FACTSHEET

More Harm and No Good:
So-Called "Middle Class Borrower Protection Act of 2023" Leaves Borrowers and Taxpayers Less Financially Secure

The Center for Responsible Lending **OPPOSES** H.R. 3564, the so-called "Middle Class Borrower Protection Act of 2023," and urges Members of Congress to do the same. As written, the bill would: (1) undo the Federal Housing Finance Agency's recent cost changes for mortgages under the loan-level-pricing-adjustment framework used by Fannie Mae and Freddie Mac and (2) subject any future framework changes to the Administrative Procedure Act. Yet, rather than protecting America's middle class, these proposals would make it more expensive for middle-class consumers to become homeowners using conventional mortgage loans and more difficult for many consumers to enter America's middle class by obtaining affordable, conventional mortgage credit. Here is what policymakers, advocates, and consumers need to know:

(1) **H.R. 3564 Undermines Middle Class Borrowers By Undoing The Pricing Reductions That Were Recently Made For Them.** This bill would eliminate the reductions in loan-level-pricing adjustments ("LLPAs) that the Federal Housing Finance Agency (FHFA) recently established. Those reductions were targeted to the lower wealth, credit-worthy borrowers who disproportionately make up or seek to enter America's middle class.

(2) **H.R. 3564 Makes it Harder for More Americans to Enter the Middle Class by Raising the Cost of a Conventional Home Loan for First-Time And Working-Class Borrowers.** Homeownership continues to be the single most important factor in determining the ability of an American household to build wealth and enter or maintain middle-class status. Yet, by eliminating the pricing reductions FHFA recently implemented for lower-wealth and first-time homebuyers, the proposed bill reinforces a two-tier housing finance system where the conventional mortgage market continues to prioritize wealthier borrowers while first-time, underserved or rural borrowers with less wealth are dependent upon government-backed loans from federal agencies. That result is inconsistent with the statutory purpose and mandate of Fannie Mae and Freddie Mac. As the FHFA has noted, "[a]chieving a liquid, resilient housing finance market throughout the country requires improved access to responsible mortgage credit across different market segments of creditworthy borrowers."[1]

(3) **H.R. 3564 Makes All Taxpayers More Vulnerable by Disrupting Safety And Soundness Regulation of for Fannie Mae and Freddie Mac.** In the aftermath of the Great Recession, the Financial Crisis Inquiry Commission stated unequivocally that the primary cause of the crisis was a failure on the part of the government to regulate the financial industry, particularly in the secondary mortgage market. Based on its own experience in that regard, Congress created an independent FHFA, empowered it to assume conservator responsibilities for Fannie Mae and Freddie Mac, and ensured that it would have the ability to act swiftly and independently from the political process to manage each government-sponsored enterprise's safety and soundness considerations. Under H.R. 3564, FHFA would lose the ability to act swiftly on pricing considerations tied to safety and soundness by being subjected to the Administrative Procedure Act. That result would require the Agency to delay implementation of pricing changes for an extended period that often does not match changing dynamics in the financial markets. As a result, taxpayers would be a greater risk for, once again, having to bail out the enterprises.

Making homeownership more expensive for moderate income borrowers and less accessible for first-time, working-class, rural and other underserved borrowers is not protecting America's middle class. Likewise, depriving the enterprises' conservator of the tools needed to swiftly respond to safety and soundness considerations raised by pricing and, in the process, increasing the likelihood of another taxpayer funded bail out is not protecting American taxpayers. For each of these reasons, H.R. 3564, the "Middle Class Borrower Protection Act of 2023," is bad public policy and should not be enacted. CRL urges Members of Congress to vote against the measure. For more information, please contact David Ferreria, Government Affairs Manager, at David.Ferreira@responsiblelending.org.

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[1] FHFA, *Strategic Plan: Fiscal Years 2021-2024* (Sept. 22, 2020) https://www.fhfa.gov/AboutUs/Reports/Pages/FHFA-Strategic-Plan-Fiscal-Years-2021-2024.aspx.