

**The Current Mortgage Market: Undermining Housing Affordability with Politics**  
**Subcommittee on Housing and Insurance**  
**House Financial Services Committee**  
**May 17, 2023**

**Legislation**

- [H.R. \\_\\_\\_\\_\\_, \*the Middle Class Borrower Protection Act of 2023\*](#)
- [H.J. Res. \\_\\_\\_\\_\\_, \*providing for congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Federal Housing Finance Agency relating to "Updates to the Enterprises' Single-Family Pricing Framework"\*](#)

**Opening Statements**

**Rep. Davidson (R-OH)** opened by saying that housing affordability is a cornerstone for pursuing the American dream. He said there is over \$12 trillion in residential consumer mortgage debt and that Fannie Mae and Freddie Mac guarantee 70% of the market. Davidson said LLPAs were put in place in 2008 and noted FHFA's proposed changes to them. He said they were put in place to allow Fannie and Freddie to charge for the credit risk associated with mortgages they were guaranteeing and the proposed changes to the fees disproportionately increase fees for borrowers with higher credit scores. He added that it would shift much of the cost burden to credit-worthy borrowers. Davidson also pointed to how FHFA contends that interpreting the new LLPA fees must be coupled with mortgage insurance coverage. Davidson said this is an entirely different credit product and that mortgage insurance payments do not help the enterprises build capital or to protect taxpayers from risk. Davidson said the changes to the LLPA will hurt housing affordability for most homebuyers. Davidson said the committee will ensure they have risk-based pricing and an efficient mortgage market.

**Rep. Cleaver (D-MO)** started by saying that GSE pricing frameworks are not easily digestible and that they can lead to misinformation. Cleaver appreciated the request for input from FHFA Director Thompson and pointed to how called on FHFA last year to do a holistic review on upfront fees and how the old FHFA pricing framework was unfair. He said the new framework is a warranted recalibration, adding that it is not perfect but is fairer. Cleaver continued that the undersupply of housing has driven a mortgage rate increase and that the country needs the committee to help fix these problems.

**Witness Testimony**

[\*\*Mr. Edward J. DeMarco\*\*, \*President, Housing Policy Council \(HPC\)\*](#), opened his testimony by saying that Fannie Mae and Freddie Mac have a mandate to facilitate and support the liquidity of the secondary mortgage market. He said in doing so, Congress specified that companies operate as safe and sound financial institutions that need to hold adequate capital and manage risk, which he says will directly enhance the availability of mortgage credit throughout the country and lower the cost of such credit to homebuyers. DeMarco brought up the January FHFA changes to upfront fees applicable to certain single-family mortgages sold to Fannie Mae and Freddie Mac.

He said that after analysis was done by HPC, they determined that the proposed DTI pricing element was not workable. On the recent changes to upfront grids, DeMarco said they remain aligned with credit risk after accounting for the new capital framework and cost of private mortgage insurance (PMI). He said only FHFA can explain how the grids align with risks. DeMarco continued that HPC believes the solution to any confusion surrounding the January announcement from FHFA is to have greater transparency regarding the pricing across risk categories, relative to capital standards. He added that HPC does not believe that subsidized pricing or more lenient underwriting is the right solution. He added that the government would better achieve sustainable expansion in home ownership with forms of assistance that lower borrower risk. He continued that HPC also said the pricing framework is poorly targeted for accomplishing the GSE's housing mission. He said there would be more transparency of how much financial support reaches low- and moderate-income families if the subsidy were directly allocated to those borrowers and not embedded in the price between the lender and the GSE.

**Mr. Kenny Parcell**, *President, National Association of REALTORS®*, pointed to the rise in interest rates resulting in fewer people buying homes. He said housing affordability and availability remain restricted and underbuilding, high interest rates, and rapid price increases, are eroding housing affordability. He added that the dream of home ownership is being pushed out of reach for many. Parcell said they must improve home ownership for minorities and said that any fee increase is not good for anyone wanting to purchase a home. On FHFA's LLPA pricing adjustment, Parcell said that this pricing misses the mark and that it would harm borrowers and disincentivize potential buyers. Parcell continued that they would work with FHFA to find solutions to lower barriers to home ownership, while minimizing risk to taxpayers.

