



SFA Summary:
HFSC Hearing Overview
September 16, 2020

House Financial Services Committee Hearing Overview: September 16, 2020

This is an executive summary of the House Financial Services Hearing entitled, “**Prioritizing Fannie’s and Freddie’s Capital over America’s Homeowners and Renters? A Review of the Federal Housing Finance Agency’s Response to the COVID-19 Pandemic,**” that occurred on September 16, 2020.

Legislation

- [H.R. 6800](#), the “Heroes Act.”
- [H.R. 6729](#), the “COVID-19 Homeowner Assistance Fund Act.”
- [H.R. 6741](#), the “COVID-19 Mortgage Relief Act.”
- [H.R. 6794](#), the “Promoting Access to Credit for Homebuyers Act.”
- [H.R. 7402](#), the “Protecting Renters from Eviction and Fees.”

Opening Statements

Chairwoman Waters (D-CA) said she wanted Secretary Carson at the hearing as well, but he did not have time in his schedule. She stated that Director Calabria is more interested in what Fannie and Freddie want than on how to help homeowners and renters. She went on that he is rushing forward with a complex regulatory framework for Fannie and Freddie while ignoring advice and postponing it while in the pandemic.

Ranking Member McHenry (R-NC) made the point that FHFA suspended foreclosures and evictions for single family homes before the CARES Act was enacted into law. He went on that FHFA’s leadership could not be clearer and that its policies have worked to protect American homeowners.

Rep. Stivers (R-OH) thanked Calabria for his leadership and had questions on the adverse finance fee, capital rule, and other things. Twelve years after the financial crisis, he said the only piece undone is Fannie and Freddie.

Witness Testimony

The Honorable Dr. Mark A. Calabria, *Director, Federal Housing Finance Agency*, stated that FHFA suspended foreclosures and foreclosure driven evictions until the end of 2020 and committed to extending that if needed. He emphasized that those who can pay their mortgage should continue to so FHFA can focus on those in need. Calabria was proud of FHFA’s response and the provided relief to homeowners and renters. He recognized that America’s housing problems did not begin with and will not end with this crisis.

Member Questions

Chairwoman Waters talked about the adverse market fee and despite delaying it, she asked how he can justify this fee. Calabria disagreed with her analysis of the fee and defended that by statute, funds lost to Fannie and Freddie had to come through income. He reasoned that the money does not go to Fannie and Freddie but to American families that FHFA has been able to keep in their homes. Calabria explained that no one's monthly payment will go up as a result. He added that Congress provided no funding to FHFA which is partly why the fee is being imposed. Waters said there was no excuse for this fee and urged him to reverse his course on this. She questioned him on the capital rule making and how it would have an adverse impact on minorities and low-income communities. Calabria defended that the rule making protects low income families.

Ranking Member McHenry continued the conversation on the adverse fee and asked Calabria to discuss why it is necessary, an appropriate solution, and alternatives. Calabria had no desire to raise fees in the housing market but explained that he was following the law by charters of GSEs having to recapture costs through income. He stated that it was not his proposal but Fannie and Freddie's. Calabria emphasized that he delayed this until December to give Congress an opportunity to cover costs. McHenry moved on questioning if Calabria agreed that we need to have sufficient capital and risk mitigation tools to get CRT protection for taxpayers; he responded yes. McHenry then asked how his thinking about recapitalizing changed since the start of the pandemic. Calabria replied that he saw mortgage spreads and the cost of credit blow out. He said that the objective is if we can have a well-capitalized Fannie and Freddie there is less volatility and if the fee could have been delayed for years except it is on the verge of solvency. Lastly, McHenry asked what FHFA is doing to take into account more enhanced flooding due to climate. Calabria answered it is building a capital buffer that accounts for that and it is in the process of hiring an environmental economist but there are more announcements to come on this.

