WELLS FARGO

MAC X2401-064
One Home Campus
Des Moines, IA 50328-0001

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By electronic delivery to: Joseph.Prendergast@FHFA.gov

Federal Housing Finance Agency
Office of Policy Analysis and Research
400 7th St., SW
Ninth Floor
Washington, DC 20024

Re: Fannie Mae and Freddie Mac Guarantee Fees: Request for Input

Ladies and Gentlemen,

Wells Fargo appreciates the opportunity to offer comments in response to the Federal Housing Finance Agency's (FHFA's) Request for Input (RFI) on Fannie Mae and Freddie Mac Guarantee Fees. We offer the following general comments to highlight and supplement our brief responses to the questions posed by FHFA in Section IV of the RFI, which are found in the Appendix to this letter.

I. The Economic Cost Approach

This request for input, much like FHFA's periodic Single-Family Guarantee Fee Reports, is largely framed in terms of an economic cost framework and analysis. For instance, if you think that the proper level of capitalization is about 5% and the cost of capital is about 9%, then the total required guarantee fee (g-fee) is about 90bp. Current g-fees are about 60bps. There is a gap of 30bps. You can be left with the impression: something has to give.

All this is arithmetic and beyond reproach. It is easy enough to anticipate where this approach will run into obstacles: as FHFA points out, the calculation is absolutely dominated by capital costs and needs to be applied to Enterprises currently operating without capital. As a result, the discussion of guarantee fees can be dominated by supposition (or frustrating arguments over capital cost) and conducted with an air of unreality.

There can be a tendency to believe that the appropriate answer to many questions regarding guarantee fees is just a matter of getting the numerical inputs (primarily capital levels and return) right and plugging them into the model—and, once armed with the model result, the right course is just a matter of adjusting guarantee fees to reflect model output.

This approach to the use of a costing model is full of pitfalls. At its best, a model can be used to illuminate and guide the kinds of pricing decisions that any firm will face; at its worst, it will be treated as an algorithm supplying the answers to all the questions that arise. It takes a conscious effort to treat the economic cost model as a valuable analytic tool rather than as an algorithm to set prices.[1]

FHFA is to be commended for raising the important questions regarding guarantee fees that any analysis of prices is intended to answer—questions, we would note, that the economic cost framework is of limited help in answering by itself. We would summarize these questions as follows:

1. *Are the Enterprises setting guarantee fees at a subsidized level that excludes private capital?* We have certainly seen examples of insurance markets where public entities were assuming risk at a price unattractive to private enterprise. It is worth noting that to judge whether this is the case (that is, to judge the appropriateness of the pricing), the relevant consideration is not the hypothetical capital cost of the Enterprises but the actual, observable cost structure of private companies. As far as we know, there is no evidence that price is a primary factor inhibiting the growth of a private market. As many commenters will point out in detail, the primary obstacles to the growth of a vibrant private mortgage securities market have much more to do with regulatory uncertainty and with institutional arrangements (representations and warranties, role of transaction parties) than with price.
2. *Should the FHFA and the Enterprises raise guarantee fees to "crowd in" private capital?* It might seem that this is the same as the first question, but they are in fact very different—asking "Are the GSEs crowding out private capital?" is entirely different from asking "How high would we have to push guarantee fees to bring private capital in?" Surely, the Enterprises could raise guarantee fees to such a level that lenders, dealers and investors would overcome the uncertainties and disagreements that are holding back the revival of the private market. Here too, capital costing models will provide little guidance as to the level this might require. And we should never forget that this cost is borne by homeowners through higher mortgage payments.
3. *Should guarantee fees be set at a level commensurate with capital requirements that may be required by mortgage finance reform sometime in the future?* Discussion of the capital cost component of the model used to analyze guarantee fees invariably leads to some discussion of capital requirements that may (or may not) be proposed or implemented in some future mortgage finance legislation. Any future capital requirements will be set by Congress; we think

