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September 8, 2014

Mr. Joseph Prendergast
Manager of Policy Research
Office of Policy Analysis and Research
Federal Housing Finance Agency
400 7th Street, S.W.
Ninth Floor
Washington, DC 20024

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

Dear Mr. Prendergast:

The National Association of Real Estate Brokers (NAREB) is pleased to respond to FHFA's Request for Input on Fannie Mae and Freddie Mac guarantee fees (g-fees). NAREB applauds Director Watt and FHFA for taking sufficient time to fully consider this important issue and for providing stakeholders with an opportunity to offer suggestions. Our submission provides a broad overview of NAREB's position on increasing g-fees, and focuses on areas where NAREB is most concerned for the well-being of the constituencies it represents. NAREB understands that g-fees are a part of a larger discussion of the reforms needed to ensure stability within the U.S. housing market, as well as access to fair housing opportunity for all Americans. We look forward to the dialogue that a solicitation like this creates, and remain committed to doing our part to safeguard the prospect of homeownership for all Americans.

Background

We concur with the letter filed by our sister organization, the National Association of Hispanic Real Estate Professionals. As stated in that letter, we also "ask that you consider the Harvard Joint Center for Housing [Studies] Report that forecasts approximately 17 million new households [will be] formed in America between 2010 and 2025. Of those 17 million, nearly 13 million will be minority. Many of these are our constituents. They are in need of low down payment, fixed rate, and affordable financing to be able to plan, budget, and enjoy the benefits of homeownership – the American Dream."

Consider, more relevantly, findings in the 2013 NAREB State of Housing in Black America (SHIBA) Report:

> "With a buying power of nearly $1 trillion annually, if African Americans were a country, [they would] be the 16th largest country in the world. Moreover, "the U.S. Black population is 43 million strong, larger than 163 of the 195 countries in the world, including Argentina, Poland, Canada, and Australia. In sum, the increasing population and the increasing household incomes for some African Americans translate into an

> increased buying power in the African American community. These income gains could be translated into homeownership and other wealth building opportunities that should be facilitated by public policy."[1]

Select Issues Related to Increasing GSE Guarantee Fees

NAREB has serious concerns about the prospect of continuing to raise g-fees. While these fees provide significant revenue to the GSEs, the lenders that pay for credit guarantees usually pass the increased cost on to consumers. Struggling mortgage borrowers and homebuyers can ill afford additional costs related to the mortgage process. Under the Housing and Economic Recovery Act of 2008 (HERA), the GSEs have an affirmative "duty to serve" underserved markets. HERA mandates that the GSEs "shall provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low- and moderate income families."[2] Though no rule has been officially promulgated on implementing the duty to serve, on its face, continuing to increase g-fees appears to have the opposite effect of HERA's mandate. Increasing g-fees will make GSE-backed mortgages more expensive and potentially drive the mortgage market for very-low, low, moderate income buyers back toward private label mortgage backed securities - the very instrumentalities used to expand the subprime and predatory mortgage markets between 2004 and 2008, which targeted communities and populations of color.

Increasing g-fees also would serve to further tighten the credit box that prospective homebuyers are dealing with. Since the mortgage crisis, substantially tighter underwriting standards have become the new norm. This trend is most evident in the higher credit scores lenders have required from prospective purchasers. In June 2013, the average score of loan applicants receiving purchase mortgage loans from the GSEs rose to 766. In 2003, prior to the crisis, the average score was approximately 50 points lower.[3] As credit requirements rose, lending to prospective buyers with lower credit scores fell during the same time period. In 2013, only 10 percent of successful borrowers had credit scores below 660, while prior to the crisis, approximately 20 percent of borrowers has sub-660 scores.[4] Continuation of current trends, coupled with the adoption of proposed private mortgage insurance eligibility requirement (PMIER) modifications and g-fee increases, will make a bad situation worse by making access to credit and homeownership more difficult and more costly for otherwise qualified borrowers.

NAREB recognizes that when the GSEs were initially placed into conservatorship, increasing revenue through raising guarantee fees was a reasonable strategy toward providing the GSEs with needed capital and implementing sustainable lending practices market-wide. Today, however, the GSEs are making a considerable profit, with the excess revenue being sent to the U.S. Treasury. This windfall for the Enterprises has been created at a substantial cost to homeownership opportunity and the broad recovery of the housing market.

Conclusion

NAREB concurs with the general theme of a recent Urban Institute report[5], which notes that the process of increasing g-fees is more of an art than a science. Among its findings, the report concludes that the mission of the GSEs must be taken into account in determining appropriate capital requirements. That mission includes the duty to serve underserved markets. Beyond that, the complex issue of raising g-fees is tied to many other factors, including private mortgage insurance. The need to balance these factors ensures that determining a final solution will require a broad strategy to correct several persistent problems still plaguing the housing market. Understanding these nuances, NAREB offers the following general suggestions:

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[1] 2013 NAREB State of Housing in Black America (SHIBA) Report. http://nareb.com/site-files/uploads/2014/02/2013-SHIBA-REPORT.pdf

[2] P.L. 110-289 (2008)

[3] "Opening the Credit Box." Jim Parrott and Mark Zandi, September 2013. http://www.urban.org/UploadedPDF/412910-Opening-the-Credit-Box.pdf

[4] Id.

[5] "Guarantee Fees – An Art, Not a Science." Laurie Goodman, et. al, The Urban Institute, August 2014. http://www.urban.org/UploadedPDF/413202-Guarantee-Fees-an-Art-Not-a-Science.pdf

- Formally withdraw the proposed g-fee increases announced by FHFA on December 9, 2013, to ensure that stakeholders to the U.S. housing market understand that they will not become effective
- Ensure that any new proposals related to PMIERS and g-fee increases take into account the mission of the GSEs, particularly as it is related to serving underserved markets as prescribed in HERA
- Cause no harm or unintended consequences that disproportionately impact persons already burdened[6] by the housing foreclosure crisis

NAREB greatly appreciates the opportunity to voice the concerns of our members and constituencies on this important issue. We are excited to partner with FHFA in finding a solution to the g-fee question that balances the desire for GSE profitability, with the mandate to ensure the fair access to the housing market for all Americans, particularly historically underserved communities of color.

Should you have any questions or desire any clarification concerning the matters addressed in this letter, please do not hesitate to contact us.

Sincerely,

Donnell Spivey
President

Andrea Hilliard Cooksey
Chair, Board of Directors

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[6] A 2013 study by the Institute on Assets and Social Policy (IASP) at Brandeis University found that the wealth gap between black and white families exploded in the 25-year period between 1984 and 2009. In 1984, the total wealth disparity between white and African American families was $85,000. By 2009, that figure nearly tripled to $236,500. A key reason for this disparity expansion is the effect of the housing foreclosure crisis. According to the IASP, homeownership accounts for 53 percent of wealth composition for black families, compared to 39 percent for whites. Between 2005 and 2009, the net worth of African American households dropped by 53 percent as a result of lost home equity comprising such a substantial portion of their wealth portfolios.