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

While this is not my first time testifying before Congress, it is my first time as the Director of the Federal Housing Finance Agency (FHFA). I recognize that it is rare for a career public servant to have the opportunity to lead a federal agency, and it is a great honor to appear before you today.

For those of you who do not know me, I was born and raised on the South Side of Chicago by my extraordinary parents who came to Chicago from Mississippi as part of the Great Migration. I learned the virtues of hard work, determination, commitment, and perseverance from my parents and family, the Chicago Public School system, and my beloved Howard University right here in Washington, D.C.

Prior to joining FHFA, I worked at the Federal Deposit Insurance Corporation (FDIC) for more than 23 years in a variety of leadership positions, most recently as Director, Division of Risk Management Supervision, where I led their examination and enforcement program for risk management and consumer protection at the height of the financial crisis. I also led the FDIC's outreach initiatives in response to a crisis of consumer confidence in the banking system.

I've been at the Agency for just over nine years – eight years as Deputy Director of FHFA's Division of Housing Mission and Goals, and about one year as Acting Director of the Agency, after which I was sworn in as Director on June 22, 2022.

FHFA has a vital role in both protecting the safety and soundness of the housing finance system and promoting access to mortgage credit nationwide through the supervision of our regulated entities – Fannie Mae, Freddie Mac (together, the Enterprises), and the Federal Home Loan Bank System, which includes the 11 Federal Home Loan Banks (together, the FHLBanks) and the Office of Finance, totaling approximately $8.2 trillion in assets. The Enterprises and the FHLBanks serve a vital function to the American economy by providing liquidity and stability to the secondary mortgage market.

As a longtime financial regulator, I know that safety and soundness and equitable access to credit are not mutually exclusive. We at FHFA will continue to focus on our safety and soundness mission and on the mission that Congress gave the regulated entities under our supervision: providing liquidity across the nation, including underserved markets such as rural and tribal areas, manufactured housing, and the preservation of affordable housing, and other underserved populations such as communities of color. This mission extends not only to homeownership, but also to affordable rental housing across the country.

It has been a very busy year at FHFA. Throughout the last year, FHFA has appreciated the input and feedback from the members of the Federal Housing Finance Oversight Board in our quarterly meetings and in developing the Agency's annual report to Congress.[1] FHFA also engages with stakeholders, including industry, market participants, and advocacy groups, on key topics throughout the year. We have taken some important steps to advance FHFA's mission of ensuring the safety and soundness of the regulated entities and ensuring access to affordable and sustainable housing.

Housing and Mortgage Markets

The housing market has faced significant challenges in recent years, including a pandemic, rapidly rising home prices, and most recently mortgage interest rates rising dramatically in the last six months. Housing supply continues to be an issue, as are the rising costs of building homes, which includes the cost of labor and materials. This situation has made it difficult for homeowners to find an affordable home. At the same time, rents are increasing across the country, limiting safe, affordable rental options for some Americans.

FHFA has a specific mission, and the regulated entities do not originate mortgages themselves nor build homes. We can only act to improve access to credit and affordability within our authorities and functions, and we have been exploring the policies and programs to address the high cost of housing that can be implemented in a safe and sound manner.

FHFA's actions during the pandemic kept people in their homes

The onset of the pandemic was over two years ago, and it is still worth recalling the challenges and uncertainty we faced in those early days. Millions of Americans were facing temporary or permanent job losses as much of the economy came to a standstill.

At FHFA, we took decisive action to support the market and provide relief to borrowers and renters with mortgages backed by the Enterprises. We worked to ensure borrowers could temporarily suspend their mortgage payments if needed while developing programs for them to get back on track through the Enterprises' existing mortgage modification options, as well as creating temporary enhancements to address the crisis at hand. Our actions allowed millions of Americans to stay in their homes.

