

Written Testimony  
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**Senate Committee on Banking, Housing, and Urban Affairs  
“Oversight of Housing Regulators”**

Chairman Crapo, Ranking Member Brown, 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. We continue to update our policies as the challenges facing renters, borrowers, and market participants evolve. We have worked in close partnership with FHA and Ginnie Mae in developing many of our policies. I want to thank Secretary Carson, HUD Deputy Secretary Montgomery, and Acting Ginnie Mae President Seth Appleton for their partnership and leadership.

**FHFA’s Actions to Protect Agency Workforce and Maintain Mission Focus**

FHFA’s hard-working employees are the Agency’s greatest asset. 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 during these uncertain and challenging times. In March, our telework test transitioned the very next day into full-time mandatory telework for the Agency. FHFA employees quickly adapted to the new environment and the Agency maintained continuity of operations during this crisis with crucial support from the Office of the Chief Operating Officer.

The Office of Technology and Information Management has kept the FHFA workforce productive and connected by rapidly deploying critical 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 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 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 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.

In responding to the COVID-19 national emergency, FHFA has worked closely with our peer financial regulators and other federal agencies. 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.

FHFA has continued to foster an environment where everyone feels safe, respected, and valued for our differences. The senseless violence and loss of innocent life that has roiled our nation in recent weeks – and that tears apart too many communities across the country – highlight the importance of this work both in the workplace and beyond. The unrest across our nation in recent weeks reaffirms why fairness, diversity, and inclusion are core values for me personally and our Agency. FHFA has one of the most diverse workforces amongst federal regulatory agencies. Our diversity is – and will remain – a key source of FHFA's success. 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 also 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.

Across all divisions and offices, FHFA's employees have remained focused on fulfilling the Agency's important mission, united by a shared vision that, during this crisis, Americans should not have to worry about losing their homes. 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. On May 26, with the publication of the HPI report for the first quarter of 2020, 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 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 ago 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,

up 5.7 percent compared to the first quarter of 2019. FHFA's seasonally adjusted monthly index for March was up 0.1 percent from February. Because of the lag between contract signing and sale closing when FHFA's data are recorded, the first quarter's housing statistics were relatively unaffected by the COVID-19 outbreak. However, this does not account for any modifications or cancellations of sales later in March.

Existing home sales had been on a steady upward trajectory since early 2019, 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 ten years of slow but steady increases.

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

Employment fell by more than 20 million jobs between February and May, an unprecedented demand shock and hardship to households. The unemployment rate reached 13.3 percent in May from its 50-year low of 3.5 percent in February. Despite the dramatic drop in demand, the months' supply of existing homes for sale remained near historic lows in April as the inventory of homes available for sale also decreased. This has thus far provided support to home prices. In the multifamily market, thus far, turnover has been lower than normal, and more renters are continuing to pay rent than projections had forecasted.

### **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 our 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 \$5.7 trillion in mortgages. That includes about 43 percent of multifamily units, which represents about 8.6 million households and more than half of single-family mortgages or about 28 million homeowners. FHFA's policies apply to all single-family homeowners and multifamily property owners with an

Enterprise-backed mortgage. In addition, FHFA's policies also help to set workable standards for the entire market.

For homeowners facing foreclosure before COVID-19, we suspended all foreclosures and evictions for at least 60 days. FHFA later extended this foreclosure and eviction moratorium through at least June 30.

For borrowers financially impacted by COVID-19, we allowed homeowners to take a timeout from mortgage payments through forbearance. We then announced that borrowers in forbearance who can return to making their regular monthly payments can repay missed payments 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.

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 that prohibits tenants from being evicted for the nonpayment of rent during forbearance. On March 27, the President signed the CARES Act, which provides a 120-day eviction moratorium for renters in properties with an Enterprise-backed mortgage, even if the property owner does not enter forbearance. As a result, renters living in multifamily properties with an Enterprise-backed mortgage cannot be evicted for either four months or the duration of the property owner's forbearance period, whichever is longer; and all late fees, charges, and penalties are waived for both borrowers and tenants during the eviction moratorium or forbearance period.

