

**Congress of the United States**  
**Washington, DC 20510**

October 21, 2022

The Honorable Sandra L. Thompson  
Director  
Federal Housing Finance Agency  
400 7<sup>th</sup> Street, SW  
Washington, DC 20024

Dear Director Thompson:

Thank you for your leadership of the Federal Housing Finance Agency (FHFA) and longstanding commitment to supporting greater access to financing for affordable, equitable, and sustainable housing. The FHFA and its regulated entities – Fannie Mae, Freddie Mac (together, the Enterprises), and the Federal Home Loan Bank System – serve a vital function to the American economy by providing liquidity and stability to the mortgage market.

As you highlight in your July 20, 2022, testimony before the House Committee on Financial Services, Congress importantly gave the FHFA and its regulated entities the mission of providing liquidity across the entire nation, including in service to underserved markets and underserved populations.<sup>1</sup> I am encouraged by your recent historic effort to require the Enterprises to develop and implement Equitable Housing Finance Plans to address gross racial and socioeconomic inequities.<sup>2</sup> The actions of the FHFA build upon the President’s Executive Order 13985, entitled “Advancing Racial Equity and Support for Underserved Communities Through the Federal Government,” and support other agency requirements to ensure that the Enterprises fulfill their mission and charters to service underserved markets and populations.<sup>3</sup>

The equity plans put forward by the Enterprises are an important sign of progress that has the potential to make meaningful strides in addressing persistent service gaps.<sup>4</sup> Both plans developed by the Enterprises acknowledge the need to evaluate changes to Loan Level Price Adjustment (LLPA) structure.<sup>5</sup> In the wake of the Great Recession, the Enterprises began charging lenders LLPA’s, upfront guarantee fees, that are based on certain attributes of the borrower or the loans (such as credit score and loan-to-value ratio).<sup>6</sup> Lenders commonly convert the LLPAs into the interest rate on the mortgage thereby passing the increased costs onto borrowers over the life of the loan.<sup>7</sup> These fees can directly and significantly impact the affordability of residential mortgage credit and decrease the ability of credit-worthy homebuyers to obtain financing by making loans less affordable.<sup>8</sup>

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<sup>1</sup> FHFA, [Statement of Sandra L. Thompson, FHFA Director, Before the House Committee on Financial Services](#), July 20, 2022.

<sup>2</sup> FHFA, [FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac](#), September 7, 2021.

<sup>3</sup> White House, [Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government](#), January 20, 2021.

<sup>4</sup> FHFA, [FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac](#), June 8, 2022.

<sup>5</sup> *Id.*

<sup>6</sup> National Fair Housing Alliance, [Letter from Civil Rights and Consumer Advocacy Organizations to FHFA Acting Director Sandra L. Thompson](#), September 7, 2021.

<sup>7</sup> *Id.*

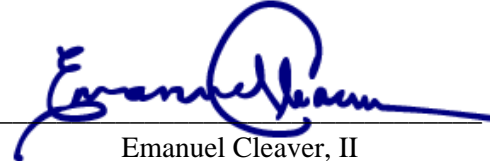
<sup>8</sup> Poverty & Race Research Action Council, [Racial Justice in Housing Finance: A Series on New Directions](#), May 2021.

The cost of LLPAs is particularly felt among first-time homebuyers and borrowers of color.<sup>9</sup> Due to exclusionary federal housing policies and bias in our financial markets, Black and Brown borrowers tend to have lower credit scores and less wealth to apply to a down payment, and the LLPA pricing scheme disproportionately impacts these borrowers.<sup>10</sup> In some cases, guarantee fees can price these borrowers out of the market altogether.<sup>11</sup> Homeownership is a significant source of wealth in the United States, and I remain concerned that increasing costs for this class of homebuyers can delay or deny homeownership to credit worthy buyers.

Even assuming LLPAs are necessary for safety and soundness reasons, it is unclear that the current LLPA pricing framework is fair or minimizes disparate impact on borrowers of color and other protected groups. A fulsome consideration of LLPA adjustments beyond the current scope of the Enterprises Equitable Housing Finance Plans should be included in FHFA efforts to create a more equitable housing finance system with a continually updated evaluation of risk. Reductions or eliminations of LLPAs, in whole or in part, would go a long way toward improving access to homeownership for borrowers of color, and I strongly urge the FHFA to develop a plan to adjust LLPAs in a way that will maximize the benefits for underserved borrowers in a safe and sound manner.

I look forward to continuing to work together on meaningful changes to create a more equitable housing finance system and appreciate the attention of your agency to this important matter.

Sincerely,

A handwritten signature in blue ink, reading "Emanuel Cleaver, II". The signature is stylized with a large, circular loop at the end.

Emanuel Cleaver, II  
Member of Congress

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<sup>9</sup> *Id.*

<sup>10</sup> The American Prospect, Adam Levitin, [How to Start Closing the Racial Wealth Gap](#), June 17, 2020.

<sup>11</sup> *Id.*