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Dallas Fort Worth Association of Mortgage Brokers

The Brokers' Choice

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September 9, 2014

To: Melvin L. Watt, Director
Federal Housing Finance Agency
From: Marty Sisk, President
Dallas Fort Worth Association of Mortgage Brokers

RESPONSE TO FHFA's "G-FEES" REQEST FOR COMMENTS PROPOSAL

Let me state at the outset, we at DFWAMB are opposed to the G-Fee matrix instituted during the financial crisis of 2008 and that exists today. Let me point out that during FNMA's seventy six year (76) existence the matrix has been used ONLY in the last six (6) years. In 1989 when FNMA went public trading on the NYSE, the stock increased over tenfold without any G-Fee matrix. So why was the matrix created? The underlying assets quit paying on their mortgages and the homes and mortgages went into foreclosure. If the value of the homes and mortgages decreases 50% and the income to FNMA from the mortgages decreases 50% what happens to FNMA's solvency? There is none, hence, CONSERVATORSHIP. This calamity has happened only ONCE in the history of FNMA. It would not have happened if the entire real estate and mortgage industry had not become intoxicated with what seemed the perpetual yearly increase in the sales price of real estate, the lowering of underwriting standards, and the decrease of interest rates...what a wonderful euphoria!

FNMA was borrowing money at 2-3% less than it was lending out. The stock price clearly affirmed that practice. In addition the underlying mortgages were appreciating each year as well as the houses pledged as collateral. This is financial "Nirvana"--no loses, only yearly profits and appreciating assets. The outright fraud and egregious greed of developers, builders, realtors, buyers, sellers, appraisers, loan originators, lenders, title companies, credit agencies and investment bankers collapsed the system by about 50%. In returning the system to normalcy, prudent underwriting needed to be applied to mortgage requests, not surcharges on almost every mortgage. Some buyers do NOT qualify for a mortgage and should not buy a house. Traditional underwriting should be the standard practice not a mathematical formula that penalizes EVERY buyer. This is one of the elements that is slowing home purchases in the United States. The 4 billion dollars of profit made by FNMA each year

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on these fees would take FIFTY YEARS (50) to save up for another crisis and maybe even longer if sales of homes continue yearly decreases at the current rate. Of course this is unreasonable folly and hopefully not a serious consideration. What is alluring is the yearly fee of $4 billon.

What seems fruitful becomes an impediment to current and future home sales.

LET'S ADDRESS SPECIFIC ISSUES

A. When an LTV exceeds 80%, Private Mortgage Insurance (PMI) is added. So now the borrower has to pay double, the proposed excessive G-Fee and the upfront PMI and a monthly charge similar to FHA. Is this not egregious? Drives the customer to a 2nd Lien and that is the only option and many times FNMA's DU underwriting will make the loan ineligible. Are you trying to generate fees or provide fair financing for potential homebuyers?
B. Why the ten basis points (0.10) surcharge for the Payroll Extension Tax? How were homebuyers selected? How about gasoline tax, imports on cars, imports on China's goods, sugar, tobacco and literally hundreds of goods and services....why homebuyers?
C. In the Executive Summary of the FNMA and FHLMC Guarantee Fees for 2012 presented in December 2013 the last several sentences reflect the naïveté and lack of understanding regarding the implications of these G-Fees by the author(s). The author's rather cavalier remarks include "...the Enterprises charge guarantee fees to lenders as ongoing fees or upfront fees typically makes no difference to borrowers". Does the author realize that fee adds $4,000 on a 90% LTV $200,000 loan? I would like to see how cavalier he (she) would be when he was buying a home and confronted with the fee. He could pay $60 per month for the life of the loan, which equates to $21,600 instead of the upfront fee. Hey, it's just money but when it's yours it gets serious. The extra upfront cost or the additional monthly expense means the borrower qualifies for a lower loan amount or a smaller home or it takes them out of the market altogether. **Reference Exhibit 1.**
D. The mathematics involved in the calculations seems like a fair approach. I did not exhaustively examine the formulas and am really not equipped to give a comprehensive critique. But correlating the defaults during the years of 2007-2009 should be a little clearer. Going into the crisis the reference years were 2001-02 which the default was 1%+or- a fraction. With current 20% down payment and 730 average credit scores, loan performance is going back to 2001 and even lower. So why would you even consider the years 2007-2010? True, this is when the financial storm hit. Should you penalize existing borrowers so you can save up for the next financial storm or should you adhere to underwriting guidelines to exclude possible faulty loans that may go into foreclosure? If you have rotten loans created by liars throughout the entire housing industry and the borrowers cannot sustain the monthly payments and the purchasers of the loans do not know this....a collapse will and did occur. The Enterprises should be required to sell a percentage of their portfolio, maintain a more reasonable and manageable size and reduce the risk of catastrophic failure.
E. The use of G-Fees to insure the MBS bought by lenders as they sell whole loans should be stopped. If the lenders want insurance then they pay for it, if not, they don't pay. Or the Enterprises pay out of their general profit and operating costs, it becomes an expense. Do not put it directly on the backs of the borrowers buying homes. This is why the mathematics gets a little murky because of the underlying loans of the MBS essentially swapped out for the whole loans. What is this really buying the purchaser of the MBS above the standard sell of reps and warrants? Is this like Moody's Insurance and rating, the smaller

