

**Written Testimony of Sandra L. Thompson
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**Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs
“Oversight of Federal Housing Regulators”**

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

Congress established the Federal Housing Finance Agency (FHFA or Agency) to protect the safety and soundness of the housing finance system and promote affordable and sustainable access to mortgage credit nationwide through the regulation and supervision of its regulated entities – Fannie Mae, Freddie Mac (together, the Enterprises), and the Federal Home Loan Bank System, which includes the 11 Federal Home Loan Banks (FHLBanks) and the Office of Finance. Together, the Enterprises and the FHLBank System provide more than \$8.4 trillion in funding for the U.S. mortgage markets and financial institutions and perform a vital function in the American economy by providing liquidity and stability to the secondary mortgage market.

These secondary market activities are undertaken to support borrowers and renters in the primary market. As government-sponsored enterprises, the Enterprises and the FHLBanks have maintained an obligation to operate in the public interest since their founding. The Enterprises and the FHLBank System promote affordable homeownership and rental housing throughout the country by channeling funds from the capital markets into the mortgage markets. In doing so, they make mortgage credit more broadly available, on more affordable terms, than would be provided by the market in their absence. Their activities, for example, support the widespread availability of the 30-year, fixed-rate mortgage in the United States. They also serve as sources of reliable liquidity throughout the economic cycle and play a particularly important countercyclical role during periods of elevated volatility or market stress to ensure the continued functioning of the financial system and mortgage markets.

These actions take on greater significance at a time when housing affordability remains a persistent challenge nationwide. While home price growth has moderated from the rapid increases observed in 2020 and 2021, the ongoing imbalance between the robust demand for single-family housing and an inadequate supply has caused prices to rise steadily throughout 2023 and early 2024. Cumulative home price growth over the past four years has been nearly 50

percent at the national level.¹ Combined with interest rates that are elevated from the historic lows observed during the COVID-19 pandemic, many aspiring homebuyers have experienced difficulty finding affordable homes.

Renters throughout the country face their own unique challenges, as well. Rising rents in many areas have put pressure on affordability and compounded issues some renters have reported with inadequate property maintenance, unclear or harmful lease terms, and costly and confusing application processes.

Providers of multifamily housing, meanwhile, face continued headwinds in key segments of their operations. While the completion of new units is expected to be robust in 2024, multifamily construction starts are also challenged by elevated interest rates and ongoing concerns regarding the costs of labor and materials.

FHFA is working to ensure its regulated entities take steps to address barriers to affordable and sustainable housing. For homeowners, this work includes efforts to responsibly reduce closing costs, modernize underwriting and home valuation processes, increase efficiencies in loan origination and servicing, and identify products that meet the needs of historically underserved and rural communities. For renters, this work includes efforts to enhance tenant protections, provide access to better information and data, streamline the application process, as well as to strengthen asset management capabilities.

To achieve these objectives, the regulated entities must operate in a safe and sound manner. Safety and soundness considerations are embedded in all aspects of FHFA's oversight of both the Enterprises and the FHLBanks. FHFA conducts rigorous examinations which address a wide variety of financial, market, and operational risks. FHFA also engages in rulemaking to ensure the regulated entities are appropriately managing these risks, such as its recent rule related to Enterprise capital requirements. Additional risk management actions include annual stress testing, counterparty credit risk reviews, and loan quality reviews.

The Enterprises have undergone significant changes to their business models and operations since they were placed into conservatorship in 2008. Reforms that FHFA has implemented over the course of 15 years have strengthened the Enterprises' financial conditions, improved risk management and corporate governance, and better insulated taxpayers from exposure to mortgage credit risk. For example, the Enterprises have increased their combined net worth to over \$125 billion. Their retained portfolios are now much smaller than they were prior to conservatorship and are used primarily for loan aggregation and loss mitigation purposes rather than for investment in risky products. Their aggregate books of business reflect historically low delinquency rates and high levels of borrower equity. The credit risk transfer (CRT) programs that began as newly developed concepts a decade ago are now ingrained features of the Enterprises' businesses.

The FHLBank System has operated as a reliable source of liquidity for its member institutions throughout the course of its existence – particularly during periods of market stress. The

¹ FHFA House Price Index. Available at: <https://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index.aspx>.

FHLBank System also serves as an important source of funding for affordable housing and community development through their member institutions. As the System nears its centennial, FHFA is focused on implementing a series of reforms to ensure it remains well positioned to meet the needs of its members and the communities they serve.

Together, these past and planned actions are responsible for a healthier secondary mortgage market and housing finance system – which benefits consumers, market participants, and taxpayers.

FHFA welcomes the opportunity to share with the Committee the Agency’s perspectives on the mortgage market, the operations and activities of the Agency’s regulated entities, and the Agency’s priorities for 2024 and beyond.

FHLBank System at 100: Focusing on the Future

In August 2022, FHFA announced that it would conduct a comprehensive review of the FHLBank System – the first such review in decades.² The objective of this review was to ensure the FHLBanks remain well positioned to meet the needs of their members and the communities they serve as the System approaches its centennial.

Support for members’ housing activities has been the cornerstone of the FHLBank System since its creation and remains critically important for community-oriented organizations, which include community banks, credit unions, and Community Development Financial Institutions (CDFIs). These organizations have a relationship-focused approach that enables them to reach individuals with limited housing options in a safe and sound manner. Community banks, credit unions, and CDFIs also serve an important role in supporting community development initiatives, including in low- and moderate-income neighborhoods.

Following extensive public and stakeholder engagement, FHFA published its *FHLBank System at 100: Focusing on the Future* report (Report) in November 2023.³ The recommendations focus on ensuring the FHLBanks can effectively fulfill the two core objectives of their mission: providing stable and reliable liquidity to their members and supporting housing and community development. These objectives are not mutually exclusive but instead are related and overlapping.

As FHFA continues to move forward with implementing the recommendations in the Report, the Agency is encouraged by recent actions taken by the FHLBanks resulting from the review. Examples include increased voluntary allocations to their statutorily required Affordable Housing Program (AHP) contributions, improved engagement with non-depository CDFIs, and the development of voluntary programs to better support tribal communities.

² FHFA, “FHFA Announces Comprehensive Review of the Federal Home Loan Bank System,” August 31, 2022. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Comprehensive-Review-of-the-FHLBank-System.aspx>.

³ FHFA, “FHFA Releases Report on FHLBank System at 100,” November 7, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Releases-Report-on-FHLBank-System-at-100.aspx>

FHFA will facilitate an open and transparent process as it implements many of the recommendations in the Report through guidance and rulemaking. FHFA has already issued guidance for the FHLBanks to execute pilot and voluntary programs and completed a regulatory interpretation indicating how cooperativas, state-chartered credit unions in Puerto Rico, can pursue membership in the FHLBank System.