Rep. Velazquez (D-NY) asked if Calabria considered extending the forbearance period for multifamily owners. He replied yes and that the worst impact has been on renters and multifamily housing; if data suggest the need for an extension, it will happen. She moved onto the capital rule and asked how he plans on raising capital markets while still providing affordable access to credit for communities in need. Calabria answered that the more capital there is for Fannie and Freddie, the more it can support low income families. He said nothing in the rule requires Fannie and Freddie to raise prices. Finally, Velazquez addressed multifamily housing owners with forbearance with the GSEs, she questioned how FHFA is making sure landlords and tenants know their rights. Calabria responded that Fannie and Freddie talk to landlords and if they are not following forbearance, FHFA can issue default and get them to behave.

Rep. Wagner (R-MO) did not understand the reasoning behind the August 12 announcement for the market refinance fee. She asked if Calabria believed that the changes FHFA has made to the fee are adequate for placing uncertainty on the refinance market and consumers who choose to refinance. Calabria repeated that no one's preexisting monthly payment would go up and it only applied to those refinancing. He said if Fannie and Freddie were to become insolvent it would be a disruption. Wagner continued asking what changes has COVID-19 brought to the housing market that will stay with us and which segment of the housing markets gives him concern. Calabria replied that single family housing sales have boomed while urban multifamily housing has been hit hard. He continued that Fannie and Freddie have exposure to student and senior housing which is currently under a lot of stress along with retail centers. He explained that the rental market is really stressed which is different from the purchase market.

Rep. Sherman (D-CA) believed Fannie and Freddie should continue to be government agencies and the fee would not be necessary if FHFA was gearing up for them to be halfway private. He wanted to wait until next year when there was a new Congress and hopefully new administration to revisit that. Sherman looked at Fannie and Freddie's multifamily

recently proposed rule and felt that it was “not clear on risk sensitive grid.” He asked what information Calabria could produce that showed the treatment of GSE loans to multifamily properties so risky. Calabria emphasized that by law GSEs are not government agencies and are private. He said the multifamily grid has changed very little from the 2018 rule and that multipliers are driven by historical data. Lastly, Sherman asked about CRT contracts and whether Calabria is taking them into account. He also wanted to make sure that credit rating agencies are not looking at accessing forbearance for effecting credit.

Rep. Posey (R-FL) stated that we are continuing to deal with the role that Fannie and Freddie played in the financial meltdown. Calabria responded that LBJ was the one to privatize the GSEs and the need to reform it to what is private and what is government. Posey addressed the proposed rule to capitalize the GSEs and asked based on his stress testing, what could Calabria tell Congress if capital requirements will cover another financial crisis like 2008. Calabria wanted to be modest about unknowns and did not know the implications of climate change. He said it was important to have sufficient capital so Fannie and Freddie could withstand any situation.

Rep. Scott (D-GA) talked about a 2008 program that helped stabilize families, the real estate market, and the financial system. He said Congress has introduced and provided legislation that would give \$75 million dollars to do the same thing and save the economy. He asked Calabria if he thought this type of program would have the same positive impact as it did in 2008. Calabria replied there was some potential for that. Scott hoped Calabria could make these points known to the Senate. He went after Trump’s eviction moratoriums saying it was very devious to say that because he questioned how the landlord is going to pay for their end and how property owners would pay. Scott asked how you can have an eviction moratorium without making sure everyone along the line is covered because if not, there will be an implosion. Calabria stated he was not part of the administration and was an independent regulator.