While the single-family forbearance program was modeled on prior disaster response efforts, the multifamily forbearance programs with tenant protections were developed from the ground up. After putting these programs in place, at FHFA's direction, the Enterprises created online lookup tools that show whether a single-family or multifamily property has a mortgage owned or guaranteed by Fannie Mae or Freddie Mac. This information indicates whether renters are covered by the CARES Act's eviction protections and whether single-family borrowers are eligible to apply for forbearance.

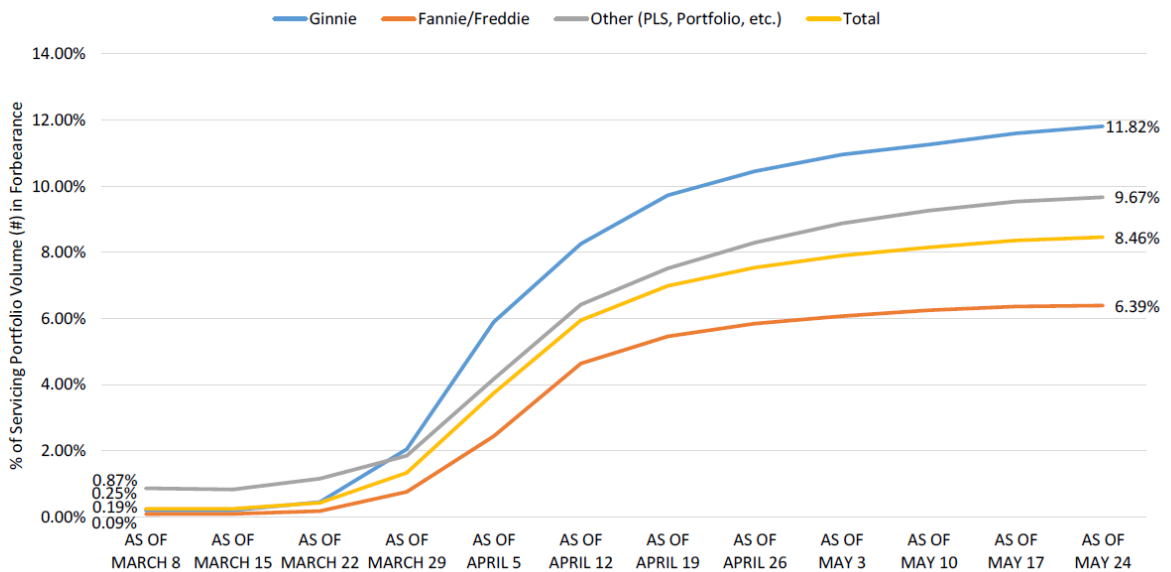
Since implementing the single-family and multifamily forbearance programs, FHFA has closely monitored the data to understand the responses by borrowers and the market. As a staffer on this Committee during the 2008 financial crisis, I saw firsthand the importance of resisting the pressure to "act first, 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. This has been a fundamental objective of FHFA 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 received from our Division of Research and Statistics, the Enterprises, and market participants to ensure we were developing and updating 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. 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 (see Figure 1). In March, just over 1 percent of borrowers with loans in Enterprise mortgage-backed securities (MBS) were 30- or 60-days delinquent on payment. By May, this rate increased to 5.2 percent, according to RiskSpan. The 30- and 60-day combined delinquency rate remains below the estimated rate of forbearance as some borrowers who have requested forbearance are nonetheless continuing to make payments on their loan. FHFA's internal analysis shows that approximately 130,000 units of multifamily housing are in properties receiving forbearance from Fannie Mae or Freddie Mac, representing about 1.5 percent of outstanding multifamily mortgage balances at the Enterprises.