At the start of the pandemic, more than six percent of Enterprise loans went into Coronavirus Aid, Relief, and Economic Security Act forbearance. That represents 2.25 million homeowners. I am happy to report that today, 96 percent of the homeowners who relied upon forbearance relief have successfully exited the program, either by staying current on their payments, paying off

[1] Federal Housing Finance Agency, "2021 Report to Congress," https://www.fhfa.gov/AboutUs/Reports/Pages/Annual-Report-to-Congress-2021.aspx, June 2022.

their mortgages, or by benefiting from loss mitigation options such as payment deferral or a loan modification.

Today's housing market compared to the Great Recession

Despite these challenges, homeowners are in a better position to remain in their homes in part due to actions FHFA, the Enterprises, and other stakeholders have taken since the Great Recession. Regulatory improvements in mortgage underwriting standards, such as post-crisis ability-to-repay requirements, were important advances. Thankfully, toxic products such as negative amortization loans, and loans approved with stated income, stated assets, and weak underwriting, have largely been eliminated from the market.

Despite consumer costs having increased in recent months, today's mortgage borrowers are less weighed down by debt. Aggregate debt-service burdens of mortgaged homeowners are just starting to rise from their historical low points reached just last year.

Homeowners are in better financial shape than they were in 2007. In 2007, the share of borrowers with "mark-to-market loan-to-value ratios" (that is, loan-to-value ratios that reflect the latest home price values) that are above 90 percent was 9 percent, compared to 0.3 percent in 2022. Similarly, the median credit score of new originations in 2007 was 699, as compared to 742 in 2021.[2]

Challenges to the Mortgage Market

There is uncertainty about the long-term effects of the pandemic on housing finance markets. Prior to the pandemic, house prices were growing at a moderate rate and mortgage interest rates were stable, yet housing inventory was low. Two years after the onset of the pandemic, house price growth has been historically high, fueled in part by low inventories of homes for sale. In addition, mortgage interest rates have increased rapidly this year. For example, Freddie Mac's weekly survey of lenders nationwide indicated that the average rate for 30-year fixed-rate mortgages, including points, increased from 3.11 percent on December 30, 2021, to 5.51 percent on July 14, 2022, a rise of nearly 250 basis points.

We are seeing slowdowns in housing market activity owing to the rapid increase in mortgage interest rates:

- Home purchase applications were down 24 percent in June compared to one year ago.[3]
- Pending home sales were down 13.5 percent in June compared to one year ago.[4]

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[2] Federal Housing Finance Agency, National Mortgage Database (NMDB) data as of July 10, 2022. For more information on the NMDB, see https://www fhfa.gov/PolicyProgramsResearch/Programs/Pages/National-Mortgage-Database.aspx#NMDB.

[3] Mortgage Bankers Association, "Mortgage Applications Increase in Latest MBA Weekly Survey," https://www.mba.org/news-and-research/newsroom/news/2022/06/29/mortgage-applications-increase-in-latest-mba-weekly-survey, June 2022.

[4] Redfin, "Housing Market Update: Balance is Returning to the Housing Market as Competition Eases," https://www.redfin.com/news/housing-market-update-balance-returning/, July 2022.

- The median asking price of new "for sale" listings was down 2.1 percent in June compared to May.[5]
- Nearly 7 percent of active home sellers lowered their asking prices in June. That is more than double the rate of one year ago.[6]

While it is quite natural to see pullbacks in housing demand because of increases in mortgage interest rates, there are some positive factors for the housing market outlook:

- Many homeowners took advantage of the low interest rates in 2020-2021 and refinanced their homes using fixed rate mortgages, thus lowering their monthly mortgage payments while protecting themselves against rate increases.
- Those who were able to purchase a home or refinance their home are now saving hundreds of dollars each month, which may be helpful to families coping with the broader inflationary pressures they are currently confronting.
- Most homeowners have increased their equity position due to the rise in home prices in recent years. Thus, modest declines in the rate of home price increases, or even home price declines, should not increase default risk among these homeowners.

However, if economic conditions deteriorate, there will likely be negative implications for homeowners. We will, of course, continue to monitor the health of the economy and stand ready to assist borrowers through the Enterprises' loan modification programs.