**Dr. Clifford Rossi**, *Professor-of-the-Practice and Executive-in-Residence at the Robert H. Smith School of Business, University of Maryland*, said there remains confusion about how to price credit risk and that the proposed changes in LLPA grids would increase costs for some, more credit-worthy borrowers. Rossi then laid out an optimal mortgage credit pricing structure and the necessary criteria. First, he said any pricing structure must achieve the safety and soundness of the enterprises, credit pricing must be transparent, empirically based, operational trackable, and seek to reduce perverse incentives that pose risk to borrowers or GSEs. Rossi continued that using the ERCF, along with the modeling approach for generating guaranteed fees aligns with the first and third criteria. However, Rossi said the introduction of LLPAs does not align with the second, fourth, and fifth criteria. He proposed eliminating the LLPA grids altogether and updating the guaranteed fees consistent with achieving a target rate of return considering the ERCF. He added that we need to decouple credit pricing from other policy objectives.

**Ms. Janneke Ratcliffe**, *Vice President, Housing Finance Policy Center, Urban Institute*, said the recent adjustments to the LLPAs do not compromise the safety and soundness of the GSEs

and that losses are projected to be low here. She added that the new adjustments should be viewed as an effort to align pricing with the capital requirements established under the ERCF. She said that the May 1 changes result in a flatter grid across the core business, give more credit where it is due for PMI and break up some of the prior groups into smaller groups. Ratcliffe continued that riskier borrowers pay more and must buy PMI, which reduces losses to the GSEs and raises costs to borrowers. She said the May 1 changes better align the LLPAs with the capital requirements and losses and address previous overcharges among LTV borrowers.

### **Member Questions**

**Rep. Davidson (R-OH)** pointed to the discussion draft attached to the hearing, which would have FHFA revert to the old LLPA pricing until GAO studies the process and requires FHFA to use a transparent process. He asked if anyone disagreed with that or if it would harm anyone to do it this way. No one raised their hands. Davidson turned to DeMarco and asked if the 2023 price changes were about capital rule compliance, now that FHFA has rescinded its proposed DTI fee. He questioned if that would mean that GSEs would have some level of capital shortfall. DeMarco said FHFA the new g-fee framework is not going to provide the target rate of return, given the increased capital requirements. He added that this was a root issue in the entire discussion and that g-fee increases may not be done. Davidson then asked if Americans view the imbalance in LLPA costs as unfair. Rossi said yes and ran out of time.

**Rep. Cleaver (D-MO)** asked Ratcliffe if FHFA should get rid of LLPAs altogether. Ratcliffe said she agrees that LLPA and PMI costs will fall heavier on those with lower down payments and said there is an argument for this, adding that having everybody pay the same for access to the same benefit could be a better method. Ratcliffe added that doing away with LLPAs would be complex, but she agrees with it. Cleaver asked DeMarco the same question. DeMarco disagreed and said that risk-based pricing is an essential element of operating a safe and sound financial institution. He added that the capital required, and the pricing of a financial guarantee needs to be done on the prospect of risk. He said instead of subsidizing the rate, they should just provide the money directly to families and identify those to whom we are providing it.

**Rep. Posey (R-FL)** asked Rossi to explain risk-based pricing and if we should preserve it. Rossi said he is a big believer in this and that it is inherently good. He said it has a purpose and should be risk-based into the g-fee. Posey asked Parcell about his views on this. Parcell said they are against any increase in fees. Posey asked if inflation makes housing objectives more difficult and questioned why the Administration is raising rates to try and stop inflation that it caused. Posey said we are trying to solve a problem that can easily be solved by bringing prices down. Parcell said capital gains exemption would help for primary residents and that commercial space not being used is something Congress could help with.