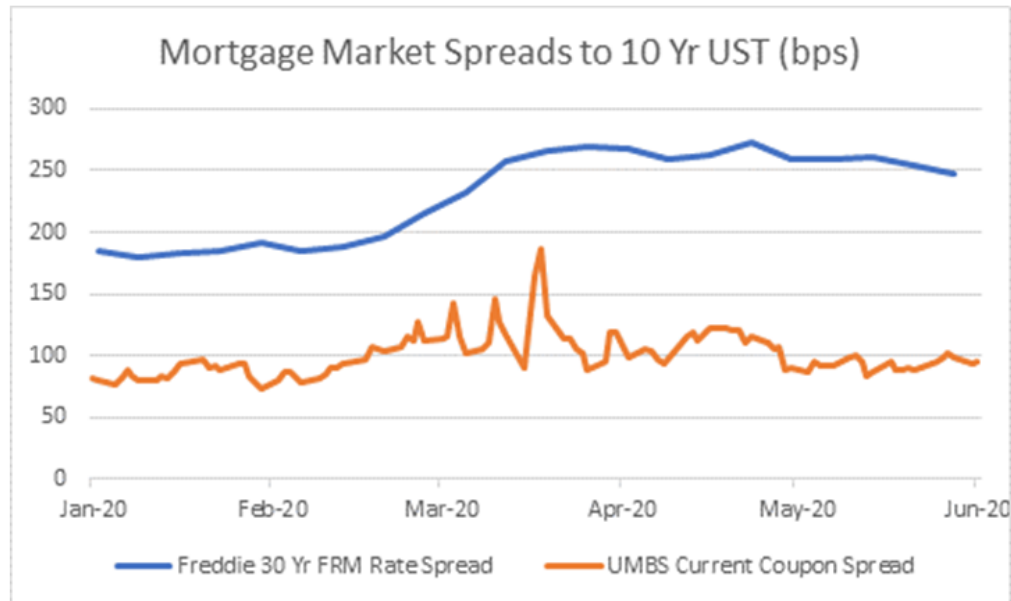
Figure 1

### % of Servicing Portfolio Volume in Forbearance by Investor Type over Time



\*Source: Mortgage Bankers Association

The mortgage market still faces 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 largely returned to 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 in recent weeks, but they have not yet returned to pre-crisis levels (see Figure 2). This is likely a result of ongoing uncertainty about the pace of economic and labor market recovery, the impacts on mortgage servicing rights, and constrained lender capacity to absorb increased levels of borrower demand.

**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. And FHFA continues to work with the Enterprises to ensure that borrowers can access new purchase and refinancing opportunities at historically low rates. For instance, at FHFA's direction, the Enterprises have issued new guidance that borrowers in forbearance who continue to make payments will be treated as current when it comes to refinancing their loan or buying a new home. 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 have emphasized that those who can make their mortgage payments should continue doing so. We updated the scripts that servicers use when talking to borrowers about forbearance. 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 to launch the Borrower Protection Program. And FHFA helped develop a website that consolidates federal information about mortgage relief options, renter protections, and how to avoid scams.

### **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 June 30.

Moving forward, we will continue to closely monitor the situation and update our policies based on what borrowers, appraisers, lenders, government services, and other market participants are experiencing on the ground. This crisis has highlighted how much of the real estate process as we know it currently depends on face-to-face interactions. Changes made in response to the pandemic will likely accelerate the uptake of streamlined methods and models, jumpstarting the use of more e-mortgage tools across the industry. As business practices adapt to new realities, FHFA will continue working with stakeholders, consumer groups, and other regulators to streamline the homebuying process in a prudent manner that meets the health needs of the nation.