[1]Question 3 posed by the RFI illustrates this challenge: *"Currently, target return on capital and the amount of capital largely determine required g-fees. What factors should FHFA and the Enterprises consider in setting target return on capital and amount of capital required? How should the Enterprises allocate capital across risk buckets?"* Our response to this question is—it depends on what question you are asking. The statement which has appeared in every Gfee report is a useful reminder: *"Following Enterprise practice, the report uses economic concepts and model based projections, rather than financial results reported in conformance with Generally Accepted Accounting Principles (GAAP), to analyze the single-family guarantee fees charged by Fannie Mae and Freddie Mac ... Fannie Mae and Freddie Mac consider many factors in determining the guarantee fees they charge... No set formula exists for weighing those factors. Instead, each Enterprise weighs them differently and works towards its view of a balanced outcome in line with market conditions and company goals." (2007-8 Guarantee Fee Report at 4-5).* See also the 2012 Guarantee Fee Report at 18: *"The Enterprises also consider and make tradeoffs among their objectives when making decisions about guarantee fees. Examples of such objectives include ensuring adequate revenue to cover default losses, which favors upfront fees over ongoing fees; having a relatively simple fee structure; charging risk-based fees for specific loan, property, and borrower characteristics, which discourages adverse selection by lenders; and maintaining a diversified customer base."*

speculation about these is of limited relevance for setting guarantee fees today. And it is very difficult to know how differences in estimates could be resolved.

4. *Should guarantee fees be set at a level that reflects an appropriate risk-adjusted return to taxpayers?* This sounds right, but it is difficult to know what it might mean in practice; in any event, it will not be determined by Enterprise costing models but will be articulated by Treasury.
5. *Should guarantee fees be set at a level that provides for safe and sound operation in conservatorship and avoids (as far as practicable) future draws on Treasury?* It would be hard to argue with this but economic costing models are of only limited value in determining in practice what this means for guarantee fees. After all, it was accounting losses and not the failure to earn an appropriate return on capital that brought the Enterprises to insolvency; the Enterprises will be required to draw on Treasury if they suffer an accounting loss, not if they fail to earn their estimated fair return on capital; the Enterprises will pay their dividends to Treasury out of accounting earnings, not out of economic earnings.

It is not our purpose by any means to disparage economic costing models or the results they produce. We want to emphasize that they are only tools to be used *as appropriate* in answering real, practical and important questions. Used appropriately, the analytic tools are invaluable. Used inappropriately, they provide inappropriate answers.

There is one aspect of the capital cost of guarantee fees that we think deserves more attention. The Enterprises have been very successfully engaged in a series of risk transfer transactions, and FHFA has substantially increased the goal for the volume that the Enterprises are expected to accomplish. In these transactions, the Enterprises are transferring risk to private capital; these transactions can, with adequate analysis, shed valuable light (based on actual prices) on the private market capital cost of bearing credit risk. These transactions, as they develop, could prove helpful in calibrating the cost models of the Enterprises.

It would certainly be hard to justify if the Enterprises were to take on credit risk at a given guarantee fee only to turn around and transfer that risk at a loss (whether an accounting loss or an economic loss). These risk transfer transactions can provide a rough guide as to whether guarantee fees are adequate or inadequate. (They provide only a rough guide because the risk transferred to private capital is not identical to the risk taken on by the Enterprises, so painstaking analysis is required.) These risk transfer transactions can reduce the amount of guesswork that goes into the default and capital cost components of analyzing guarantee fees. As far as we can tell, there is no evidence from these transactions that would indicate that current levels of guarantee fees are inadequate.

It is entirely possible (although not likely) that risk transfer will become more expensive and that it may become evident that this initiative cannot be sustained at the current level of guarantee fees. But, for now, risk transfer transactions provide the most reliable actual measure of the private market cost of credit risk; they do not suggest that an increase in guarantee fees is required. [2]

