



**Freddie Mac Program to  
Purchase Closed-End Second  
Mortgages**

July 2024

# Freddie Mac Program to Purchase Closed-End Second Mortgages

## Concerns Remain Despite Limits During Pilot Stage

The Structured Finance Association (SFA) [filed a letter](#) in response to a proposal published by the Federal Housing Finance Agency (FHFA) to allow Freddie Mac to purchase closed-end second lien mortgages. The SFA opposed the new product proposal on the grounds that it would crowd-out private capital, increase taxpayer risk, and exacerbate current housing affordability challenges. On June 21, 2024, FHFA approved a plan for Freddie Mac to proceed with a limited pilot program for 18 months.

## SFA Opposes Government Incursion into the Home Equity Lending Market

- Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs) that leverage their ties to the federal government to dominate the first lien mortgage market.
  - Unique Congressional charters and conservatorships result in their obligations being effectively guaranteed by taxpayers.
- Private capital currently finances over \$500 billion of home equity lending (second liens).
  - This includes banks, credit unions, and private securitization investors.
- While the proposal and approved pilot program is limited to Freddie Mac, it is widely expected that Fannie Mae will follow suit.
- Purchasing home equity loans does not advance the GSEs' public mission of improving access to credit for low- or moderate-income borrowers.

## SFA Letter Outlined the Risks to Taxpayers and the Economy

- By purchasing second liens from existing borrowers, a GSE is increasing its risk exposure to them. Thus, in the event of a housing downturn, taxpayers would suffer higher losses.
  - This is inconsistent with FHFA's statutory mandate as conservator.
- Large-scale home equity withdrawal facilitated by the GSEs could exacerbate:
  - The current "rate lock" effect, which is limiting home inventory, raising prices, and reducing affordability.
  - Broader inflation by increasing consumption and home improvement spending.

## FHFA Permits an 18-Month Pilot Program

- The FHFA has granted Freddie Mac approval to engage in a pilot program to purchase closed-end second mortgages subject to several limitations.
  - Maximum volume of purchases totaling \$2.5 billion.
  - Maximum loan amount of \$78,277.
  - Maximum loan-to-value ratio of 80%.
  - Maximum term of 20 years.
  - Minimum seasoning for the first mortgage of 24 months.
  - Eligible only for principal/primary residences.
- While SFA remains opposed to the GSEs purchasing closed-end second mortgages, it appreciates the FHFA limiting the scale and scope of the pilot program.
  - Some limits were derived from the SFA’s comment letter which incorporated direct member feedback.

## Looking Ahead

- The SFA remains concerned that after the 18-month pilot program both GSEs will significantly expand their purchase of second lien mortgages.
  - Historically, government pilot programs generally become permanent activities.

Members of Congress have echoed similar industry concerns over various aspects of the proposal. In May 2023, Senator Bill Hagerty (R-TN) submitted a [letter](#) to the FHFA that was signed by all Republicans on the Senate Banking Committee, along with 23 Republican members of the House Financial Services Committee. Shortly thereafter, Rep. Ritchie Torres (D-NY) submitted two letters on the issue, and the [second was also signed by](#) Rep. Gregory Meeks (D-NY) and Rep. Steven Horsford (D-NV). The congressional letters further highlight the program’s risks to taxpayers and asserts that Freddie Mac’s program creates no benefit to the many Americans who lack substantial home equity.

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