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. When a mortgage loan is in a MBS, 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

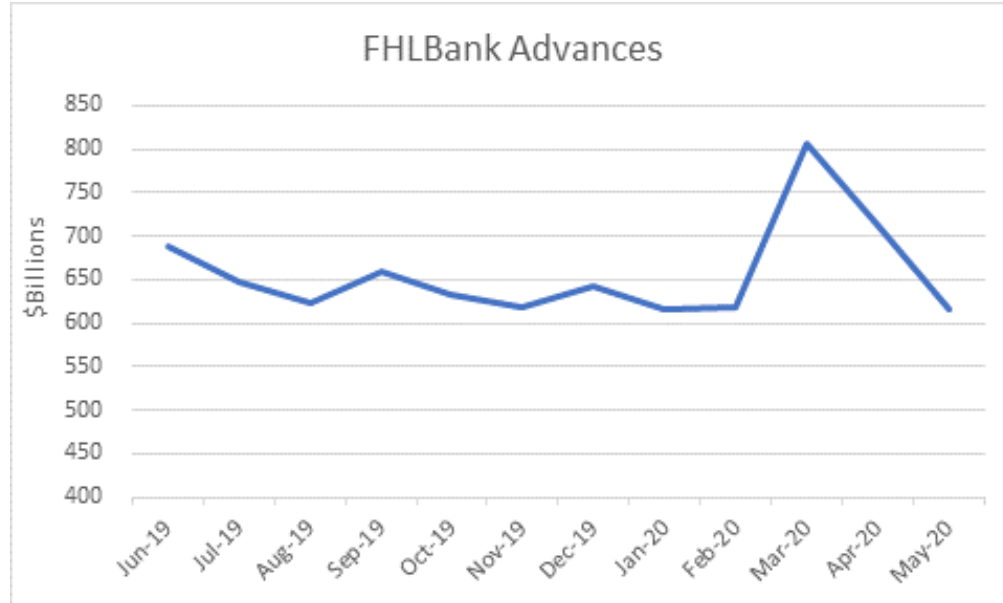
LIBOR-based exposures, while continuing our efforts to prepare for the eventual end of LIBOR. To protect the safety and soundness of the FHLBanks, FHFA issued guidance related to collateral and pricing policies aimed at ensuring that all members are treated fairly and that every FHLBank can continue 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 CARES Act, the FHLBanks' balance sheets – both advances and debt outstanding – have fallen 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: Office of Finance, FHLBanks*

### **Assessing FHFA’s Policy Response: The State of the Market Today**

I am proud of what FHFA has done to help borrowers, renters, and the housing market deal with this crisis. FHFA recognizes 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. The mortgage market is still under stress. For these reasons, the FHFA team 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. That said, 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 are 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 6.5 percent forbearance rate this translates into approximately \$520 million per month of nonbank incremental advance needs. And, as noted above, not all borrowers in forbearance have stopped making mortgage payments. 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 \$2.1 billion.