lenders just sell whole loans for cash, maybe everyone should do cash. What is the big advantage to the MBS swap, the lender gets to sell them in the ever appreciating (downward interest rates) bond market?!

F. There are proponents that want to make G-Fees a profitable item so as to encourage private industry into the housing lending market. The Private Equity companies do not need any more inducement to come into the housing market; however what they do want is relief from compliance over regulation concern. On Jumbo loans (above $417,000) there is a market for those loans with different types of loans and above $1,000,000. Guess what, the matrix does not apply and in most cases is not used; the rate and terms are enough. Most of the increases are based on providing a 15% return, up from the current target of 9%. Most interesting is that the percentage of cost allocated to losses from default on loans is the smallest amount, only 8-4%, admin costs are 15-7%, 10% for TCCA expenses and the rest is for the "cost of capital requirements". If the increases are implemented, the default loss cost and admin cost remain the same so the increase is just for return on capital. So all of these "fixed" costs would only be 1.5%-3.1% of the new fee-pretty profitable, maybe too much so? Let's let the individual lenders of mortgages decide on rates-of-return on investments (ROI) not the government agencies.

G. The crisis of 2007-2009 in the housing market could have been avoided if there was not outright fraud and liars creating rotten loans on inflated appraised values. That has been diminished substantially. **Exhibit 2** shows an economic environment where interest rates decline for thirty years (30) and property values increase ten (10) fold or 1,000%. That picture is not possible for many years. Interest rates cannot decline much further in a free capitalistic society and the likelihood of a $200,000 property becoming a $2,000,000 home with no rezoning is hopefully not possible for many years. That economic picture setup the crisis of 2007. **Exhibit 3** shows rather dramatically the thirty year decline in interest rates which I state intoxicated most of the market participants.

GOING FORWARD:

a. Eliminate G-Fees.
b. Enterprises doing traditional underwriting of mortgage loans.
c. Eliminate the AMC in ordering appraisals, another added cost to the borrower and more delays and faulty values.
d. Change fee structure on MBS to those buying or swapping whole loans.
e. Conduct a vigorous debate and then decide if the Enterprises should be public or privately owned not Quasi.
f. Shrink the size of the Enterprises' portfolios, judicially selling the mortgages into the open marketplace.

Thank you.

Very truly yours,

Marty Sisk, President
Dallas/Ft. Worth Association of Mortgage Brokers.

