversity and inclusion at the Enterprises, but we are encouraged by the progress made to date in both the intentionality and seriousness with which the Enterprises are approaching their obligations. These efforts will take time to yield positive results, but without the best practices that they have adopted, as recommended by the GAO, the probability of success would decrease.

FHFA has recently strengthened its ability to oversee the Enterprises and the Federal Home Loan Banks' diversity and inclusion programs. In September 2020, I approved an OMWI proposal to implement a new diversity and inclusion rating, using the same methodology as that utilized by the safety and soundness examiners. I also approved the Agency's implementation of a new diversity and inclusion report of examination (ROE) that will reflect the examination rating and findings for each of its regulated entities, and which ROE will be separate and distinct from the safety and soundness ROEs issued by FHFA's Divisions of Bank Regulation and Enterprise Regulation. Both initiatives will commence implementation in January 2021.

I should note that these new supervisory tools are unique to FHFA. No other federal agency in the nation has undertaken similar initiatives. Based on the experience of FHFA's safety and soundness examination ratings and their effect on the behaviors of each regulated entity, the new *diversity and inclusion rating will drive greater accountability across the spectrum of such entities for their statutory obligation to promote diversity and ensure inclusion in their business and activities.*

Representative Wagner

1) **Do you believe that the changes FHFA has made to this fee are adequate to prevent placing uncertainty on both the refinance market and on borrowers who choose to refinance their mortgage?**

Yes. It is critical to remember that this fee covers losses that are the result of policies that have helped millions of Americans stay safe in their homes during a global pandemic.

FHFA tailored the fee to ensure low-income borrowers can continue accessing record-low rates to reduce their monthly mortgage payments. Exempt from the fee are borrowers with loan balances of $125,000 or less, nearly half of whom are at or below 80 percent of area median income. Also exempt are affordable refinance products, Home Ready and Home Possible.

The fee was originally scheduled to go into effect September 1, 2020, but after listening to the feedback from stakeholders, FHFA delayed implementation until December 1, 2020. This recognizes that Congress may take the opportunity to review alternatives.

2) **What do the GSEs project their Credit Risk Transfer issuance to be given the proposed Enterprise Capital Framework?**

Future credit risk transfer (CRT) issuance by the Enterprises is likely to be influenced by various economic factors such as the volume and risk characteristics of Enterprise acquisitions and investor/credit guarantor appetite for mortgage credit risk, together with considerations of the final capital rule.

3) **Do you anticipate CRT remaining an integral part of the GSEs' credit operations going forward, both under conservatorship and during the transition outside conservatorship?**

Yes. FHFA's 2020 Conservatorship Scorecard requires the Enterprises to "continue to transfer a significant amount of credit risk to private markets in a commercially reasonable and safe and sound manner." I expect CRT to play a role in the Enterprises' activities going forward once the capital rule is implemented and the Enterprises exit their conservatorships.

Representative Kustoff

1) **Director Calabria, the 50-basis point fee was originally announced by the GSEs in mid-August with an implementation date of Sept.1. That was delayed by FHFA to December 1 after major outcry from impacted parties. How much discussion was there by the GSEs and/or FHFA with impacted lenders before making the decision**

to move forward with the fee? In retrospect, might greater consultation with the industry and consumer groups be advisable to achieve a workable solution in a manner that does not cause disruption in the market? Regardless, I do appreciate the FHFA's response to the Committee's concerns and the delay of the fee until December 1st. In your opening statement, you mentioned how this delay could be an opportunity for Congress to consider alternative methods to help the FHFA offset its COVID-19 related losses. Are there any specific alternatives you have in mind that would help cover these losses, without imposing significant fees and costs on consumers?

FHFA has communicated with a range of stakeholders, including individual lenders, regarding the adverse market refinance fee (AMRF). We met with lenders reflecting various sizes and business models and will continue to work with them going forward as we do on a range of policy decisions.

As you note, FHFA delayed implementation of the fee until December 1, 2020, so that Congress may take the opportunity to review alternatives. The timing of implementing the fee is important because the ability of the Enterprises to recoup costs through the fee are dependent upon the levels of refinancing activity in the housing market. Refinance originations are believed to have peaked in the middle of 2020 and will decline in the coming months. The Mortgage Bankers Association currently forecasts refinance volumes to drop by nearly 50 percent in the coming year. If the AMRF was delayed further, it may risk being more impactful on borrowers by necessitating a higher or longer-duration fee in order to recoup costs over fewer loans.

2) **Director Calabria, I was glad to see that the need to modernize the appraisal process was acknowledged in the FHFA's 2019 Annual Report to Congress. According to industry stakeholders, one of the biggest problems with the appraisal process is the varying state-by-state regulation, including inconsistent background checks and certification requirements. Would you agree with this assessment? Representative Perlmutter and I recently introduced legislation, the Portal for Appraisal Licensing (PAL) Act of 2020, which would establish a voluntary "cloud-based" nationwide licensing system for state appraiser certification, background checks, and licensing. Do you think such a system could help improve the appraisal regulatory structure and lower costs?**

FHFA recognizes the important role appraisals play in the housing market and their impact on FHFA's regulated entities. In light of temporary changes in appraisals and other underwriting practices during the COVID-19 emergency, we expect to issue a Request for Information on appraisal modernization later this year.