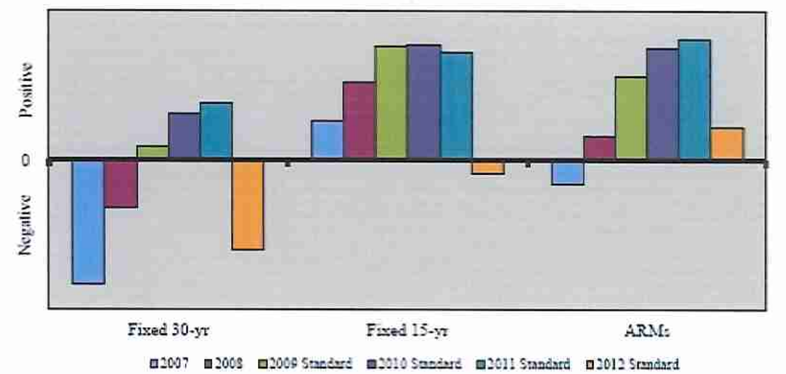
[2] The December 2013 announcement of an increase in guarantee fees cited the 2013 FSOC Annual Report as a component of the rationale. See 2013 FSOC Annual Report at 13. Since that time, the 2014 FSOC Annual Report has been published; it dropped the encouragement to raise guarantee fees both in its review of progress to date and in its recommendations going forward but continues to encourage the development of risk transfer programs as a way of bringing private capital back into the mortgage market. See 2014 FSOC Annual Report at 9.

II. Risk, Risk-based Pricing and Cross-Subsidies

The Enterprise guarantee fee changes proposed in December included not only a general increase but also a steepening of risk-based pricing. The basis of that increase in the risk-based pricing was the analysis presented in the FHFA 2012 Guarantee Fee Report (released simultaneously with the announcement of the guarantee fee changes).[3] The RFI raises in a variety of ways the very thorny questions associated with risk-based pricing.

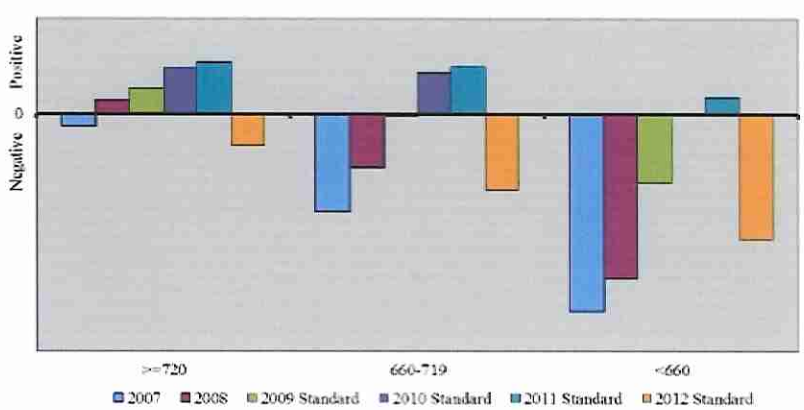
Figures 3 and 7 (at right) are extracted from FHFA's 2012 Guarantee Fee Report and illustrate the application of the economic cost approach to the analysis of guarantee fees. What is depicted in these charts is the guarantee fee "gap," that is, excess of the fee charged over the economic costs incurred (and where a positive gap indicates an economic profit and a negative gap indicates an economic loss). Reading Figure 3, for example, all products (30yr, 15yr and ARMs) were priced to produce economic profitability (that is earned more than the required return on allocated capital) for deliveries in 2009-11. But the 30yr and 15yr fixed-rate products were unprofitable in 2012. And reading Figure 7, guarantee fees were profitable across all FICO bands for 2011 deliveries, but had turned unprofitable across all FICO bands for 2012.

Figure 3
Estimated Single-Family Guarantee Fee Gap by Product Type, 2007-2012



Source: Federal Housing Finance Agency based on Fannie Mae and Freddie Mac data

Figure 7
Estimated Single-Family Guarantee Fee Gap by Credit Score, 2007-2012



Source: Federal Housing Finance Agency based on Fannie Mae and Freddie Mac data

What had happened in each case was not that the loans delivered to the Enterprises had changed much or that the market risk had shifted but that the Enterprises had refined their costing models. Costing

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[3] *"Also today, FHFA released its fifth annual report on single-family guarantee fees, covering the years 2011 and 2012. The g-fee changes being announced today respond in part to the findings in this report regarding shortfalls in the risk-based pricing at the two companies."* FHFA Release, December 9, 2013.

models which had previously suggested that guarantee fee pricing (including the risk-based component) was perfectly adequate now indicated that pricing was substantially deficient.[4]

We have no reason to believe that the model refinements were anything but an improvement, but this approach does compel us to ask how much weight a model can reasonably be asked to bear if a refinement leads to such a drastically different conclusion (what had appeared to be profitable now appears unprofitable)—and where the consequence is a substantial increase in the cost of homeownership (and especially substantial for lower-down-payment or lower-FICO borrowers).