Forthcoming actions and public engagement in 2024 include clarifying the FHLBank System mission, aligning eligibility requirements for different types of FHLBank members and ensuring they have an ongoing commitment to mortgage finance, and streamlining requirements related to the Affordable Housing Program.

Additionally, FHFA remains ready and willing to engage with Congressional stakeholders regarding any potential changes to statute based on the Report's recommendations, including an increase to the minimum AHP statutory contribution and an expansion of the institutions eligible to pledge community financial institution (CFI) collateral.

Support for Community Development Financial Institutions

The Report recommends that Congress amend the Federal Home Loan Bank Act (Bank Act) to expand the range of member institutions eligible to pledge CFI collateral⁴ to include all CDFI and credit union members. This will allow non-depository CDFIs – which are mission-focused institutions – and credit union members with total assets below the statutory cap to pledge a wider range of eligible collateral to secure FHLBank advances, which will further support the housing and community development component of the FHLBanks' mission.

This recommendation complements ongoing work that FHFA is undertaking in support of CDFIs. In the coming months, FHFA also plans to issue a public request for information on affordable housing and community development collateral. Responses will inform preparation of guidance to the FHLBanks on developing mission-oriented collateral programs that encourage the use of collateral with a strong connection to the housing and community development mission of the FHLBank System, as well as guidance on evaluating CDFI credit and collateral risk.

On June 20, 2024, FHFA will host a public FHLBank and CDFI Symposium to provide an opportunity for CDFIs to learn more about the FHLBank System as well as for FHLBank leadership to gain a better understanding of CDFIs. Panelists from the FHLBanks and CDFIs will share perspectives on FHLBank membership requirements and benefits, the perceived and actual risks associated with CDFI business models, and innovative programs and partnerships at the FHLBanks. FHFA expects participants will gain a better understanding of how FHLBanks and CDFIs can work together to address housing and community development needs in the communities they serve.

⁴ A CFI is an FDIC-insured depository institution with total assets below a statutory cap, set at \$1.461 billion for 2024. The Bank Act permits the FHLBanks to accept a wider range of eligible collateral from CFI members, including small business loans, small farm loans, small agri-business loans, community development loans, and securities representing a whole interest in such loans. See 12 U.S.C. 1430(a)(3)(E).

Support for the Affordable Housing Program

The FHLBanks are government-sponsored enterprises with a public purpose. The FHLBanks receive benefits to fulfill this public purpose, including exemption from paying most federal, state, and local taxes, as well as the ability to issue debt in the capital markets at rates slightly higher than those on comparable Treasury instruments. Accordingly, FHFA is also recommending that Congress amend the Bank Act to increase the statutorily required minimum funding contribution for the AHP from the current 10 percent to at least 20 percent of the FHLBank's net income from the previous year.⁵

An increase in contributions to the AHP would be one of the most significant means of directly increasing the FHLBanks' support for affordable housing. Each FHLBank is required by the Bank Act to contribute annually 10 percent of its net income from the previous year to its AHP. These programs have had a positive impact in promoting the mission of the FHLBank System and addressing affordable housing challenges in communities across the country. However, the resources available through these programs remain limited relative to the broader housing needs in the market.

The FHLBanks have demonstrated the financial capacity to make a larger AHP funding contribution without adversely affecting their safety and soundness. For example, for the past 12 years, each FHLBank has voluntarily set aside 20 percent of its net income to a restricted retained earnings account which is considered part of the full capital position of the FHLBanks and contributes to their capacity to absorb losses.

The Housing Market and Ongoing Affordability Challenges

The most significant challenges in the housing market today center on the lack of affordable opportunities for both renters and those seeking to purchase or refinance a home.

In the single-family market, home prices have doubled in less than a decade. The strong home price appreciation of the 2012-2019 period, which was in part a correction following the 2008 financial crisis, was followed by extraordinary growth during the COVID-19 pandemic. National home prices rose approximately 11.7 percent in 2020 and 17.8 percent in 2021 – far outpacing wage growth.⁶ The median sales price increased over \$100,000 in four years, from \$275,000 in late 2019 to \$381,000 in late 2023.⁷

In the multifamily market, rents declined during the first year of the COVID-19 pandemic, as uncertainty generated by public health concerns weighed on the market. From the middle of 2021 through the end of 2022, however, rents grew at a rapid pace, leading to cumulative rent growth of 21 percent at the national level from late 2020 to late 2023. In recent quarters, rent

⁵ See 12 U.S.C. 1430(j)(5)(C).

⁶ FHFA House Price Index. Available at: <https://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index.aspx>.

⁷ National Association of REALTORS® Existing-Home Sales. Available at: <https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>.

growth at the national level has decelerated and is below the levels observed just prior to the COVID-19 pandemic.⁸

These rapid increases in home prices and rents are attributable, in large part, to the substantial housing supply shortage throughout the country. Estimates place this shortage anywhere from 1.5 million to 5.5 million units.⁹ Many of the causes of this shortage are not directly in the purview of FHFA or its regulated entities, but they impact the ability of FHFA and its regulated entities to meet their missions.

Following a period of historically low mortgage rates during the COVID-19 pandemic, mortgage rates rose throughout 2022 and 2023. The 30-year fixed-rate mortgage rate has been above 6 percent for over 18 months, peaking at 7.79 percent in October 2023.¹⁰ When combined with high home prices, the impact on mortgage affordability is significant. In late 2019, a borrower purchasing a median-priced home with a 30-year fixed-rate mortgage would pay \$27,450 as a 10 percent down payment, and approximately \$1,143 in monthly principal and interest. As of late 2023, a 10 percent down payment would have been \$38,140, and the borrower's monthly principal and interest payment would be nearly \$2,200 – an increase of more than \$1,000.¹¹

Elevated interest rates have exacerbated the lack of affordable housing supply by producing a “lock-in” effect, in which many homeowners with low mortgage rates are reluctant to sell their homes and obtain a new mortgage with an interest rate at current market levels. As of December 2023, over 95 percent of Enterprise-backed single-family mortgages had mortgage rates below current market rates, with the majority at least 3 percentage points lower.

For the representative (median) loan and borrower, the value of holding the current mortgage rather than refinancing or paying a higher market rate on a new home is over \$47,000. For over 20 percent of borrowers with Enterprise-backed loans, that lock-in value exceeds \$100,000.¹²

While housing affordability represents a national problem, the impact of this problem is most acutely felt in local communities. In my capacity as FHFA Director, I have traveled throughout the country and heard about these issues directly from stakeholders, including working families in cities such as Philadelphia, Louisville, and Las Vegas, as well as in more rural areas in states such as Nebraska and Tennessee. I have heard about the need for more workforce housing, which enables teachers, first responders, construction workers, and municipal employees to live in the communities they serve. I have heard about dual-income renter households that cannot build the savings for the down payment and closing costs on a home purchase. And I have heard

⁸ FHFA analysis of CBRE data.

