

Statement for the Record

On Behalf of the

American Bankers Association

before the

Subcommittee on Housing and Insurance

of the

House Financial Services Committee

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Chairman Flood, Ranking Member Cleaver, and members of the Subcommittee, the American Bankers Association (ABA) appreciates the opportunity to provide our policy views for this hearing, *Homeownership and the Role of the Secondary Mortgage Markets*. The ABA is the voice of the nation's \$25.1 trillion banking industry, which is composed of small, regional and large banks that together employ over 2 million people, safeguard \$19.7 trillion in deposits and extend \$13.2 trillion in loans.

As Congress continues to examine the causes of rising housing costs and the barriers facing prospective homeowners, it is essential to recognize that while current affordability challenges are primarily driven by a lack of supply, affordability is also shaped by the structure and functioning of the nation's secondary mortgage market. The performance of that market—where loans are funded, traded, and risk managed—directly influences mortgage rates, lender participation, and the availability of credit for families across the country.

For more than two decades, housing costs have grown faster than household incomes, creating growing affordability pressures in nearly every region of the United States. Policymakers are right to recognize that the root of this challenge lies in long term supply constraints, including limited land supply, land use barriers, regulatory delays, and construction labor shortages. Yet these supply challenges also interact with the conditions of the secondary mortgage market, where liquidity, pricing, and risk transfer determine whether lenders can confidently finance home purchases. A secondary market that is stable, liquid, and accessible lowers the cost of mortgage credit. One that is constrained or distorted increases costs and limits access to builders and borrowers alike.

At the center of this system are Fannie Mae and Freddie Mac, whose proper role is to support the primary mortgage market by purchasing loans, providing liquidity, and giving lenders of all sizes a reliable execution outlet for loans and loan servicing. It is crucial that the GSEs remain firmly and exclusively secondary market institutions, as outlined in the attached GSE reform principles developed by ABA in consultation with our members. These principles emphasize that the GSEs must not engage in activities that displace, compete with, or weaken the ability of primary market lenders—especially community banks—to serve their customers. When the

GSEs operate within this well-defined mission, they strengthen affordability by reducing interest rate volatility and enabling lenders to recycle capital into new mortgage originations. When their role expands beyond this purpose, however, they risk crowding out the very lenders that sustain communities.

An example of inappropriate mission creep is Freddie Mac's pilot program, approved under the prior Administration, which permits the purchase of cash out second lien mortgages. This pilot program did nothing to expand homeownership and extended the Freddie Mac footprint into a market already well served by the primary market.

A secondary market that supports affordability is one in which all eligible lenders—large, midsize, and community institutions—have fair and equitable access to GSE programs. Equitable access expands credit availability in rural areas and underserved markets, fosters competition, and ensures that no single lender or institution can dominate the pricing or terms available to borrowers. Borrowers benefit most when competition thrives, and competition thrives only when the roles of the primary and secondary markets are appropriately balanced and aligned.

Another foundational principle and contributor to affordability is the continued strength of the “To Be Announced” (TBA) mortgage market. The TBA market is responsible for the liquidity that supports the 30-year fixed rate mortgage—an instrument available in almost no other country in the world. The GSEs play an indispensable role in the functioning and preservation of the TBA market. Servicing retained and servicing released execution made possible by the TBA market is essential to ensuring stable rates for borrowers and predictable hedging capacity for lenders. Any threat to the TBA market is a direct threat to affordability. A well-functioning secondary market is not a luxury but a public good.

This system also depends on the confidence of global investors who purchase GSE mortgage-backed securities. That confidence requires transparency, consistency, and adequate capitalization. A fully priced and explicit federal guarantee on GSE securities promotes stability, lowers borrowing costs, and protects taxpayers from ambiguity about the federal government's role. In the same way, ensuring that the GSEs remain properly capitalized safeguards the system from disruption and prevents sudden credit contractions that can drive up mortgage rates and disproportionately harm lower income borrowers.

Risk sharing is another area where the secondary market can enhance affordability without undermining the primary market. True, economically viable credit risk transfers (CRTs) help move risk away from taxpayers and distribute it to private investors. When structured correctly, CRTs supplement the capital framework and promote more stable mortgage pricing—again benefiting the borrower while keeping the GSEs focused on their core functions.

Importantly, no conversation about the secondary market is complete without acknowledging the indispensable role of the Federal Home Loan Banks (FHLBs). The FHLBs provide reliable liquidity to lenders, particularly community banks that may not have direct access to large capital markets. Any reform of the secondary market must take care not to diminish the FHLBs' ability to provide advances or weaken their member driven mission. Doing so would constrict credit in precisely the markets that most depend on these institutions.

Taken together, these principles show that the secondary market is not merely a technical component of housing finance; it is the mechanism through which affordability is ultimately delivered. A well-regulated, mission focused GSE system—one that supports lenders rather than competing with them, one that ensures equal access, one that preserves the TBA market, protects the FHLBs, manages risk responsibly, and maintains adequate capital—can significantly expand affordability without harming the primary market. In fact, the health of the primary market depends on it.

Secondary market reforms also intersect with legislative efforts now before Congress. Modernizing manufactured housing standards, expanding FHA’s capacity to support small dollar mortgages, increasing bank small dollar mortgages, increasing bank public welfare investment authority, and strengthening the use of Opportunity Zones all hold the potential to expand the supply of affordable homes. But these supply focused initiatives will succeed only if lenders can finance newly available homes through a stable and efficient secondary market. These two components—supply and liquidity—are mutually dependent, and neither can fully succeed without the other.

Likewise, regulatory reforms can reinforce the proper functioning of the secondary market. Improved capital treatment for portfolio loans and mortgage servicing assets, modernized Real Estate Settlement Procedures Act (RESPA) rules that reflect today’s digital marketplace, streamlined TILA-RESPA Integrated Disclosure (TRID) standards, and sensible Home Mortgage Disclosure Act (HMDA) reporting requirements can all reduce costs for lenders and improve access for borrowers. These regulatory reforms would help increase lender participation, which in turn will strengthen the GSE pipelines and broaden investor demand for mortgage-backed assets, further stabilizing rates.

Congress now has the opportunity to ensure that secondary market reforms and supply side initiatives move forward together. By doing so, policymakers can strengthen homeownership opportunities, enhance market stability, protect taxpayers, and ensure that lenders of all sizes—especially those embedded in America’s communities—can continue serving the borrowers who depend on them.

ABA stands ready to support your work and to help advance a secondary market framework that expands affordability while preserving the strength, diversity, and competitiveness of the primary mortgage market.

Thank you once again for allowing us to provide our views on this important topic.