The answer we would offer is this: an economic costing model so heavily dependent on hypothetical capital costs cannot bear too much weight in setting pricing, but that is not much of a problem because the critical consideration in risk-based pricing (or managing cross-subsidies) is less a matter of a company's presumed capital cost and more a matter of observed competition.

To our response, we would note this threshold question: why is cross-subsidy a problem? The answer, of course, is that in a competitive market, a competitor is bound to underprice you on the overpriced (subsidizing) product leaving you with only the returns from the underpriced (subsidized) product and hence operating at a loss.

An economic cost model is indispensable in highlighting where a firm is vulnerable to adverse selection but contains no information whatsoever about whether that vulnerability is likely to be exploited. To see whether cross-subsidy is a real problem, you have to observe the actual costs (credit costs, operating costs, capital costs and financing costs) of current and prospective competitors—whether they are in a position to underprice you on the subsidizing product.[5] And looking at mortgage market participants and their cost structure, we see no evidence that cross-subsidies (adverse selection) are a real problem for the Enterprises.

Operating as they do in a risk market, the Enterprises are surely right to be wary of cross-subsidies. And they are prudent to continually refine their models in order to identify and measure as well as they can the risk drivers of economic profitability. But because their approach largely neglects the very substantial advantage they derive from their financing cost, we believe that they routinely overestimate the real risk of adverse selection. We believe the current risk-based component of their pricing is roughly adequate; we are not aware of any competition that would require or justify an increase in LLPAs.

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[4] 2012 Guarantee Fee Report, pages 7, 8, 15, 16. We would be in a better position to comment on guarantee fees if the Report disclosed more information concerning the model changes or at least some conventional summary measures of model adequacy. Instead, the report only discloses *"Freddie Mac and Fannie Mae implemented new costing models in January and November 2012, respectively. Each Enterprise's new model resulted in sizeable increases in the Enterprise's estimates of the costs of guaranteeing single-family mortgages. FHFA believes that the estimated costs generated by each new model more fully reflect the credit risk posed by the loans than previous estimates. FHFA expects that the Enterprises will continue to update their costing models in the future. At FHFA's direction, Fannie Mae used its new model to prepare the estimates of the cost of all loans the Enterprise acquired in 2012, and FHFA used those estimates in preparing this report. Fee gaps in this report are not comparable to fee gaps in prior year reports due to the new costing models."*

[5] It may be worth pointing out the obvious: the extent of a firm's vulnerability to the erosion of cross-subsidies is much more a matter of how much the subsidizing product (the product which supplies the subsidy) is overpriced than how much the subsidized product is underpriced. It is the overpricing that invites in competitors, underpricing that determines how bad things can get.

III. The Enterprises, FHA and "The Government's Overall Footprint"

Pricing questions are hard questions. Thinking them through requires considering the competing objectives and need for judgment and balancing that running a business requires. The RFI provides ample evidence that FHFA is aware of these difficult questions. For example, if the Enterprises do not raise LLPAs on high LTV or low FICO loans, they would seem to be underpricing and crowding out private capital at the same time as they are vulnerable to adverse selection. But if they do raise LLPAs, they may just be pushing business to FHA and engaging in adverse selection. As the RFI puts it:

"Finally, it is noteworthy that increases in g-fees on higher-risk loans may result in originators insuring/securitizing some of these loans with Federal Housing Administration (FHA)/Ginnie Mae rather than one of the Enterprises. While this substitution would reduce the Enterprises' footprint in the mortgage markets, it would not reduce the federal government's overall footprint." (RFI, p.7)

We think that this issue of higher-risk borrowers and the respective roles of FHFA, the Enterprises and FHA highlights with great clarity the difficulties of a strategy of "crowding in" private capital. What are FHFA and FHA to do? Collaborate in raising guarantee fees and mortgage insurance premiums in tandem? Even if a "crowding in" policy is the right policy (and we are not convinced that it is), the issues that it raises (primarily concerning the trade-offs between risk to the government and service to borrowers) make it clear that it is a policy to be set not by regulatory action but by legislation.