⁹ See “Estimating the National Housing Shortfall,” Daniel McCue and Sophie Huang. Joint Center for Housing Studies of Harvard University, January 29, 2024. Available at: <https://www.jchs.harvard.edu/blog/estimating-national-housing-shortfall>.

¹⁰ Freddie Mac Primary Mortgage Market Survey®. Available at: <https://www.freddiemac.com/pmms>.

¹¹ National Association of REALTORS® Existing-Home Sales data used to determine median home sales price. Freddie Mac Primary Mortgage Market Survey® data used to determine prevailing mortgage rate.

¹² Calculated as the net present value of the difference in monthly mortgage payments, comparing the note rate and the prevailing mortgage rate, over the remaining term of the existing mortgage, discounted using the prevailing mortgage rate.

about multigenerational families living in homes that are far too small in order to make ends meet.

Therefore, FHFA and its regulated entities are prioritizing actions that encourage affordable, sustainable housing opportunities in the single-family and multifamily markets.

Cost Reductions and Efficiency Gains in the Mortgage Origination Process

In recent years, FHFA and the Enterprises have been engaged in efforts to explore sustainable cost-saving measures with respect to mortgage closing costs. These efforts are reflected in the FHFA Conservatorship Scorecard, which discusses potential steps to lower consumer transaction costs in a safe and sound manner, as well as in the Enterprises' Equitable Housing Finance Plans.

In obtaining a mortgage, many borrowers must use their limited available cash resources to pay closing costs, in addition to any equity contribution necessary to meet the Enterprises' loan-to-value (LTV) ratio requirements. In many cases – particularly for first time homebuyers and working families such as first responders, teachers, and emergency aid personnel– closing costs can determine whether they can afford to buy a home or refinance their mortgage.

The impact closing costs can have on refinance activity is evident within the Enterprises' portfolios. Despite record-low interest rates generating a surge in refinance activity in 2020 and 2021, Enterprise data as of the year-end 2022 suggests that more than 1.8 million low to moderate income borrowers who live predominately in underserved communities were unable to benefit, and many of these borrowers had significant equity. Currently, nearly 1.2 million, or approximately 4 percent of borrowers, have mortgage rates greater than the current market rate, of which more than 8 percent were borrowers with very low incomes.¹³ These borrowers with higher mortgage rates disproportionately reside in low-income and underserved communities. Lowering closing costs in a responsible manner would enable many of these borrowers to refinance their mortgage when they may not have otherwise been able to do so.

Closing costs can also have a greater impact on lower income borrowers. In a sample of approximately 1.1 million conventional home purchase loans acquired by Fannie Mae in 2020, median closing costs as a percentage of the home purchase price were 13 percent higher for low-income, first-time homebuyers.¹⁴

Appraisals and Home Valuation Modernization

While lenders have historically used traditional appraisals for third-party verification of home values, the Enterprises and the industry have developed alternatives such as appraisal waivers, inspection-based appraisal waivers, and hybrid appraisals. These options have helped minimize appraiser capacity challenges, reduce turn times, and lower borrower costs while promoting fair, equitable, and accurate valuations.

¹³ FHFA analysis of Mortgage Loan Integrated System.

¹⁴ Williamson, Jake. "Understanding Homebuying Closing Costs," Fannie Mae Perspectives Blog, December 14, 2023. Available at: <https://www.fanniemae.com/research-and-insights/perspectives/understanding-homebuying-closing-costs>.

Appraisal waivers for certain lower-risk loans have been a longstanding option for Enterprise loans that save consumers the cost and time of obtaining a traditional appraisal. The Enterprises will not enforce representations and warranties (reps and warrants) on the value, condition, and marketability of the property for lenders that deliver loans with an appraisal waiver.

In 2022 and 2023, respectively, Freddie Mac and Fannie Mae launched a new type of appraisal waiver that is accompanied by standardized property data collected by a trained third party. These inspection-based waiver programs can save borrowers over \$300 in closing costs, on average, and reduce closing times by 3 to 4 days. The Enterprises will not enforce reps and warrants on the property value for lenders that deliver loans with an inspection-based appraisal waiver.

In addition to appraisal waivers, hundreds of thousands of loans have been tested using hybrid appraisals over the last seven years. This process leverages cutting-edge technology, participating appraisers, and the same stringent property data standards and third-party workforce as inspection-based appraisal waivers. The cost of hybrid appraisals is closer to that of traditional appraisals, but lenders report quicker turn times, which is particularly important when appraiser capacity is under pressure. Hybrid appraisals allow participating appraisers to focus their time and resources on the market analysis, and Enterprise pilot results demonstrate a greater visibility into property characteristics, a reduction in errors, and much more consistent and accurate reporting.

FHFA and the Enterprises have also engaged in substantial efforts to address issues of appraisal bias, with an emphasis on improving the data that is available to analyze home valuations. In the three years since the Property Appraisal and Valuation Equity (PAVE) interagency task force was created, FHFA has been a leader in leveraging appraisal data to further fair valuations for all borrowers.

In October 2023, FHFA published an expanded Uniform Appraisal Dataset (UAD) Appraisal-Level Public Use File to supplement the Agency's existing data and analysis on valuations in states and metropolitan areas across the country.¹⁵ The Enterprises are also redesigning appraisal forms to use more objective data points as opposed to more subjective free-form text. The Enterprises aim to bring these tools to the market in late 2025.

FHFA is also working with the U.S. Department of Housing and Urban Development (HUD) to develop more consistent standards for lenders' reconsideration of value (ROV) processes. When consumers encounter potentially inaccurate or biased appraisals, ROVs provide an opportunity to challenge these valuations. FHFA and HUD will continue coordinating to promote industry-wide consistency for ROV processes.

In February 2024, FHFA hosted a Valuation Modernization Summit to discuss industry challenges and opportunities for Enterprise policies and innovation in single-family valuation.

¹⁵ FHFA, "FHFA Publishes New Uniform Appraisal Dataset Appraisal-Level Public Use File," October 16, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Publishes-New-Uniform-Appraisal-Dataset-Appraisal-Level-Public-Use-File.aspx>.

This day-long workshop was attended by a wide array of industry stakeholders including lenders, appraisers, appraisal management companies, consumer advocates, and other federal agencies. FHFA and the Enterprises are currently reviewing the feedback and identifying next steps.