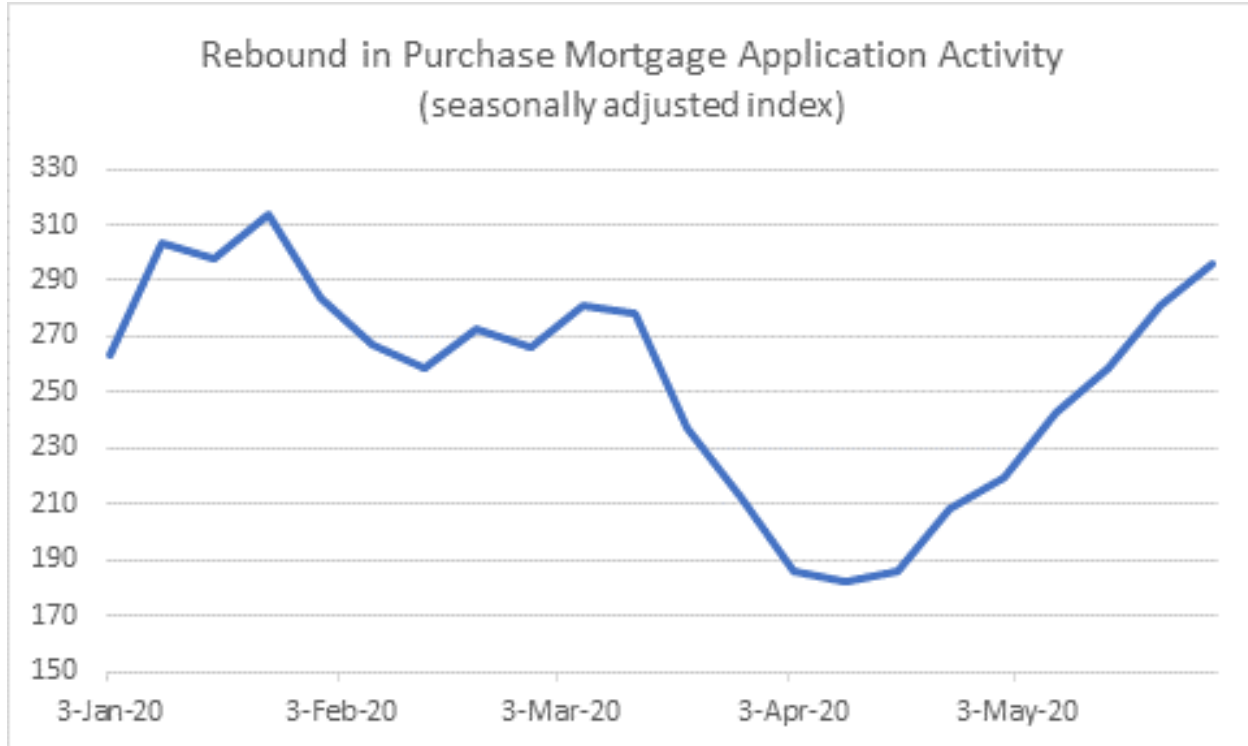
Were forbearance rates to rise dramatically to 15 percent, nonbank servicers’ monthly advance obligations would be roughly \$1.2 billion. FHFA’s analysis of servicer capacity

indicates that servicers as a whole have multiples of that number available should they need it. FHFA's internal modeling projects that forbearance rates will not reach as high as 15 percent. But this type of analysis provides useful context to the forbearance rates we are seeing today. 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.

In addition, servicers have recently increased their available liquidity. Total nonbank liquidity 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. At the end of April, nonbank servicers' cash positions improved compared to the end of March and profitability increased. This was driven by the stability in the 10-year Treasury bond, which led to stability in mortgage servicing rights (MSR) values combined with strong volume and wide margins.

Servicing buyers are beginning to return to the MSR purchase market, providing access to liquidity especially for smaller firms that have been forced to hold servicing. Lenders have shown a willingness to renew warehouse lines of credit and some appetite to offer new credit for MSR Advance Facility Financing.

Following some contraction in mortgage market activity in March and April, the purchase market appears to be rebounding (see Figure 4), and combined purchase and refinance mortgage application activity has increased to levels last seen in 2013. According to analysis by the American Enterprise Institute based on data from Optimal Blue on mortgage loan applications receiving rate locks in May, average credit scores, debt-to-income, and loan-to-value ratios have not changed dramatically on a year-over-year basis for conventional loans. 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.

**Figure 4**

*\*Source: Mortgage Bankers Association*

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

But this does not mean that all is well. This crisis has provided ample evidence of the critical vulnerabilities in our mortgage system that put taxpayers and our housing market at risk. Most notably, Fannie Mae and Freddie Mac lack the capital to withstand a serious housing downturn. This undermines their countercyclical role and jeopardizes their important mission.

To provide the Enterprises a stronger foundation on which to weather periods of financial stress, on May 20, FHFA released a re-proposed capital rule. This rule will help each Enterprise become safe and sound to fulfill its statutory mission across the economic cycle. It is essential to building a strong, resilient housing finance system that supports sustainable and affordable homeownership.

Only Congress can enact the reforms necessary to fix the structural flaws in our housing finance system. To that end, next week, I will submit FHFA's Annual Report to Congress that includes several legislative recommendations to strengthen FHFA with additional regulatory and supervisory authorities similar to 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.