Safety and Soundness of the Enterprises

As a seasoned financial regulator, I have always believed that safety and soundness and sustainable access to credit work together to strengthen financial institutions, families, and the economy. Indeed, sustainable access to credit requires prudent lending standards. FHFA's five-year Strategic Plan, released this spring, underscores the Agency's responsibility to ensure the regulated entities fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity.

FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program and housing mission functions. FHFA conducts supervision using a risk-based approach to identify existing and emerging risks to the regulated entities, to evaluate overall effectiveness of each regulated entity's risk management systems and controls, and to assess compliance with applicable laws and regulations. The housing mission functions establish policies affecting a broad range of areas, including credit underwriting standards, capital standards, loan pricing, mortgage insurer standards, and servicer eligibility standards.

The Enterprises continue to manage their portfolio risks. Credit risk management remains a priority for both Enterprises given the effects of the COVID-19 pandemic on borrowers, partially mitigated by many borrowers successfully exiting forbearance programs. Market risk exposures are low because of shrinking retained portfolios and effective funding and hedging strategies for

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[5] Ibid.
[6] Ibid.

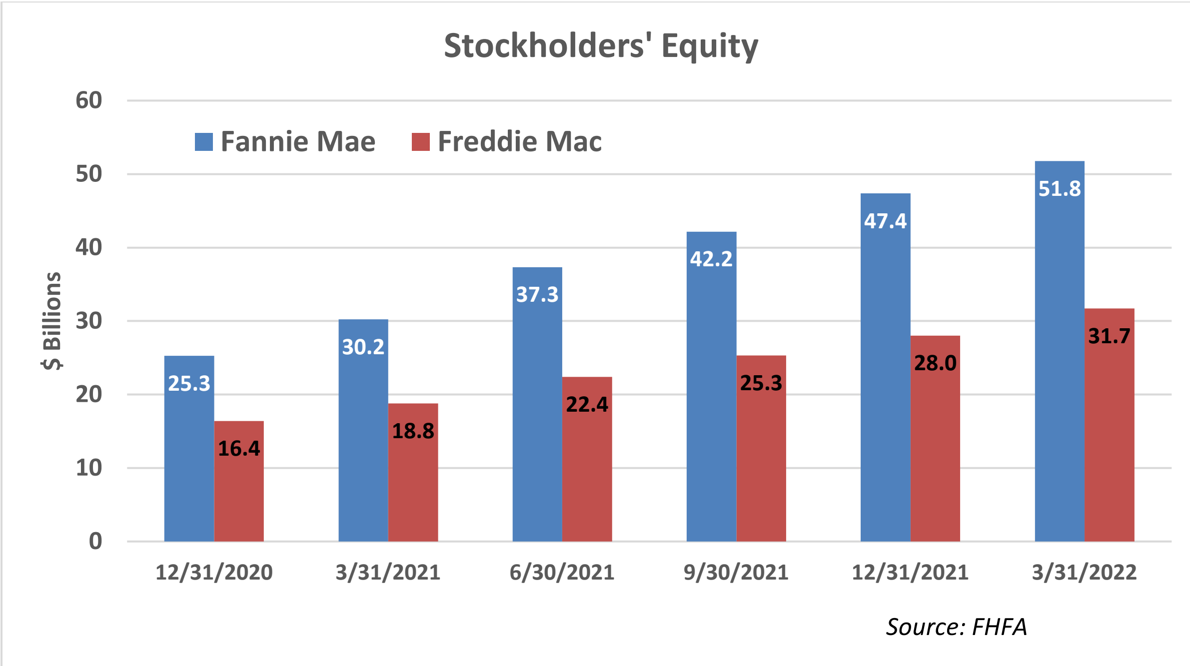
the single-family and multifamily business lines. Both Enterprises exceed FHFA guidance and expectations for liquidity by maintaining a large volume of high-quality liquid assets.