First Lien/Clear Title Requirements

Recently, the Enterprises have explored ways to reduce the costs associated with confirming clear title, which is one of the larger components of closing costs. Similar to the reps and warrants that lenders make to the value, condition, and marketability of a property securing a loan, the Enterprises require mortgage lenders to make reps and warrants that the loans they deliver are free of title defects. To further minimize risk to the Enterprises, a third-party verification of clear title must be obtained. Lenders can satisfy this requirement through the use of a lender's title insurance policy or, for certain transactions, an Attorney Opinion Letter (AOL).

The vast majority of loans currently delivered to the Enterprises include a lender's title insurance policy, which is distinct from any title insurance policy that a borrower may choose to purchase. A lender's policy insures the lender's interest in the property, and the policy terminates when the loan is extinguished through refinance, payoff, or foreclosure and covers the risk of any defect, lien, or encumbrance on title.¹⁶ By contrast, a borrower's (or owner's) policy insures the borrower's ownership interest in the property, does not terminate upon refinance of the mortgage lien, and covers a claim of an interest in title.¹⁷

Refinance transactions present lower risks of title defects than purchase transactions. In the case of borrower's title insurance, the policy at the time of purchase remains intact through the refinance. In the case of lender's title insurance, any subsequent changes to title can and should be identified by the borrower through an affidavit signed at closing, which lists all actions taken by the borrower that could have an impact on clear title. The Enterprises do not require borrower's title insurance, but the cost of the lender's title insurance policy is typically borne by the borrower.

In recent years, improvements in the searchability of title records have made title-related issues relatively rare, and losses due to those issues are low. The title insurance industry has reported that title issues have been substantially reduced over the past two decades, with approximately 75 percent of title searches resulting in no significant title defects. Additionally, according to information from the National Association of Insurance Commissioners (NAIC)¹⁸ and American

¹⁶ Lender's title insurance covers any defect or lien or encumbrance on the title, unmarketable title, real estate taxes, encroachments, lack of access, violation or enforcement of law or ordinance if notice is recorded in the public record, invalidity or unenforceability of the secured instrument, forgery or lack of authority, or lack of priority.

¹⁷ Borrower's title insurance covers a claim of an interest in title (including a lien or easement), forgery or lack of authority, unmarketable title, forced removal of improvements or correction of a violation of law or a restrictive covenant, or inability to obtain a building permit or occupy as a single-family residence, if the claim is based upon an event, condition or instrument dated prior to the policy effective date.

¹⁸ NAIC, "U.S. Property & Casualty and Title Insurance Industries – 2022 First Half Results." Available at: <https://content.naic.org/sites/default/files/inline-files/Property%20and%20Title%202022%20Mid-Year%20Industry%20Report.pdf>.

Land Title Association (ALTA),¹⁹ in 2022, for example, the title insurance industry paid out approximately 2 to 3 percent of premiums in claims to consumers, compared to more than 70 percent of total premiums paid out for property-casualty insurance claims.

Lenders have options for confirming first-lien position and clear title, and the Enterprises permit safe and sound alternatives to title insurance to meet this objective. AOLs, for example, are legal opinions prepared by attorneys that provide professional determinations regarding title to a property and the priority of the mortgage lien. Freddie Mac selling guidelines have permitted the use of AOLs for eligible transactions for over 15 years, and in 2022, Fannie Mae updated its selling guidelines to similarly permit AOLs.

In the context of refinances, where borrowers incur closing costs upfront with the intention of realizing savings in the long run, the Enterprises are examining whether those upfront costs can be responsibly reduced so fewer borrowers conclude that they simply cannot afford to refinance. In 2024, FHFA approved a Fannie Mae title acceptance pilot as one component of that broader effort.

This pilot seeks to evaluate whether the widespread digitization of real estate records and technological advances that have improved the process of confirming marketable title can result in lower costs for borrowers who already own their homes and will continue to reside in them.

Under the terms of the pilot, Fannie Mae will waive the requirement for lender's title insurance or an AOL based on a decision from a third-party underwriting model which confirms the status of title and returns the results to the lender. Loans with an acceptably low risk of title defects will be eligible for sale to Fannie Mae without lender's title insurance or an AOL, though the lender retains the option to use these products if they choose. Fannie Mae will not require the lender to repurchase or pay a make-whole payment if certain title-related reps and warrants are breached. Instead, Fannie Mae will charge the lender a small fee to cover administrative costs and will be responsible for the small risk associated with any unexpected, unidentified defects. Borrowers would not be held financially responsible for addressing any such defects.

Fannie Mae will use software from one or more vendors to assess title to the property and determine whether a loan is eligible for the pilot as a result of low title-related risk. A settlement provider will also clear any liens or other title encumbrances identified by the vendor's instant title underwriting engine prior to closing. Fannie Mae will charge for and bear the risk of title defects that were not identified and cleared prior to closing.

Given that borrowers are typically responsible for paying the cost of a lender's title product, FHFA's expectation is that average savings for each loan sold under the pilot would range from \$500 to \$1,500. FHFA will closely analyze the cost savings data, which will vary depending on the loan amount, state, and lender. The pilot impacts only the requirement for how the lender verifies and attests to clear title, and homeowners are always able to purchase their own title insurance policy or AOL if they so choose.

¹⁹ ALTA, "ALTA Reports Full-Year, Q4 2022 Title Insurance Premium Volume," May 8, 2023. Available at: <https://www.alta.org/news-and-publications/press-release/ALTA-Reports-Full-Year-Q4-2022-Title-Insurance-Premium-Volume>.

Importantly, Fannie Mae is not providing insurance of any type to any third party (lender, servicer, or investor) or indemnifying any third party for any title-related claims. Instead, it is modifying its loan eligibility and delivery requirements by allowing the lender to deliver the loan without lender's title insurance or an AOL.

This pilot will be limited in scope and duration and is designed to test these concepts in a low-risk environment. Accordingly, the pilot will be limited to refinance transactions with an LTV ratio below 80 percent, in a handful of states. No lenders or vendors have been approved for this pilot to date, and any approval will be contingent on the vendors or lenders having the financial and operational resilience to serve as a reliable business partner to the Enterprises. FHFA has not made a determination regarding whether the pilot will be expanded or converted to a permanent policy, or what the parameters of any such policy would entail. Consistent with the Agency's data-driven approach, FHFA will carefully review the data and share information learned from the pilot to identify the risks and benefits before determining any next steps.

Financial Technology and Artificial Intelligence/Machine Learning

Through its new Office of Financial Technology, FHFA has demonstrated leadership within the regulatory community in recognizing the positive impact that new technologies can have for consumers in the housing market. One component of this work has been a careful evaluation of the impact of Artificial Intelligence (AI) and Machine Learning (ML) models on equitable access to sustainable housing.