Rep. Luetkemeyer (R-MO) asked about the treatment of CRT in the proposed regulatory framework as CRT is one of the biggest successes of conservatorship. He said that as proposed, GSEs would receive no capital relief which would increase their own risk. He asked Calabria to comment on the treatment and revisiting this part of the proposal. Calabria responded that he will commit to examining the issue as it moves forward. Luetkemeyer followed up that it was something we need to be doing and was unsure how you wind up minimizing. Calabria stated that FHFA established a strong reputation for wanting to get as much risk out of Fannie and Freddie as possible and noted that the rule is not as generous to CRT as the 2018 rule but more generous to banking capital. He expected CRT to continue to operate and play a role. Calabria said the distinguishing principle in 2018 gave CRT dollar for dollar relief but a dollar of CRT is not the same as a dollar of equity. Luetkemeyer mentioned the adverse market fee and the delaying of CECL. Calabria commented that CECL was implemented with Fannie and Freddie and having to cover income comes out of the GSE charter. Finally, Luetkemeyer asked the percentage of refinancing of loans, Calabria said about 60% of new loan value is refinanced.

Rep. Meeks (D-NY) could not understand why FHFA would impose a fee on homeowners and mortgage financiers at this time and asked him why Calabria would impose the fee now. Calabria repeated that the fee was necessary to keep people in their homes and did not agree with Meeks’ perspective. He said if Fannie and Freddie fail, there will be a financial crisis. Meeks still felt that it was the wrong time.

Rep. Huizenga (R-IN) stated that CRT relies on private capital markets for funding and asked if people are still buying CRT. Calabria explained that CRT shut down in March and April and expected Fannie and Freddie to repurchase. He said the deal with Freddie went through so the CRT market is going up and capital markets are much calmer today than they were in March. Huizenga moved on to the capital rule and multifamily housing and asked what economic analysis FHFA

did to study the multifamily capital markets rule on secondary markets. Calabria responded that this proposal is similar to the 2018 rule and based on a conservative capital framework, so they are pricing as if they are already on the rule. He went on that it is quite competitive and have a hard time competing with Fannie and Freddie on price. Calabria said the rule is likely to change as they are still in the rule making process, but the evidence is that they have been able to run a successful multifamily business. Huizenga noted that multifamily is held to a higher capital standard despite multifamily performance being superior to single family, but multifamily is charge 5 times worst in vintage loss. Calabria said it depends on the time you look at it and in the current environment multifamily is suffering much ore than single family. He went on that it is not right to take 2008 math and assume every cycle for multifamily will perform similarly.

Rep. Green (D-TX) explained that if one cannot pay rent that creates a chain impacting the landlord and mortgage holder but if rent is aid then everyone is paid. He asked if it was true that we have to pay rent to take care of everyone in the chain. Calabria responded that FHFA is providing forbearance to multifamily housing, but the rent situation needs to be addressed.

Rep. Stivers asked what other options Congress could give Calabria besides the adverse market finance fee. Calabria explained that the fee is a result of costs from the CARES Act and Congress could fund this but he did not want to ask for a penny because FHFA could make it work. He said were Congress to provide taxpayer assistance it would be about \$10 billion then there would be no need for the fee. Stivers moved onto the capital rule and said CRT and MI coverage go about the minimum level but that it does not get much credit. He asked if Calabria could explain why this is in the rule. Calabria replied he based it on the bank framework and factored in ultimate losses. Stivers went on that CRT is a very important piece to managing risk and it was going to take a few years for GSEs to be capitalized and CRT can provide some amount of shock absorb. He wanted to put in a plug for how important CRT is and the role it plays in the future of GSEs. Stivers urged Calabria to take another look on MI coverage and CRT. Stivers replied that as long as GSEs are in a conservatorship, FHFA will require them to engage in some CRT transactions. Stivers followed up saying that Fannie has stopped CRT and if he is going to encourage them to start again. Calabria responded yes and did not advise them to stop.

Rep. Cleaver (D-MO) expressed concern for landlords, especially small owners, and asked if there is something Calabria could do. Calabria agreed this is a problem and replied that if the landlord has a mortgage that is GSE held, they can be offered forbearance and provide a bridge if they are a borrower. If the loan is not GSE held, he said FHFA does not have a direct relationship with them.