EXECUTIVE SUMMARY

Fannie Mae and Freddie Mac (the Enterprises) buy single-family mortgages from mortgage companies, commercial banks, credit unions, and other financial institutions. In most cases, a lender receives mortgage-backed securities (MBS) in exchange for the loans. Each Enterprise guarantees the payment of principal and interest on its MBS and charges a fee for providing that guarantee. The guarantee fee (g-fee), covers projected credit losses from borrower defaults over the life of the loans, administrative costs, and a return on capital. Lender guarantee fee payments generally take the form of ongoing monthly payments and frequently also include an upfront payment at the time of Enterprise loan acquisition. A lender typically passes through to the borrower the cost of an upfront fee in the form of a slightly higher interest rate on the mortgage, since borrowers tend to choose not to pay points. Ongoing fees are also included in the interest rate charged to the borrower. Therefore, as a practical matter, whether the Enterprises charge guarantee fees to lenders as ongoing fees or upfront fees typically makes no difference to borrowers.

Section 1601 of the Housing and Economic Recovery Act of 2008 (HERA) requires the Federal Housing Finance Agency (FHFA) to conduct an ongoing study of the guarantee fees charged by Fannie Mae and Freddie Mac and to submit annual reports to Congress, based on aggregated data collected from the Enterprises, regarding the amount of such fees and the criteria used by the Enterprises to determine them. This report, the fifth prepared by FHFA in fulfillment of Section 1601, covers guarantee fees charged by the Enterprises in 2011 and 2012.[1] The report focuses on fees charged by the Enterprises for guaranteeing conventional single-family mortgages—loans that are not insured or guaranteed by the federal government and that finance properties with four or fewer residential units.

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. To analyze the guarantee fees it charges, each Enterprise estimates the cash it expects to collect and expend over the estimated life of the mortgages. Estimated cash inflows and outflows are converted into annualized rates expressed in terms of basis points of outstanding loan principal. One basis point is equal to 1/100th of one percent. The estimated total annual guarantee fee associated with a transaction is equal to the sum of the annual ongoing fee, collected over the life of the mortgage, and the annualized equivalent of any upfront fee.

The difference or gap between a transaction's estimated total guarantee fee and estimated cost (including expected outflows and target return on required capital) provides a measure of the expected profitability of the transaction. A negative gap does not mean that an Enterprise expected to incur a loss, but simply that it did not expect to earn its target rate of return. The estimated gap is

[1] The earlier reports covering guarantee fees charged by the Enterprises in 2007-2008, 2008-2009, 2009-2010, and 2010-2011 can be found at the following links:
www.fhfa.gov/AboutUs/Reports/Pages/Fannie-Mae-and-Freddie-Mac-Single-Family-Guarantee-Fees-in-2007-and-2008.aspx,
www.fhfa.gov/AboutUs/Reports/Pages/Fannie-Mae-and-Freddie-Mac-Single-Family-Guarantee-Fees-in-2008-and-2009.aspx,
www.fhfa.gov/AboutUs/Reports/Pages/Fannie-Mae-and-Freddie-Mac-Single-Family-Guarantee-Fees-in-2009-and-2010.aspx,
and www.fhfa.gov/AboutUs/Reports/Pages/Fannie-Mae-and-Freddie-Mac-Single-Family-Guarantee-Fees-in-2010-and-2011-Report.aspx

