



United States House of Representatives  
One Hundred Eighteenth Congress  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

April 25, 2023

The Honorable Sandra Thompson  
Director  
Federal Housing Finance Agency  
400 7th Street, SW  
Washington, DC 20219

Dear Director Thompson:

We write today to express our disapproval of your recently mandated changes to the upfront loan level pricing adjustment (LLPA) structure employed by Fannie Mae and Freddie Mac (the GSEs). These changes cannot be justified from a risk management perspective, and amount to a tax on all creditworthy GSE homebuyers to subsidize borrowers with riskier loans.

The GSEs implemented LLPAs as a risk-based pricing tool to encourage responsible lending and to protect taxpayers from undue risk. However, the changes mandated by FHFA in January of this year will achieve the opposite result. These changes violate the fundamental principle of risk-based pricing, namely that lower-risk borrowers should pay lower prices for access to credit than higher-risk borrowers. There is no doubt that lenders will pass on these new LLPA costs to borrowers, which will result in higher mortgage rates and reduced access to credit. This new tax also fails the basic test of fairness by punishing borrowers who act responsibly, and will in turn incentivize homebuyers to reduce their down payments and carry additional debt. In short, your new LLPA structure only increases risks to the GSEs and taxpayers while compounding the existing economic uncertainty in our housing markets.

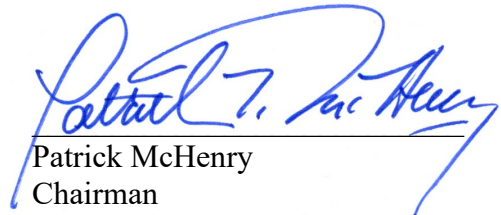
These mandated changes to the LLPA structure will result in serious and lasting harm to our housing economy, and cannot take effect as scheduled on May 1. As the Director of FHFA with a statutory duty to ensure that “*each regulated entity operates in a safe and sound manner*,”<sup>1</sup> we call on you to take the necessary steps to reverse these unwise changes and eliminate this tax on creditworthy borrowers. If you are unwilling or unable, the Committee is prepared to take

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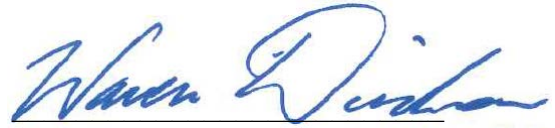
<sup>1</sup> 12 U.S.C. 4513(a)(1)(B)(i).

action to repeal them legislatively and reconsider the parameters of FHFA's authority under statute to mandate any similar pricing changes going forward.

Sincerely,



Patrick McHenry  
Chairman  
House Committee on Financial Services



Warren Davidson  
Chairman  
Subcommittee on Housing and Insurance  
of the House Committee on  
Financial Services