The use of technology and computer models is not new to the mortgage market; credit scores and automated underwriting systems, for example, have been used for many years. More recently, the Enterprises have updated their automated underwriting systems to streamline the mortgage process while ensuring responsible lending, leading to faster approvals and reduced risk. Specifically, the Enterprises improved their systems to consider more information from third-party validation services, like income, assets, employment, rental payment history, and evaluation of borrower cash flow information (all with borrower permission) to assess borrowers' creditworthiness. This allows lenders to approve qualified borrowers faster, while better ensuring borrowers can afford the loans they obtain.

However, as technology advances at an increasingly rapid pace, it is vitally important to ensure that it is fair, safe, transparent, and accurate. Technology has the potential to remove human bias and make mortgage processes fairer – as long as stakeholders commit to ensuring the new technologies are grounded in safety and soundness and free from bias. It is also critical to protect consumer privacy, and these risks must be well understood by regulators and the market.

In pursuit of these efforts, in July 2023, FHFA hosted its inaugural TechSprint, which addressed the industry's challenges with adopting new technology, much of which has the power to greatly improve the housing finance system by lowering costs while improving accuracy. The participants from the TechSprint developed innovative solutions, including better ways to help

homebuyers navigate the mortgage process, build more trust in existing tools, and encourage the industry to adopt digital resources.²⁰

FHFA's second TechSprint, taking place in July 2024, will convene technology and housing finance experts to explore the responsible use of generative AI in housing finance.²¹ During the TechSprint, participants will develop and present key use cases and associated control measures for the responsible use of generative AI, incorporating careful consideration of the technology's benefits and risks to the housing finance system.

FHFA is committed to approaching AI and ML issues with transparency, accountability, fairness, and equity, while mitigating any risks associated with the new technologies.

Equitable Housing Finance Plans

The Equitable Housing Finance Plans (the Plans) produced by Fannie Mae²² and Freddie Mac²³ are a critical component of their mission-driven activities. These Plans are designed to complement initiatives outlined in FHFA's strategic plan,²⁴ aimed at promoting the safety and soundness of the Enterprises while fostering housing finance markets that offer equitable access to affordable and sustainable housing. Through actions taken under their Plans, the Enterprises have supported 1.8 million families in 2023, almost double the impact from the first year of their Plans.

The Enterprises are producing tangible, positive results from the actions described in these Plans. For example, the Plans have supported the growth of Special Purpose Credit Programs (SPCPs), supporting over 17,000 families since the initial publication of the Plans. While SPCPs have been available since 1976, meaningful use and delivery of loans under SPCPs have only occurred recently. In 2023, the Enterprises collectively purchased nearly 15,000 loans originated through both lender-sponsored SPCPs and their proprietary SPCPs. This has supported homeownership for many borrowers in underserved communities.

Both Enterprises have also expended significant effort to encourage multifamily property owners to report positive rental payments to credit bureaus. Both Enterprises partnered with multiple vendors who are responsible for collecting positive rent payment data from participating multifamily property owners and formatting the data for dissemination to credit bureaus. This initiative supported close to 735,000 renter households, many of whom were able to establish

²⁰ For a thematic summary of the TechSprint, see: FHFA, "FHFA's Velocity TechSprint: An Analysis of Key Themes in Data Digitization and Technology Innovation in Mortgage Originations," December 2023. Available at: <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FHFA-Velocity-TechSprint-An-Analysis-of-Key-Themes-December-2023.pdf>.

²¹ FHFA, "FHFA Announces 2024 Generative AI in Housing Finance TechSprint," March 20, 2024. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-2024-Generative-AI-in-Housing-Finance-TechSprint.aspx>.

²² Fannie Mae, "Equitable Housing Finance Plan 2023." Available at: <https://www.fanniemae.com/about-us/esg/social/equitable-housing-finance-plan>.

²³ Freddie Mac, "Equitable Housing Finance Plan." Available at: <https://www.freddiemac.com/about/pdf/Freddie-Mac-Equitable-Housing-Finance-Plan.pdf>.

²⁴ FHFA, "FHFA Strategic Plan: Fiscal Years 2022-2026." Available at: https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_StrategicPlan_2022-2026_Final.pdf.

credit scores for the first time. Given that historically underserved communities are commonly both renters and credit invisible, these initiatives aim to reduce this demographic's gap in accessing traditional financing resources. In addition to the positive rental payment programs, many mortgage loan applicants with thin credit files have benefited from the cash flow assessment features in the Enterprises' automated underwriting systems.

Freddie Mac supported access to homeownership education by establishing a Renter Resource Organization program and expanding its free CreditSmart financial and homeownership education curriculum. Both Enterprises have counseling services available to assist potential applicants with housing preparation and to assist homeowners facing hardships to avoid foreclosure.

The Enterprises also undertook a renewed focus on the Latino community in 2023. Fannie Mae added an emphasis on the "Latino Housing Journey" and proposed actions to remove barriers experienced by Latino renters and homeowners. Fannie Mae launched several Spanish-language fact sheets and courses on its HomeView education platform, and Freddie Mac's Develop the Developer initiative has been expanded to include Spanish-speaking classes that will assist Latino developers in accessing the vital training and financial support to build wealth in their local communities. Since program inception in 2020, 119 developers have received training, 682 housing units have been created, and over \$100 million in new construction has been financed overall. The current cohort of graduates are on track to develop 197 single-family and 485 multifamily units.

Freddie Mac has also provided support and capacity building to vacant land stewards and developers in Milwaukee, Omaha, and Tulsa, which has resulted in the development of more than 250 single-family homes. These land stewards acquired vacant land and residential property in areas with histories of housing discrimination, scarcity of affordable housing, and declining homeownership rates for Black and Latino communities. Freddie Mac's support helped bridge operational funding gaps for vacant land stewards by strengthening their capacity to strategically acquire, rehabilitate, and sell homes to low- to moderate-income homebuyers.

FHFA has long included fair housing and fair lending considerations as part of the exercise of its regulatory authority in the rulemaking process. Congress established FHFA to, in part, ensure that the regulated entities operate in the public interest and comply with applicable laws. The Enterprises' statutory charters also require them to promote access to mortgage credit throughout the nation. Like all financial regulators, FHFA is also required by the Fair Housing Act to affirmatively further the purposes of that statute. Congress empowered FHFA with regulatory authority to fulfill these and its other duties and responsibilities.

In April 2023, FHFA issued a Notice of Proposed Rulemaking that would codify the requirements that the Enterprises maintain Equitable Housing Finance Plans.²⁵ One objective of this rulemaking is to increase public transparency into the Plans, and FHFA is working diligently to finalize the rule in the coming weeks. As the program evolves, FHFA remains committed to

²⁵ FHFA, "FHFA Issues Notice of Proposed Rulemaking on Fair Lending Oversight," April 19, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Issues-Notice-of-Proposed-Rulemaking-on-Fair-Lending-Oversight.aspx>.

engaging with the public to ensure the actions and goals of the Plans remain effective in advancing access and sustainability in a safe and sound manner.