**Rep. Garcia (D-TX)** said the country is facing a housing crisis and the GOP majority has avoided the housing issue. She asked if Ratcliffe believes FHFA's recent pricing changes will help first-time homebuyers. Ratcliffe said this proposal would be helpful for folks with lower credit scores. Garcia then asked how Congress can support home ownership for communities of color. Ratcliffe said there is no single solution and that it requires bipartisan work. She said the

number one issue now is lack of housing supply, which is driving up prices. She added that we need to empower borrowers while also looking at the supply side.

**Rep. Norman (R-SC)** said raising LLPA rates is a stupid idea and to penalize people for a good credit report is a joke.

**Rep. Garbarino (R-NY)** asked Parcell to describe the change in the housing market because of increasing interest rates, Parcell said they are seeing it decreasing, which is why they are against any fee increase at this time. Garbarino asked who would mostly be affected by the FHFAs proposed change. Parcell said it would affect all buyers. Garbarino turned to DeMarco and asked if a proposed pilot to waive title insurance fit into Fannie's statutory mission. DeMarco said title insurance is a primary market function and is critical to protecting the lender and the homeowner. He said it would be concerning to think that Fannie or Freddie may displace title insurance and cautioned against this.

**Rep. Horsford (D-NV)** said we need to reform the credit rating system because it is biased, lacks transparency, and is flawed in its methodology. On FHFAs LLPA proposal, Horsford asked Ratcliffe to expand on the underserved communities fighting to keep a roof over their heads and agreed with her that the May 1 LLPA adjustments are modest and better align the policy and market requirements that GSEs must consider. He asked her to elaborate on which borrowers will pay more and less. Ratcliffe said some will pay higher LLPAs than they did before May 1 and some will pay lower, but the traditional relationship between high credit and low credit borrowers remains in that low credit borrowers will still pay more. Horsford said we need to look at this comprehensively and asked Parcell to elaborate on the adjustment to the LLPAs up front free on borrowers with debt-to-income ratios over 40%. Parcell said this was crucial.

**Rep. De La Cruz (R-TX)** said she is concerned about any increase in fees. She asked Parcell how an increase would impact a Hispanic community. Parcell said even a minimal increase would have an adverse impact. De La Cruz said this affects an overall economy and Parcell agreed. De La Cruz asked if people who live in a city are more likely to invest in that city. Parcell said yes and that you see that everywhere. She asked that if you put a barrier on a potential homeowner, then this could have a layered effect. Parcell said yes and that the best way to build wealth and get back into the community is through real estate.

**Ranking Member Waters (D-CA)** asked if anything can be done about people with adjusted rate mortgages who have seen their payments increase by an additional \$1000 in some cases. Ratcliffe said she would be curious to know more about these lenders and who they are. Waters said she is not sure how many are in this category, but that regardless of the number, they are going to lose their homes. Waters then said she is happy to see Republicans recognizing the high costs on those who wish to buy a home. Waters noted the investments in affordable housing in the Build Back Better Act. She then said the underlying lack of housing supply is continuing to fuel housing price increases, hurting those with lower incomes and wealth.

**Rep. Fitzgerald (R-WI)** asked DeMarco if cross subsidies distort the market by weakening the link between loan price and credit risk and do the changes to the LLPAs lead to distortion. DeMarco said mixing the mission of FHFA into the pricing is problematic and adds risk to the

system, adding that if we want more capital then we need to come to grips that capital is not free. Fitzgerald continued that folks between the ages of 25 and 35 are being frozen out of the housing market. DeMarco agreed and said it is a two-tiered problem of housing prices rising and interest rates going up. Fitzgerald asked if a larger than expected subset of loans originated away from the GSEs would open the door for more private market players. DeMarco said he does not believe what was done during this last grid change is a needle mover.