Rep. Barr (R-KY) said the rental assistance included in the HEROES Act underscores FHFA's work in keeping renters in their homes and applauded Calabria on the multifamily forbearance program. He asked to what extent renters are using tools FHFA created to be eligible for the rental assistance program. Calabria was going to get back to him on the numbers. Barr continued that the actions FHFA has taken has reduced the need for Congress to act. He echoed Stivers on CRT and has heard from stakeholders that the capital rule framework does not account for the value of CRT. He asked if he agreed or disagreed on disincentive. Calabria thought that was a blanket statement and the rule certainly account for CRT, it is just a matter of if it is generous to what people like. Barr thought it was a valuable tool. He moved onto to FSOC's based activities approach when determining systemic risks posed by the secondary mortgage market. He questioned what Calabria will bring to FSOC to ensure soundness of GSEs. Calabria replied that he has been in conversation with other FSOC members on these issues and was hopeful that there will be a release on this soon. Lastly, Barr asked about adjustments to the proposed GSE capital framework. Calabria stated it would stay the course and account for unquantifiable risk and that it is hard to quantify this pandemic in terms of risk because there is so many unaccountable factors so FHFA does not have the data to quantify.

Rep. Williams (R-TX) worried about the length of time the provisions by FHFA have been in effect. He asked for Calabria's thoughts on a national eviction moratorium and what problems are being created for apartment owners through not paying rent. Calabria repeated that if a renter has a Fannie or Freddie loan that they are eligible for forbearance during this time. He said he was looking at the mortgage market and that there is a very health single family market but stress on the rental side. Williams moved on to the capital framework for Fannie and Freddie and hoped it would utilize the private sector and CRT. He asked Calabria to discuss why capital credit is reduced for capital requirements. Calabria explained that CRT treatment under the new rule is more generous than bank treatment. He said it was appropriate in 2018 to incentivize CRT but moving forward, CRT should play a more calibrated role and did not see CRT going away.

Rep. Hill (R-AR) asked what the market share of Fannie and Freddie were for 2019 versus 2008. Calabria reported that 40% of the market was multifamily and 60% was single, both metrics being much larger than they were in 2008. Hill asked if Fannie and Freddie were wards of the state. Calabria said legally they were not and it was for Congress to decide if GSEs should be private or public.

Rep. Foster (D-IL) questioned if Calabria thought GSEs could have provided as much relief as they have if they were fully private companies and out of conservatorship. Calabria thought they could have provided even more relief and statues require him to get them out of conservatorship but wanted the Committee to clarify that. Foster worried about GSEs' countercyclical mission. He moved onto the implementation of the capital rule and asked if Calabria had done analysis on market rebalancing to reflect the impact on the rule. Calabria replied that nothing in the rule allows for Fannie and Freddie to change pricing. Foster followed up questioning how GSEs will raise money to generate that much capital. Calabria replied with public offerings and is hopeful Treasury will sell its share, he encouraged Congress to fix the conflicting status. Foster felt that the losers in this would be taxpayers, but Calabria said they would be better off. Finally, Foster questioned his attitude on tail risk. Calabria answered that there is always some possibility that the taxpayer will step in.

Rep. Tipton (R-CO) asked what tools Calabria needed to do his job and to get Fannie and Freddie out of conservatorship. Calabria stated that he had no authority to examine nonbank servicers that provide money to Fannie and Freddie, so he wanted to have third party examining authority similar to the Bank Servicers Act. He said a monopoly does not benefit consumers and would bring competition. Tipton agreed that competition works and questioned why it is important to move Fannie and Freddie out of conservatorship. Calabria explained he is carrying out the law by doing this and the process to get them out is the same process to make them safe and sound. Tipton asked what the effects would have been had Calabria not built up capital before COVID-19. Calabria replied Fannie and Freddie have been able to take some losses and if the capital had not been raised, he would have been forced to raise the adverse market fees in the spring which would have been the worst timing. Finally, Tipton asked if his views of capitalization had changed. Calabria answered that it has shown him even more the importance of capital and the need to have an adequate buffer of capital that protects us from the unknown.