The question of coordination between FHFA strategy and FHA insurance was canvassed thoroughly in a 2013 OIG report.[6] OIG summarized well and made the case for formal coordination. FHFA's response still strikes us as the right one: FHFA's powers and obligations are set forth in statute and these HERA powers and obligations limit the proper coordination between FHFA and FHA to no more than informal communication.[7]

We would prefer to see the Enterprises pursue or decline higher-risk loans not because they are acting as monitors of "the government's overall footprint" but because they believe they can or cannot serve the families well (at a better mortgage rate or with a higher probability of success) while operating safely and soundly. The full and satisfactory resolution of the issues that FHFA is dealing with will require more comprehensive mortgage finance reform. FHFA's challenge will be to manage those issues as well as can be done within the limits of conservatorship.

IV. Enterprise Guarantee Fees and Mortgage Finance Reform

We have expressed the view that we see no evidence that guarantee fees need to go up (although this could change in the future), we see no evidence that risk-based pricing needs to be sharpened (although this too could change in the future) and we see no need for FHFA to try to manage overall government exposure to the mortgage market. None of this should be heard as in any way expressing satisfaction with the current state of mortgage finance or minimizing the importance or urgency of mortgage finance reform. No one should doubt that our current system needs to be reformed to serve homeowners and renters better.

[6] OIG EVL 2013-005.

[7] Ibid at 47.

Managing any business is hard, managing a risk business presents challenges of its own, and managing a risk business by way of twin conservatorships just compounds the difficulties. As FHFA has emphasized on numerous occasions, the conservatorship was never designed or intended to last for long. We agree wholeheartedly. What we want to suggest in our comment is that just as the level of guarantee fees is not at the heart of the problems of our mortgage finance system, adjusting guarantee fees will do little to fix what is wrong. For Enterprises operating from a position of market dominance, adjusting prices is easy. The easy work has been done; the hard work lies ahead and cannot be avoided.

Sincerely,

Michael J. Heid
Executive Vice President
Wells Fargo Bank, N.A.

Appendix: Wells Fargo's Responses to FHFA's Specific Questions

1. *Are there factors other than those described in section III – expected losses, unexpected losses, and general and administrative expenses that FHFA and the Enterprises should consider in setting g-fees? What goals should FHFA further in setting g-fees?*

   There are numerous other factors that FHFA and the Enterprises already take into account in setting g-fees. The 2012 G-Fee study provides a helpful list and discussion of these factors. (pp.14-20) That discussion is careful to distinguish the factors the Enterprises use in setting g-fees from the inputs the Enterprises use in calculating an economic breakeven g-fee.

   The market prices of recent risk transfer transactions provide useful data regarding the actual, private market capital cost of bearing credit risk. Investors in these risk transfer deals provide a counterpoint to FHFA and the GSEs' internal, model-based estimates of risk and value— regularly selling credit transfer notes increases understanding of risk, value, and ultimately appropriate g-fee pricing.

2. *Risk to the Enterprises increases if the proportion of higher-risk loans increases relative to the proportion of lower-risk loans. This change in mix can occur if lower-risk loans are retained on bank balance sheets instead of being sold to the Enterprises, if more higher-risk loans are sold to the Enterprises, or if the overall mix of originated loans changes. What alternatives, other than risk-based pricing, should be considered? What are the pros and cons of each alternative?*

   While it is absolutely true that an increase in higher-risk loans increases risk to the Enterprises, it is probably useful to point out that "risk" is being used here in a precise and technical sense (variability of performance) and not in the popular sense (to risk your life or reputation). It is, of course, the function of financial institutions to manage and not to eliminate or avoid risk.