FHFA is continuing to take steps to strengthen the capital positions of the Enterprises so they can fulfill their responsibilities throughout the economic cycle. Following the publication of a proposed rule in 2021, FHFA finalized important enhancements to the Enterprise Regulatory Capital Framework in February 2022. These enhancements provide the Enterprises with the necessary incentives to transfer credit risk to private investors, which will help protect taxpayers from unexpected credit losses. Furthermore, in the Spring of 2022, FHFA finalized additional capital planning requirements to ensure the Enterprises properly assess their risks and maintain the appropriate level of capital, and disclosure requirements to provide market participants with more information to assess an Enterprise's risks and capital adequacy.

As conservator, FHFA has taken actions to improve the condition of the Enterprises. Since 2008, FHFA has directed reforms to their practices and standards, management and transfer of risks, underwriting and loss mitigation policies, and the Enterprises' securitization infrastructure:

- As mentioned above, the credit quality of mortgages purchased by the Enterprises is fundamentally stronger than prior to the onset of the 2008 crisis.
- Notably, the Enterprises have substantially transitioned away from the business models they used prior to the financial crisis of 2008.
- FHFA has overseen an unwinding of the Enterprises' retained portfolio holdings. It was those holdings, particularly investments in subprime and Alt-A securities, that helped to make the Enterprises vulnerable to economic shocks.
- We also have worked to ensure the Enterprises syndicate risk to the capital markets by creating and operating credit risk transfer (CRT) programs to ensure the private sector bears much of the credit risks the Enterprises previously assumed. During the past year, we have worked to ensure that the CRT programs remained a viable option by assuring adequate capital relief for the CRT issuances.

Because of changes in the Senior Preferred Stock Purchase Agreements (PSPAs) between FHFA and the Treasury Department, the Enterprises are retaining more of their earnings and building capital. These PSPA changes, coupled with robust comprehensive income, have significantly boosted net worth for both Enterprises, although there is still a long way to go to meet regulatory capital requirements. Fannie Mae's stockholders' equity or capital reserves increased from $14.6 billion at year-end 2019 to $51.8 billion by March 31, 2022. In the same period, Freddie Mac's stockholders' equity increased from $9.1 billion to $31.7 billion.



Providing Liquidity in Underserved Areas

We continue to strengthen our core statutory mission programs such as Duty to Serve and the Housing Goals for the Enterprises, and the affordable housing and community investment programs of the FHLBanks. We will ensure that the FHLBanks serve each state in their district under the Affordable Housing Program (AHP) and that the FHLBanks' Community Lending Plans identify and seek to fulfill the needs of communities throughout their district, including tribal communities.

Through Duty to Serve, the Enterprises are required by law to serve three specific underserved markets: manufactured housing, affordable housing preservation, and rural housing.

They do this by increasing the liquidity of mortgage financing for low- and moderate-income families and creating new markets where the financing system is not meeting housing needs.

Under their Duty to Serve Plans for manufactured housing, the Enterprises are enhancing existing programs to expand financing and provide liquidity for new manufactured housing, and to help protect families living in manufactured housing communities (MHCs), such as only purchasing blanket loans on MHCs that provide all eight protections in the Duty to Serve regulation for 100 percent of residents. Fannie Mae is also enhancing an existing program to support MHCs with rental flexibilities to increase affordable, unsubsidized rental options in communities.

Both Enterprises also set higher targets for purchases of manufactured homes titled as real estate, which will foster greater liquidity for manufactured housing and could help increase delivery of manufactured homes throughout the country. The Enterprises set targets to purchase 47,000 of these loans between 2022 and 2024, including 15,800 loans in 2022.

The Duty to Serve Plan for the rural housing market focuses the Enterprises in part on support for rural areas with the greatest need. Last year, the Enterprises purchased more than 50,000 single-family loans in persistent poverty areas, one-third more than the year before and 145 percent more than the volume they were buying before Duty to Serve began.

Both Enterprises also made Low-Income Housing Tax Credit (LIHTC) investments in these same regions. And last November, Freddie Mac held its third annual rural research symposium, which focused on providing insights on the rural macroeconomy, community housing development, manufactured housing, sustainability, health and housing, and environmental justice. The fourth symposium is scheduled for this November.