Rep. Maloney (D-NY) wanted Calabria to commit to not releasing Fannie and Freddie into conservatorship before the end of the year. Calabria did not envision a scenario when they would be ready before the end of the year. She wanted him to also commit to not rush IPOs. Calabria said he would not release them if they were not ready. Maloney moved on to increased access to credit and how some commentators offered that his rule would harm access to credit for underserved communities. Given these concerns, she asked how Calabria justified the capital rule. Calabria answered that he was yet to see how the rule would have a disproportionate effect on borrowers and thought it would help them. He said the rule meant avoiding financial crisis. Maloney asked if he had done any analysis on that. He answered they have done some internal fair lending analysis. Maloney requested FHFA to impose a national moratorium.

Rep. Davidson (R-OH) said that we have to keep nominal rates low in the structured credit market and when you pass that onto the secondary market, it knows how to price it. He said we should not enter into CRT and consider market risks. He asked how Calabria is able to protect the market from non-market risk. Calabria answered that the CRT market is helpful because investors want to take mortgage credit risk rather than high attachment points for GSEs to take the first loss.

Rep. Vargas (D-CA) asked Calabria to explain FHFA agreed to have the GSEs purchase loans that went into early forbearance. Calabria responded that prior to the pandemic, if a loan entered into forbearance after closing but before delivery, it was not a Freddie loan at delivery. He said GSEs usually refused to buy loans at all but because of COVID, FHFA wanted to provide a source of liquidity and large portfolios could not easily move risk to FHFA. Calabria added that the loans are priced in a way so that GSEs are a buyer of last resorts. Vargas continued how that puts a burden on the loan. Calabria replied that loan pricing works when there is an active private market for them but given that the loans entering forbearance had a higher delinquency, the GSEs had to calculate loss and value. Lastly, Vargas asked if Calabria believed in climate change. Calabria believed it represents a probable risk that needs to be accounted for by financial regulators.

Rep. Budd (R-NC) talked about the originations of flexibilities were put in place by the GSEs to help the mortgage market and are extended on a month to month basis. He asked that due to the public crisis being ongoing, is there any change to extend them longer. Calabria wanted to be thoughtful on making long term changes and to make sure we hear from those organizations. He added that he was engaged in an internal risk review and intended before the end of the year to have a request for input to hear from market participants. Barr expressed concern that GSEs set the capital standard and then compete with it, he asked if that should be allowed. Calabria answered that it is an issue he wants to resolve but the regulatory issue is delayed due to COVID-19.

Rep. Tlaib (D-MI) asked if the Neighborhood Stabilization Initiative would be useful now. Calabria said it could be in targeted neighborhoods. Tlaib wanted to ensure that housing gets into the hands of nonprofits as opposed to repurchase properties to avoid repeating past mistakes. Calabria responded that Fannie is financing foreclosed properties and conducting a review of vacant properties.

Rep. Kustoff (R-TN) speculated that GSEs would be ready to exit conservatorship by 2022 or 2023, he questioned if that is still the timeline. Calabria answered that this is process rather than calendar driven, and that the timeline is probably delayed 4-6 months, but it depended on what the housing and equity markets look like. Kustoff followed up asking what he thought about 6-12 months in housing. Calabria answered that single-family housing is going extremely well and will continue for the next 6 months. He expressed concern on the rental and multifamily side. Calabria said the single-family market will run its course in the next two years and the need to prepare for reversion. Kustoff talked about suspending bulk purchases of seasoned mortgages that expired on June 30 but still active; he asked for guidance. Calabria could not give a date but would work on him with some background.

Rep. Lawson (D-FL) asked if Calabria had any influence in regard to talking to the Senate to move legislation before the end of the year. Calabria repeated that he is an independent regulator and is not part of the negotiations.