   Cross-subsidization and a hybrid combination of risk-based pricing and cross-subsidization offer alternatives, each of which has pros and cons. We believe any increase in cross-subsidization is unlikely to result in an increase in either private label securities (PLS) activity (which is moribund due to non-price factors) or bank balance sheet execution (which typically focuses on loans not salable to the GSEs or FHA). We are not aware of any competition that would require or justify an increase in LLPAs. Accordingly, we believe the current balance of cross-subsidization and risk-based pricing is appropriate, though the Enterprises should evaluate the overall pricing of their estimated future portfolio risk and have flexibility to adjust as markets evolve.

3. *Currently, target return on capital and the amount of capital largely determine required g-fees. What factors should FHFA and the Enterprises consider in setting target return on capital and amount of capital required? How should the Enterprises allocate capital across risk buckets?*

   The statement that has appeared in every guarantee fee report is much more realistic and practical: "Following Enterprise practice, the report uses economic concepts and model based projections, rather than financial results reported in conformance with Generally Accepted Accounting Principles (GAAP), to analyze the single-family guarantee fees charged by Fannie Mae and Freddie Mac ... Fannie Mae and Freddie Mac consider many factors in determining the guarantee fees they charge... no set formula exists for weighing those factors. Instead, each Enterprise weighs them differently and works towards its view of a balanced outcome in line with market conditions and company goals." (2007-8 Guarantee Fee Report at 4-5)

4. *At what g-fee level would private-label securities (PLS) investors find it profitable to enter the market or would depository institutions be willing to use their own balance sheets to hold loans? Are these levels the same? Is it desirable to set g-fees at PLS or depository price levels to shrink the Enterprises' footprints, even if this causes g-fees to be set higher than required to compensate taxpayers for bearing mortgage credit risk and results in higher costs to borrowers?*

   Raising g-fees and/or reducing conforming loan limits may prompt market participants to consider other loan delivery options outside of the GSEs (portfolio, private-label, FHA). However, merely "flipping a switch," without consideration or resolution of other related issues, will likely have unintended consequences and may not lead to the desired result of a robust private-label market. We refer you to the comment letter offered by the Structured Finance Industry Group (SFIG) that provides discussion of many of these issues.

5. *If the Enterprises continue to raise g-fees, will overall loan originations decrease? That is, will Enterprise loans decline without a commensurate increase in private capital?*

   In the absence of a robust PLS market, any increases to g-fees will merely increase the cost of homeownership and may have the unintended consequence of decreasing loan originations.

6. *Is it desirable for the Enterprises to charge higher g-fees on low credit score/high LTV loans if it causes these loans to be insured/securitized through FHA/Ginnie Mae rather than through the Enterprises?*

   Since most higher-risk loans execute through FHA today, increasing risk-based pricing (increasing both base g-fees and LLPAs) will likely perpetuate FHA as the primary execution for higher-risk loans and not materially affect the price of credit for these borrowers.

7. *Is it desirable for the Enterprises to (a) charge higher g-fees on high credit score/low LTV loans if it causes these loans to be insured/securitized through PLS or (b) held on depository balance sheets, rather than guaranteed by the Enterprises?*

   Raising g-fees and/or reducing conforming loan limits may prompt market participants to consider other loan delivery options outside of the GSEs (portfolio, private-label, FHA). However, merely "flipping a switch," without consideration or resolution of other related issues, will likely have unintended consequences and may not lead to the desired result of a robust private-label market. We refer you to the comment letter offered by the Structured Finance Industry Group (SFIG) that provides discussion of many of these issues.

8. *What approaches or alternatives should FHFA consider in balancing increased use of risk-based pricing with the HERA mission requirements of (1) liquid national housing markets and (2) acceptability of lower returns on loans made for low- and moderate-income housing?*

   Ultimately, FHFA and the Enterprises should evaluate the overall pricing of their estimated future portfolio of risk and have the flexibility to adjust as markets evolve. When FHFA reevaluates the requirement of increasing risk-based pricing in a market where the Enterprises do not need to do so, setting costing models that require gaps above and beyond economic profits and beyond that which shields taxpayers from risk may be largely unnecessary.