Fannie Mae has committed to purchasing loans on small, 5- to 50-unit rental properties and is making improvements to its current product offering for high-needs rural regions. Freddie Mac has committed to developing a capacity building program for emerging rural developers and is planning to expand its Credit Building program to LIHTC properties in rural areas. The program provides incentives for multifamily borrowers to report on-time rent payments to credit bureaus.

Both Enterprises will continue to work closely with Native American Community Development Financial Institutions and statewide coalitions to support increased homeownership opportunities for tribal communities, including through technical assistance, homeownership education, and enhancing secondary market liquidity.

We also continue to strengthen our fair lending oversight. FHFA published a policy statement and advisory bulletin to communicate the Agency's positions, supervisory expectations, and guidance on fair lending compliance. In addition, FHFA completed targeted fair lending examinations of certain business areas of both Enterprises, and we will continue to build out our examination program. We have also made data about the Enterprises' fair lending performance available on our website. We have implemented a statutory requirement to analyze pricing disparities and notify our regulatory partners of lenders whose data may indicate fair lending pricing issues. We will fulfill this requirement annually as required in our statute.

With a historic Memorandum of Understanding on fair lending now in place between FHFA and the Department of Housing and Urban Development (HUD), our Agency will continue to collaborate with HUD and our other interagency partners to provide clear guidance and comprehensive fair lending oversight of the mortgage market.

The Enterprises are also taking steps to expand access to quality, affordable housing for minority and underserved communities. Years ago, many families were unable to purchase a home due to redlining, which often divided neighborhoods along racial lines. The racial homeownership gap between Black and White families is higher today than when the Fair Housing Act was passed. Last month, FHFA announced the release of the Enterprises' Equitable Housing Finance Plans for 2022-2024 to help narrow the homeownership gap in minority populations.

These strategic plans include activities for renters, aspiring homeowners, and current homeowners who may have different housing needs. The plans complement existing programs like Duty to Serve and the Affordable Housing Goals to help ensure the Enterprises provide broad access to sustainable mortgage credit. FHFA will oversee the Enterprises' implementation of their Equitable Housing Finance plans and ensure the Enterprises take meaningful actions to achieve their goals and objectives in a safe and sound manner while ensuring that all plan activities comply with the law and the Enterprises' charters.

FHFA supports the use of fair and accurate credit scoring models in considering a borrower's creditworthiness and is actively reviewing credit score models along with the Enterprises pursuant to the solicitation and approval process set forth by the law and our regulation. We are also pleased that the Enterprises are incorporating new payment information into their evaluations of credit risk to promote access to credit. Data that is generally not incorporated into the current major credit scoring models, such as rental payments, may be a helpful indicator of mortgage performance and a borrower's overall willingness to pay. Considering rental payment history in risk assessment processes is an innovative way to expand access to credit in a safe and sound manner.

Housing Supply and Affordability

While the Agency's ability to directly affect the supply of affordable housing is limited, FHFA is taking incremental steps to support the growth of our nation's housing stock. For example, FHFA recently increased the Enterprises' LIHTC equity investment caps, an important source of funding for new affordable housing. Within the $850 million annual investment cap for each Enterprise, half of the allocation is required to be in areas that have been identified by FHFA as markets that have difficulty attracting investors. This requirement increases Enterprise investments that are targeted toward transactions that support housing in Duty to Serve designated rural areas, preserving affordable housing, supporting mixed-income housing, providing supportive housing, or meeting other affordable housing objectives.

To ensure a strong focus on affordable housing and traditionally underserved markets, FHFA requires that at least 50 percent of the Enterprises' multifamily business be mission-driven affordable housing in 2022. FHFA is also requiring at least 25 percent of the Enterprises' multifamily business to be affordable to residents at or below 60 percent of area median income, up from 20 percent in 2021. In addition, the Agency is working with the regulated entities to ensure liquidity is available to respond to the supply shortage, such as increasing purchases for manufactured housing and accessory dwelling units.