Rural Housing

This year, FHFA directed the Enterprises to expand their focus on rural areas as part of their Duty to Serve Plans.²⁶ These programs support rural markets through small financial institution financing of rural housing, rural small multifamily rental properties, rural markets in high-needs regions and financing for high-needs rural populations. Beginning with their 2025-2027 Duty to Serve Plans, both Enterprises will develop strategies to serve the rural housing market nationwide. FHFA is adding new requirements for the Enterprises to report total single-family and multifamily loan purchases targeting very low-, low-, and moderate-income households across all rural areas in the country.

To better support access to credit in certain high-needs rural communities, in April 2023, FHFA published a final rule, effective in July 2023, that allows Fannie Mae and Freddie Mac activities in all census tracts that contain colonias to be considered “high-needs rural regions” and eligible for Duty to Serve credit in the rural housing market.²⁷

Colonias are communities in Texas, California, Arizona, and New Mexico near the United States-Mexico border characterized by high poverty rates and low housing density. These housing developments are often substandard and lack basic services such as drinking water, sewage treatment, and paved roads.

FHFA undertook the rulemaking to address challenges to the Enterprises engaging in activities in colonias. The amended rule will enable the Enterprises to better support both multifamily and single-family lending in these areas.

The Duty to Serve regulation also provides credit for Enterprise activities serving members of federally recognized tribes in tribal areas. Accordingly, both Fannie Mae²⁸ and Freddie Mac²⁹ included activities in their 2022-2024 Duty to Serve Plans to work with Native CDFIs to promote financing options and support the consumer education needs of Native Americans.

In 2023, Freddie Mac released its HeritageOne product to provide conventional financing to American Indian and Alaska Native (AIAN) borrowers on tribal land, with the objective of improving access to mortgage credit and homeownership opportunities for AIAN borrowers. Fannie Mae is continuing to work to expand memoranda of understanding (MOUs) with tribes in

²⁶ The Federal Housing Enterprises Financial Safety and Soundness Act, as amended by the Housing and Economic Recovery Act of 2008, requires the Enterprises to serve very low-, low-, and moderate-income families in three specified underserved markets – rural housing, manufactured housing, and affordable housing preservation.

²⁷ FHFA, “FHFA Announces Final Rule Amending the Enterprise Duty to Serve Underserved Markets Regulation,” April 12, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Final-Rule--Amending-the-Enterprise-Duty-to-Serve-Underserved-Markets-Regulation.aspx>.

²⁸ Fannie Mae, “Duty to Serve Underserved Markets Plan: 2022-2024.” Available at: <https://www.fanniemae.com/media/43411/display>.

²⁹ Freddie Mac, “Duty to Serve Underserved Markets Plan: 2022-2024.” Available at: <https://www.freddiemac.com/about/duty-to-serve/docs/Freddie-Mac-Duty-to-Serve-Underserved-Markets-Plan.pdf>.

its Native American Conventional Lending Initiative, and both Enterprises are working to facilitate the financing of manufactured housing titled as real property in tribal areas.

FHFA is also aware of the difficulties many tribal members face when choosing to live outside of tribal lands, including in urban areas. These barriers – such as the lack of affordable housing supply, mortgage underwriting systems that do not incorporate rental payments or non-traditional income streams, and undervaluations in appraisals – are not unique to tribal members. They have also been identified as challenges for Black and Latino borrowers under the Enterprises’ current Equitable Housing Finance Plans. Actions performed in accordance with these Plans will broadly benefit all communities that face similar barriers and challenges.

Enterprise Multifamily Activities

Workforce Housing

The acute affordability challenges renters are experiencing across the country – in urban and rural areas – are severely impacting low- and moderate-income households such as teachers, first responders and emergency aid personnel. It is critically important that these working families have the opportunity to live where they work.

FHFA has directed the Enterprises to preserve affordability in workforce housing by supporting the financing of multifamily properties with rent or income restrictions. The Conservatorship Scorecard identifies “mission-driven” categories of loans that an Enterprise may support to meet FHFA targets for achieving its mission. In 2023, FHFA created a new mission-driven category in the Conservatorship Scorecard to support the preservation of workforce housing,³⁰ and the Enterprises collectively supported the financing of \$2.3 billion in workforce housing loans, representing more than 17,000 rental units that same year.

Beginning in 2024, FHFA is allowing loans purchased by the Enterprises that preserve workforce housing to be exempt from the annual cap on an Enterprise’s multifamily volume of \$70 billion set through the Conservatorship Scorecard.³¹ This is intended to help Fannie Mae and Freddie Mac preserve affordability and offer more housing choices closer to tenants’ places of employment, hospitals, and schools.

Additionally, both Fannie Mae and Freddie Mac initiated efforts to promote increased housing supply, such as expanding multifamily loan purchase programs with improved pricing to support workforce housing and benefit lenders, borrowers, and renters for the life of the mortgage loan.

³⁰ FHFA, “2023 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions.” Available at: <https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2023-Scorecard.pdf>.

³¹ FHFA, “2024 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions.” Available at: <https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2024-Scorecard.pdf>.

Multifamily Tenant Protections

In May 2023, FHFA issued a public Request for Input on tenant protections at multifamily properties.³² In issuing the RFI, FHFA sought to gather perspectives from a wide range of stakeholders and improve data collection on the size and scope of challenges experienced by tenants.

FHFA received thousands of comments from tenants and tenant advocates, nonprofits, lenders, multifamily borrowers/property owners, housing providers, developers, government officials, and mortgage industry groups.³³ Prominent themes from tenants include high rents that impact tenants' standard of living, inadequate living conditions, costly and confusing application processes, and harmful lease terms. Housing providers expressed concerns that FHFA's adoption of tenant protections would increase costs and add compliance burdens. Respondents also highlighted the potential issues with a "one-size-fits-all" approach and questioned how Fannie Mae or Freddie Mac's requirements would intersect with state and local laws, which vary widely.

In 2023, FHFA focused on identifying the challenges tenants and housing providers face. In 2024, the Agency will focus on identifying solutions to these challenges.

It is important for FHFA to take a holistic view when considering potential policy changes related to tenant protections. Stakeholders broadly agree that more work is required to improve housing affordability, inform tenants of their rights and responsibilities, and expand housing supply. Both tenants and housing providers have proactively proposed solutions, and FHFA is convening these groups and other relevant stakeholders to develop a common framework to address these challenges.