**Rep. Pettersen (D-CO)** said that we still have not come out of the housing crisis and are still seeing those effects. She pointed to the rising costs of permitting and how they continue to limit our ability to produce affordable housing. Pettersen turned to PMI and said that it does not automatically come off after hitting 20% equity in your home, adding that making it so that it automatically comes off could be a way to decrease costs. She asked for their opinions here and on workforce shortages. Ratcliffe said PMI should automatically cancel at 78% LTV. DeMarco said this is where knowledge of a homeowner can be beneficial. Ratcliffe added that because of the new pricing grid, many borrowers will see a decrease in their LLPAs and a lot of that is attributable to them being overpriced in the previous grid. Pettersen asked about the workforce shortage and ran out of time but said she would offer a QFR.

**Rep. Lawler (R-NY)** said that despite allocating funds to housing issues, we are still facing a crisis. On the debt ceiling, he said the House Republicans are the only ones who have moved to raise the debt ceiling. Lawler said he was happy to see the FHFA cancel their impending fees based on debt-to-income ratio, adding that he finds it absurd that the administration has chosen to saddle homeowners with good credit with thousands more in costs to subsidize borrowers with riskier loans. He added that the FHFA is pursuing policies that socialize credit risk and disfavor responsible homeowners under the guise of making home ownership more equitable. He asked DeMarco to speak on the process by which the proposed FHFA changes were developed. DeMarco could not speak to FHFA's process but did say FHFA had been warning that it was something they were considering. Lawler asked him to speak about the issues inherent with the DTI proposal for lenders and borrowers and if he sees a scenario where upfront fee-based on DTI could be feasible. DeMarco said it is unworkable and is not sure they need congressional action here.

**Rep. Williams (D-GA)** said her district has the largest racial wealth gap and home ownership is the number one way to build generational wealth. She said they must do more to increase home ownership opportunities for communities of color. Williams said FHFA's recent mortgage pricing update would help those with less wealth buy a home. She said credit scores are discriminatory and asked Ratcliffe if it is fair to say that FHFA's action is creating equity for everyday people who live in southern states, rather than lining the pockets of affluent investors. Ratcliffe said it is important to note that we must not treat the old grid like it is the right grid, adding that the old grid overcharged borrowers. She said the new grid is much more consistent with what people are paying and what their actual losses are. Williams asked if the 2008 pricing framework served to help or hinder credit access for homebuyers for communities of color, but the time expired.

**Rep. Flood (R-NE)** said his constituents are upset at this change and said that it is a backdoor tax on the American people. Flood said this fee assessment is not fair and it is a political

decision. He asked Rossi if this change in LLPA will set a precedent for further politically motivated interventions for fees for mortgages. Rossi said he agrees with Flood's constituent, and we must separate the mission that the GSEs have because it invites this kind of discussion if it is not. He added that they can meet safety and soundness while also being fair to Americans when it comes to pricing. Flood asked if he had any concern that further changes to weaken the integrity of the credit pricing could expose the GSEs to greater credit risk. Rossi said they are taking a much closer look at the GSEs in terms of higher risk-based pricing than ever before and that they want to make sure they are not muddying up what they do for affordable housing policy with how they are doing credit pricing. Flood said it is about basic fairness for Americans and that the pricing change is a disaster.

**Rep. Tlaib (D-MI)** said that her district has never quite recovered from the last recession. She said they also have seen private equity firms come in and buy mortgage and tax foreclosures. Tlaib said to Parcell that she has been trying to get the administration to look at small dollar mortgages and that many of these homes become rental properties, further limiting access to home ownership. She asked what the Federal government could do to help working class families get into these small dollar homes. Parcell said a reduction of all fees and creating incentives for investors to sell back to homeowners would be good solutions. He added that working with Affordable Dwelling Units to rent out part of their properties to subsidize payments to help create wealth. Tlaib asked who would give them a loan. Ratcliffe said the cost to make a new mortgage is the same regardless of the size of the mortgage. She added that better financing for purchase rehab would be a good solution as well. Tlaib continued that our credit scoring system is broken, and that medical debt is holding people back as well and asked if any of the witnesses could talk about this. DeMarco said this is a big issue and FHFA is playing a significant role here.