Climate Risk and Natural Disasters

FHFA is ensuring that our regulated entities identify and manage emerging climate-related risks, and natural disasters in particular. The Agency has long worked with the Enterprises to develop effective disaster response loss mitigation toolkits to support borrowers and renters affected by natural disasters such as hurricanes, floods, and wildfires. The toolkit includes forbearance for borrowers, which servicers are authorized to provide without quality right party contact following a natural disaster, and other workout options.

At FHFA, we are committed to understanding and researching the risks associated with natural disasters and climate change so that we can continue to ensure that our regulated entities operate safely and soundly while continuing to achieve their housing mission responsibilities.

Earlier this year, we established an agency-wide working group to focus on identifying risks to our regulated entities, homeowners, and renters stemming from the consequences of not only natural disasters but the chronic consequences of climate change, such as sea level rise, droughts, and wildfires.

Our ongoing efforts include:

- identifying the channels through which climate events and natural disasters can lead to adverse financial effects for our regulated entities and homeowners;
- identifying the data that we and our regulated entities need to ensure that they make the right decisions to protect their own financial condition, while also considering the consequences of those decisions on homeowners and vulnerable communities;
- participating actively in the Financial Stability Oversight Council's Climate-related Financial Risk Committee and its working groups, along with other government agencies; and
- working with our regulated entities to ensure they adequately prioritize their work to adapt to the effects of natural disasters and climate change so that they remain safe, sound, and able to achieve their housing mission.

The Federal Home Loan Banks (FHLBanks)

As of March 31, 2022, the FHLBank System had $762.3 billion in assets and $374.6 billion in outstanding advances (that is, loans to their members). The COVID-19 pandemic market disruption in March 2020 resulted in a steep advance increase, followed by a decline due to increased liquidity from fiscal and monetary policy. On September 30, 2021, advances reached their lowest quarter-end level since 2001 but have recovered significantly in 2022, primarily from increased commercial bank member borrowing. Advance balances grew by $146.2 billion since March 31, 2022, to $523.4 billion on June 30, 2022, with every Bank experiencing an increase quarter-over-quarter. Net income at the FHLBanks, and their affordable housing program contributions (which are statutorily mandated at 10 percent of net income before affordable housing program assessments), tend to follow advances trends. FHLBank System year-to-date net income was $503 million through March 31, 2022, slightly down from $505 million over the same time period in 2021.

In 2021, the FHLBank System made available approximately $314.7 million in Affordable Housing Program (AHP) subsidies nationwide. From 1990, the AHP's first year, through 2021, the FHLBanks awarded approximately $7.3 billion in AHP subsidies, assisting more than one million households.

The FHLBanks' core function 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 pandemic began, the FHLBanks helped to maintain liquidity in the market, meeting unprecedented advance demand from their member financial institutions. However, as we approach the 100th anniversary of the FHLBanks, now is a good time to re-examine their approach. We want to make sure they are positioned to continue to serve the needs of today and tomorrow, so FHFA will conduct a 90-year lookback, as well as a forward-looking analysis of the FHLBank System. We plan to engage a variety of stakeholders in the coming months, in addition to holding public listening sessions throughout the country. We want this review to be an opportunity to examine everything from the FHLBanks' membership base, operational efficiency, and effectiveness, to more foundational questions about mission, purpose, and organization. We, of course, welcome the input of Members of Congress.

Moving Forward

In carrying out FHFA's statutory responsibilities, our decision-making process is to independently understand the parameters, goals, and risks of any initiative and ensure that appropriate risk management is a part of the equation before we take action. We will continue to follow the laws that guide our Agency's purview and mission and carry them out as a federal financial regulator focused on our statutory priorities.

Accordingly, FHFA will continue to promote sustainable and equitable access to credit in a responsible manner that does not compromise safety and soundness. We will focus our efforts on the financial health of, and on the mission Congress set forth for, the entities under our supervision: providing access to mortgage credit throughout the nation, which includes preserving affordable housing, and supporting underserved markets such as rural and tribal areas, manufactured housing, and communities of color.

Thank you again for the opportunity to testify before you today, and I look forward to working with the Members of this Committee and answering any questions you may have.