However, the RFI also highlighted that there is still considerable debate on several key policy issues. FHFA has been evaluating a range of solutions and is working with the Enterprises to identify the foreseeable market risks associated with any potential policy changes.

Potential Tools to Address Limited Housing Supply

The federal Low-Income Housing Tax Credit (LIHTC) program is the Nation's predominant resource for creating new affordable rental housing. While the Enterprises cannot directly address supply shortages, their investments in LIHTC equity since 2018 have enhanced their ability to support the creation and preservation of affordable housing.

³² FHFA, "Tenant Protections for Enterprise-Backed Multifamily Properties – Request for Input," May 30, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/Multifamily-Tenant-Protections-RFI.pdf>.

³³ FHFA, "Resident-Centered Practices at Multifamily Properties Backed by Fannie Mae and Freddie Mac," January 3, 2024. Available at: <https://www.fhfa.gov/PolicyProgramsResearch/Policy/Documents/RFI-Summary-Tenant-Protections-January-2024.pdf>.

For 2024, FHFA increased the LIHTC equity investment cap to \$1 billion annually per Enterprise, up from \$850 million.³⁴ Within the \$1 billion investment cap, any investments by the Enterprises above \$500 million in a given year must be in transactions FHFA has identified as having difficulty attracting investors.

This adjustment increases the investments that must support housing in Duty to Serve-designated rural areas, preserve affordable housing, support mixed-income housing, provide supportive housing, or meet other affordable housing objectives.

In addition, the Enterprises will only make LIHTC investments in projects that waive the qualified contract provision, ensuring the 30-year affordability period envisioned by the LIHTC program.

With respect to the single-family market, the Enterprises do not have direct mechanisms to address the limited housing supply that has put significant pressure on affordability. New construction is largely driven by financial conditions for homebuilders and potential homebuyers, local zoning laws, and macroeconomic factors. The Enterprises continue to provide liquidity for new construction by purchasing mortgages on newly built properties. This includes a focus on encouraging the use of energy-efficient features in new construction.

Accessory Dwelling Units (ADUs) continue to be a housing solution in areas with high housing demand where they are permitted by local zoning rules. ADUs provide housing opportunities for renters and income-generating opportunities for homeowners. The Enterprises expanded their policies to allow documented ADU rental income to be used to qualify for financing, which supports the growth of this type of affordable rental housing. The Enterprises also offer renovation products that allow borrowers to refinance high-cost construction debt into a conforming mortgage, which further supports the construction of ADUs. FHFA will continue to take steps to advance the responsible use of ADUs to increase the supply of affordable housing.

Manufactured housing also plays an important role in building the supply of single-family affordable housing – not only in rural areas on privately held land and in manufactured housing communities (MHCs), but also in fee-simple subdivisions and infill housing in urban areas.

FHFA’s Duty to Serve regulation provides credit for Enterprise activities in the manufactured housing market, and in 2023 the Enterprises exceeded targets for manufactured homes titled as real property and manufactured housing communities with specified tenant pad lease protections.

The future potential for manufactured housing extends beyond manufactured housing communities and personal property financing, including through its use for affordable infill opportunities with 2-4 unit homes as well as single-family detached homes that can be financed as real property. FHFA supports the responsible growth of the manufactured housing market, as this represents an opportunity to help address the nation’s affordable housing supply challenge.

³⁴ FHFA, “FHFA Announces Increase in the Enterprises’ LIHTC Cap,” December 21, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Increase-in-the-Enterprises-LIHTC-Cap-12-21-23.aspx>.

Climate Risk and Property Insurance Impacts

The activities of Fannie Mae, Freddie Mac, and the FHLBanks are concentrated in providing financing or guarantees on mortgage credit risk, and the underlying collateral is generally residential housing. Property insurance serves as an important form of protection for this collateral. In recent years, the availability of adequate and affordable property insurance has diminished, which not only puts the financial security of American homeowners and renters in jeopardy, but also has the potential to directly impair the safety and soundness of FHFA’s regulated entities.

Accordingly, FHFA held two property insurance symposiums in the last six months – one focused on the single-family market³⁵ and one focused on the multifamily market.³⁶

Fannie Mae and Freddie Mac require property insurance for each loan they purchase. For first-time homebuyers living in a state or region where insurance companies are not writing new policies, the homebuying process, which is already complex, will be more challenging as insurance coverage may not be readily available on affordable terms.

When existing property insurance policies are not renewed – or coverage is reduced – the borrower, and ultimately the servicer, must find a new insurance provider, almost always at significantly higher cost, and sometimes with less coverage and more out-of-pocket costs for the homeowner. As a result, borrowers are left with higher payments for reduced insurance coverage. These higher payments can compromise a borrower’s ability to make their monthly mortgage payments.

Increasing risks and damage from natural disasters and weather-related events are putting pressure on insurance markets and imposing mounting stress on local communities. This trend has been exacerbated by the steep rise in reinsurance rates, which has made it even more difficult for property insurers to manage these risks. The result has been a sharp increase in the cost of property insurance in several regions throughout the country, insurers limiting coverage in a growing number of areas, and some insurers pulling back from certain regions entirely.

The impact of climate change on multifamily insurance providers is similar to that of single-family providers, and insurance is critical for tenants and residents of multifamily properties, as well as for borrowers, lenders, and mortgage guarantors.

From 2022 to 2023, property insurance premiums on multifamily properties increased more than 20 percent overall – with even larger increases for properties that are located in areas prone to tornados, hurricanes, or floods. In places such as Houston, West Palm Beach, and Jacksonville, premiums on multifamily properties increased more than 40 percent in 2023. Coastal regions are not, however, the only parts of the country where the availability and cost of property insurance

³⁵ FHFA, “FHFA to Host Property Insurance Symposium,” October 16, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-to-Host-Property-Insurance-Symposium.aspx>.

³⁶ FHFA, “FHFA to Host Multifamily Property Insurance Symposium,” February 12, 2024. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-to-Host-Multifamily-Property-Insurance-Symposium.aspx>.

is becoming more challenging. This dynamic exacerbates the limited availability of affordable housing, which has a disproportionate impact on the Nation’s most vulnerable populations.

FHFA will continue to monitor the state of insurance markets and work to convene and develop actionable solutions with stakeholders and impacted parties.

Credit Score Initiative

FHFA is moving forward expeditiously with the Agency’s credit score initiative, which entails two significant changes to the Enterprises’ credit score requirements.

The first is a change from use of the Classic FICO model, which has been required for loans delivered to the Enterprises for nearly 30 years, to two newer models – FICO 10T and VantageScore 4.0. These newer models are more accurate and more inclusive. Requiring credit scores produced by two distinct models will provide the market with multiple views of credit risk, which in turn will improve risk management throughout the housing finance system.