9. *Are the ranges of credit score and LTV cells in the proposed credit score/LTV grids used to set upfront delivery-fees and loan level pricing adjustments appropriate? Should any of the ranges be broader or narrower and, if so, why?*

A simple cost-based answer would consider only whether costs are sufficiently homogeneous within a given risk bucket, for example, whether post-MI costs on 85 LTV are comparable to post-MI costs on 97 LTV. If the range of costs within a risk bucket is fairly large, then the pricing grid has failed to address adverse selection effectively.

10. *Should risk-based pricing be uniform across the Enterprises or should each Enterprise manage its own pricing?*

The way in which risk-based pricing has been implemented provides a good illustration of the multiple (and sometimes technical) dimensions which must be taken into account in setting g-fees (both the level and the form of the fee). For this reason we will provide a slightly more extensive response and emphasize that we are speaking from the viewpoint of a lender.

There are three different aspects of LLPAs (delivery fees), each of which entails somewhat different considerations:

a. LLPAs are the primary form of risk-based pricing: Since each of the Enterprises maintains its own model of risk and cost (and these differ between the Enterprises), identical risk-based fees would seem unusual. The effect of identical fees must be that the same risk must seem differentially profitable or unprofitable to the Enterprises based on the fit between their models and the identical fees. (Whether this consequence is large or small depends on the magnitude of the differences between the costing models.) It is likely that difference in fit would become especially problematic if the economic costing models are used (as we believe they are) in internal performance measurement and performance management systems. This consideration would incline us in the direction of permitting each Enterprise to set its own risk-based pricing.

b. LLPAs take the form of upfront fees: Because the fees are upfront fees, they are recognized over the estimated lives of the associated mortgages, and the amount recognized varies as rates change and estimates of mortgage duration change. This means that the use of upfront fees increases risk (variability) into guarantee fee income recognition of the Enterprises. It is striking how differently this variability is managed by the two Enterprises.

   In addition, the use of upfront fees will generally require a lender to originate and pool up in coupon to sell the associated loan at a premium sufficient to cover the fees. The use of upfront fees exaggerates the importance of the difference between the Enterprises regarding MBS or Gold performance.

These considerations—that the form of the fees implies widely different impacts on the income statements and pricing effectiveness of the two Enterprises—also argue for permitting each Enterprise to set its own risk-based pricing.

c. LLPAs are disclosed publicly and common to the Enterprises: As we indicated, we think the Enterprises' cost of funds (the yield on MBS) generally means that they are not much exposed to adverse selection. But because they generally share this low cost of funds, they are exposed to adverse selection from each other. When they operated without risk-based pricing, the Enterprises were driven to a number of devices (such as contractually requiring the delivery of a representative mix of loans from each seller) to try to mitigate adverse selection. Because the LLPAs are the major form of risk-based pricing, because they are public (unlike other contractual terms such as base guarantee fees) and because they are common, the risk of competition by adverse selection between the Enterprises is greatly reduced.

This consideration argues in favor of uniform risk-based pricing. And we regard this as the decisive consideration. In our experience, the other devices the Enterprises have used to guard against adverse selection (from each other) have tended to reduce liquidity, impose too many constraints on pooling, and to drive up costs to consumers.

11. *Taking into consideration that FHFA has previously received input on state-level pricing adjustments, do the g-fee changes proposed in December 2013 have any additional implications that should be considered in deciding whether to price for the length of state foreclosure timelines, unable to market periods or eviction timelines? Are there interactions with other pricing components under consideration that FHFA should consider in making decisions on the state-level adjustments?*

    We believe that state foreclosure, unable to market periods, or eviction timelines are a matter for state legislatures to address.

12. *Are there interactions with the Consumer Financial Protection Bureau's Qualified Mortgage definition that FHFA should consider in determining g-fee changes?*

    LLPAs are either paid upfront by the borrower or are paid by the lender and incorporated into the mortgage rate paid by borrower. LLPAs could trigger the 3% points and fees cap if paid by the borrower, reducing the volume of loans that qualify as QM. Alternatively, LLPAs built into the interest rate could exceed 150 bps over the Average Prime Offer Rate cap reducing the volume of loans that qualify for the safe harbor under the QM rule.