Rep. Loudermilk (R-GA) said that the enterprise capital rule would reduce capital benefits and other incentives for GSEs. He went on that CRT is a good way to reduce risk for the taxpayer and was concerned that there is evidence of the contrary. Loudermilk asked how Calabria could be sure CRT will continue if this rule is implemented. Calabria answered that while GSEs are in conservatorship, it will be mandated that Fannie will do CRT and believe it will be incentivized to

do so. Loudermilk questioned if GSEs will be incentivized to engage in pre-pandemic behavior. Calabria ensured it would not go back to pre-crisis behavior and emphasized that Fannie and Freddie have some of the worst corporate cultures and the need to fix this before exiting conservatorship. Loudermilk wanted Calabria to confirm that he had economic analysis on holding double for multifamily housing than single-family and the impact this could have on the supply of multifamily housing. Calabria said he would look into seeing what he could share with the Committee.

Rep. Porter (D-CA) focused on the adverse market fee and how it would make homeowners pay more. Calabria welcomed another way to keep people in their homes without the fee. She asked him why he did not come to Congress to pay for this. Calabria responded that if Congress wants to provide the funding, the fee would go away.

Rep. Hollingsworth (R-IN) continued the conversation on the fee and stated that the question before us was are we doing to have rate payers pay the cost or are we going to ask taxpayers to pay it? He felt that it should be rate payers to bear the full cost. Hollingsworth felt that in setting forth the fee, Calabria appropriately put the cost on rate payers. He mentioned the 50 basis points from the fee and asked Calabria to speak to how the delay might lead to a high cost because there will be less volume. Calabria answered there was no 50 basis points to the fee.

Rep. Axne (D-IA) was disappointed that making sure renters knowing they were protected was not Calabria's biggest focus and instead he was working on a proposed rule. She said it seemed disconnected from the realities and raising the cost of a mortgage is not what Americans need. Axne urged him to reconsider.

Rep. Gonzalez (R-OH) asked Calabria about the additional regulatory and supervisory authorities he is seeking. Calabria repeated that he did not want additional regulatory power but examination authority to ensure Fannie and Freddie are doing business with strong corporate institutions. Gonzalez moved onto the adverse market fee and asked what information went into it and if 125 is a good number. Calabria responded that Home Ready products are excluded and there is much less of a liquid market for small dollar loans so what he ends up doing is making sure the fee is not reaching those in low income households.

Rep. Casten (D-IL) focused on any modeling for climate change FHFA had done and felt that there was significant systemic risk in climate. Calabria responded that FHFA does need a broader look at this for future impact and Fannie and Freddie are not currently prepared for it.

Rep. Garcia (D-IL) asked about the projected risk to Fannie and Freddie for landlords who have gone into default and if rental assistance minimize this. Calabria did not have the exact numbers but predicted \$4 billion for loss and that rental assistance would help. Garcia said that homeowners are least able to bear the burden of climate change and questioned what data FHFA is putting together on properties and climate risk. Calabria answered that he was in the process of hiring staff for this and shared his concern on this.

Rep. Adams (D-NC) encouraged Calabria to continue to diversify FHFA's staff. She talked about FHFA's announced pandemic relief measure that would impact creditors and limiting access to communities of color. She asked what Calabria was doing to prevent this. He responded that he is monitoring the income credit quality and has not seen big changes. He added that lenders are not putting borrowers into loans they cannot afford. Adams repeated the question of why now for the adverse market fee. Calabria repeated his answer that it is in the law to recoup money from income and that if Congress writes a different law, he would follow it.

Rep. Dean (D-PA) was puzzled about the refinance fee and asked what additional relief Calabria thought Congress should provide to tenants and landlords. Calabria answered the fee is an effort to keep people in their homes. Dean countered that Congress could pass relief so there would be no need for the fee. Calabria responded that he was not asking for money but just stating that and that rental assistance could be helpful. Dean questioned what FHFA is doing to notify tenants of their rights. Calabria encouraged renters who need assistance to go to the CFPB website and FHFA did not notify tenants because it is not a consumer agency.