The second is a change from the requirement that lenders use credit reports from all three nationwide credit bureaus to an option to use credit reports from only two of the three credit bureaus – the “tri-merge” to “bi-merge” transition. External research, as well as work undertaken by FHFA and the Enterprises, has found limited variation among scores between the tri-merge and bi-merge approaches.³⁷ This change will also spur greater competition in the market, which should lead to improved outcomes for consumers.

This is a complex transition, and FHFA is taking great care to collaborate with market participants and other interested stakeholders.

In September 2023, FHFA announced a comprehensive public engagement process that features a series of stakeholder forums on various topics related to the transition to the new requirements.³⁸ These engagement sessions are open to the public, and have allowed stakeholders to identify issues, opportunities, and challenges associated with the transition. To date, more than 1,000 participants have registered, with an average of over 400 stakeholders participating across each of the eight sessions.

FHFA has received thoughtful feedback through these forums, which will inform the Agency’s implementation planning. For example, based in part on stakeholder feedback, FHFA announced that it is aligning the implementation timing of the bi-merge option and the new credit score models.³⁹

³⁷ S&P Global Ratings, “Residential Mortgage Credit Score Snapshot: When Three Bureaus Become Two,” June 8, 2023. KBRA, “FHFA’s Credit Score Proposal and Its Impacts on RMBS,” September 5, 2023.

³⁸ FHFA, “FHFA Announces Next Phase of Public Engagement Process for Updated Credit Score Requirements,” September 11, 2023. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Next-Phase-of-Public-Engagement-Process-for-Updated-Credit-Score-Requirements.aspx>.

³⁹ FHFA, “FHFA Announces Key Updates for Implementation of Enterprise Credit Score Requirements,” February 29, 2024. Available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Key-Updates-for-Implementation-of-Enterprise-Credit-Score-Requirements.aspx>.

FHFA is also accelerating the targeted publication date for the historical data to support use of the new models. This data will reflect credit scores provided by the new models for tens of millions of loans acquired by the Enterprises over a ten-year period. The publication of this historical data will allow market participants and other stakeholders to better understand these models and calibrate their own internal models, systems, and processes. This data publication represents one of the many ways in which FHFA is prioritizing transparency and providing extensive resources to assist market participants as they undertake this transition.

More broadly, FHFA's focus – first and foremost – is on getting the transition process right. The Agency is moving forward with a sense of urgency, while at the same time remaining flexible to operational considerations, stakeholder engagement and new developments.

FHFA believes similar processes have worked well for other large projects related to market infrastructure and operations, such as the transitions to the Uniform Mortgage-Backed Security (UMBS) and to the Secured Overnight Financing Rate (SOFR). FHFA is using the lessons learned from those transitions to ensure the credit score initiative is implemented efficiently and successfully.

Credit Risk Transfer

Fannie Mae and Freddie Mac are two of the largest holders of mortgage credit risk in the world. On an annual basis, the Enterprises are required to transfer a meaningful amount of single-family and multifamily credit risk to private investors, reducing risk to taxpayers.

Since inception of the single-family CRT programs in 2013, CRT has successfully become a programmatic and integral component of the Enterprises' businesses. From the beginning of the programs through year-end 2023, the Enterprises transferred \$210 billion of credit risk on approximately \$6.7 trillion of single-family mortgages.⁴⁰

CRT activity is largely driven by Enterprise acquisition volume and market conditions. The significant refinance activity in 2020 and 2021 led to a record level of single-family CRT issuance in 2022. CRT activity declined by approximately 60 percent in 2023, as rising interest rates and the resulting reduction in refinance activity spurred a significant decrease in single-family conventional loan acquisitions (approximately 55 percent decline in 2022, relative to 2021).

Driven by the more positive macroeconomic environment and broader market dynamics, CRT transactions were executed on more favorable terms (e.g., improved pricing) in 2023, particularly in the second half of the year.

Risk sharing with the private sector is also an integral part of the multifamily business models of both Enterprises. In 2023, Fannie Mae transferred a portion of credit risk on over 99 percent, or approximately \$53 billion, of its new multifamily acquisitions. Similarly, Freddie Mac

⁴⁰ FHFA, "Credit Risk Transfer Progress Report – Fourth Quarter 2023," April 11, 2024. Available at: <https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CRT-Progress-Report-4Q23.pdf>.

transferred a portion of credit risk on 92 percent, or approximately \$33 billion, of its new multifamily acquisitions in 2023.

FHFA continues to view CRT as a key mechanism for the Enterprises to manage their credit risk and capital. The transfer of credit risk to a broad set of private investors is an important tool to reduce taxpayer exposure from potential losses, particularly while the Enterprises operate in conservatorship and are significantly undercapitalized.

Conservatorship and Enterprise Reforms

The priorities discussed above represent a portion of FHFA's ongoing work to ensure its regulated entities meet their missions in a safe and sound manner. With respect to Fannie Mae and Freddie Mac, this work has occurred while FHFA has operated as both regulator and conservator, with the latter designation in effect since 2008.

Today, the Enterprises operate much differently than they did in the lead-up to the 2008 financial crisis. They are more safe and sound, and are better positioned to achieve their missions in a sustainable manner – both during conservatorship and following the conclusion of the conservatorships.

Since entering conservatorship, the Enterprises have:

- Retained earnings and built their combined net worth to over \$125 billion;
- Deployed multiple mechanisms to transfer credit risk to private investors;
- Reduced the size of their retained portfolios, which were a large source of losses in 2008;
- Improved their underwriting and loss mitigation policies;
- Developed books of business that reflect historically low levels of delinquencies and high levels of borrower equity;
- Created a new UMBS to increase liquidity in the market, as well as new securitization infrastructure to support this security;
- Enhanced their support for affordable housing and underserved communities; and
- Improved their internal risk management and corporate governance.

Despite this progress, the Enterprises must continue to increase their capital reserves and make further progress toward meeting the minimum requirements set forth in the Enterprise Regulatory Capital Framework. The Enterprises' combined net worth has grown substantially over the past few years, but the Enterprises remain well below their minimum capital requirements. In addition to matters related to capital, FHFA is working to ensure the regulatory and supervisory framework for the Enterprises will support their safety and soundness as well as their ability to fulfill their statutory missions.

A great deal of progress has been made on reforms to their practices and standards, management of risks, underwriting and loss mitigation policies, and securitization infrastructure. FHFA will build upon this work to promote the sustainability and durability of these reforms after the Enterprises exit conservatorship.

* * *

FHFA will continue to focus on achieving its statutory mission and, in doing so, work to ensure that the Enterprises and the FHLBank System continue to provide liquidity in support of affordable, sustainable housing opportunities throughout the country in a safe and sound manner.

Thank you again for the opportunity to testify before you today.