EXHIBIT 1

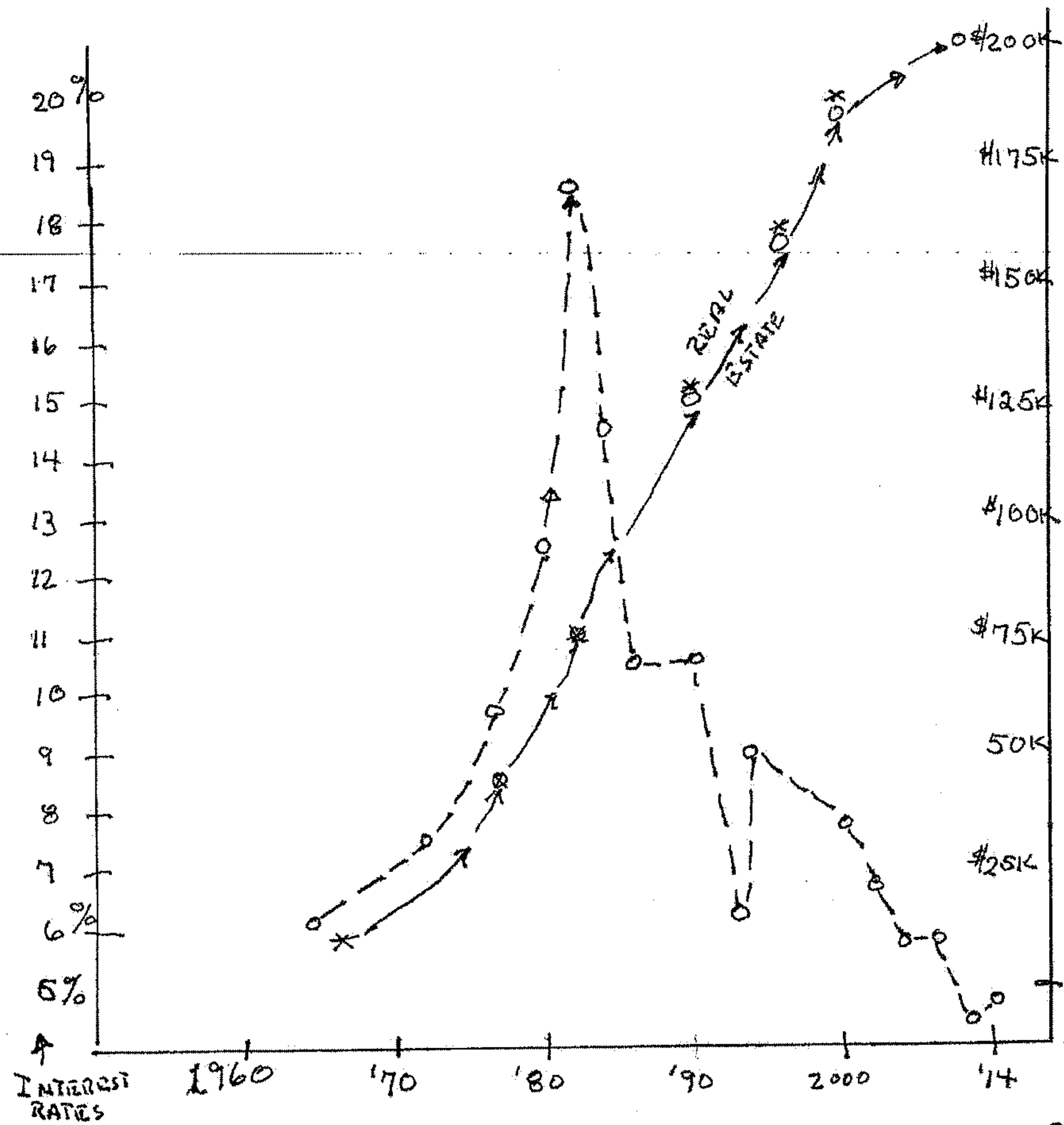
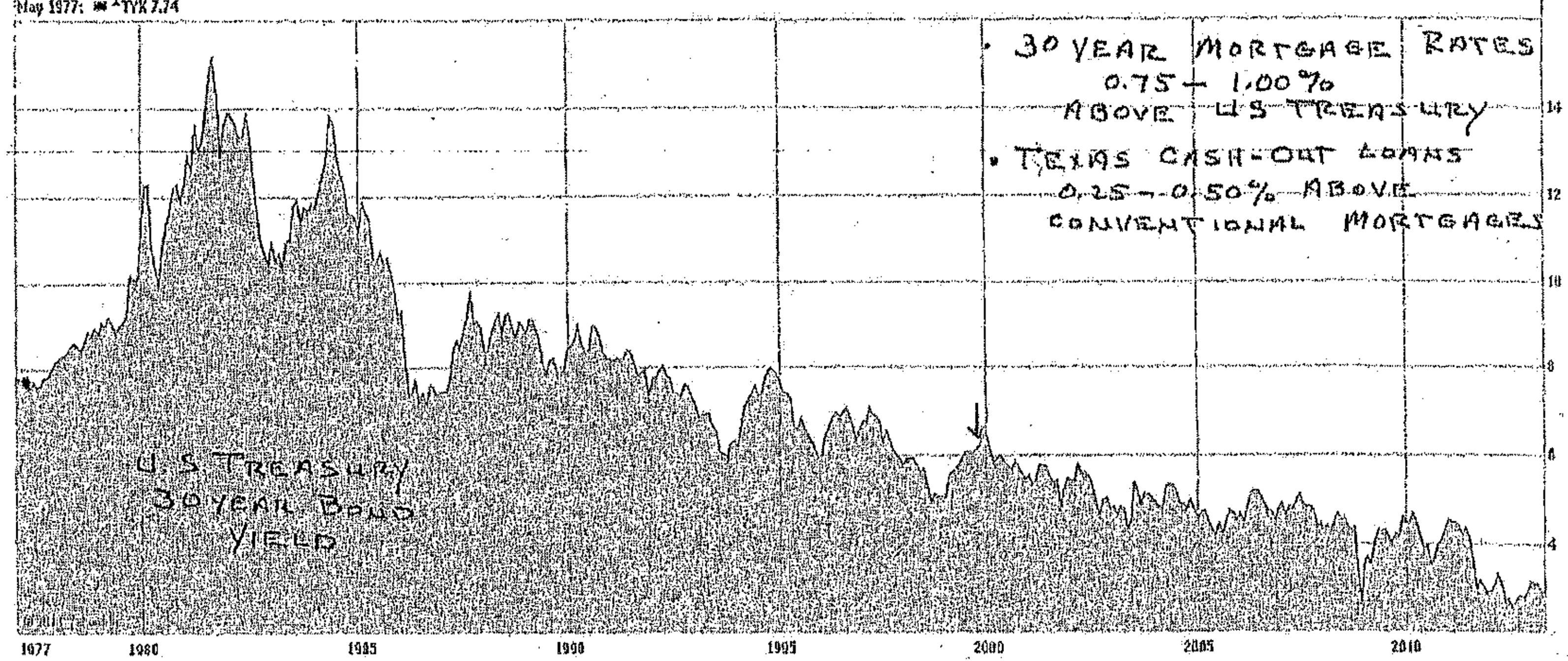


EXHIBIT 2

EXHIBIT 3

Dallas-Ft Worth Association of Mortgage Brokers
Marty Sisk, President (phone 469 767 7577)

CORRELATION BETWEEN DROP IN INTEREST RATES AND INCREASE IN LOAN REFINANCING



TEXAS MORTGAGE ORIGINATIONS

	1999	2001	2003	2005	2007	2009	2011	2012	Subtotal	14 Year Total
Number of Loans Originated	350K	375K	415K	650K	680K	370K	475K	625K	3,940,000	7,880,000
Refinanced Percentage	35%	40%	45%	50%	65%	70%	75%	65%		
Number Refinanced	122.5K	150K	186.75K	325K	442K	259K	356.3K	406.25K	2,247,750	4,495,500
Texas Cash-out Percentage	<1%	5%	15%	25%	30%	35%	40%	40%		
Number of Texas Cash-outs	1,000	7.5K	28K	81.25K	132.6K	90.65K	142.5K	162.5K	646,000	1,292,000

The per month savings on a $100,000 loan amortized over 30 years:

Rate	Monthly Payment
6%	$600
5.50%	$567
5%	$532
4.50%	$506
4%	$477
3.50%	$449
3%	$421

CONCLUSION: 100,000-250,000 Texans cannot reduce their monthly payments because they are trapped with a loan to value over 80% <u>and</u> a Texas Home Equity loan. Please support HJR 118.