



INVESTORS UNITE

June 18, 2014

The Honorable Mel Watt

Director

Federal Housing Finance Agency

400 7th St., SW

Washington, DC 20024

Dear Director Watt:

In response to the Federal Housing Finance Agency's (FHFA) request for input on proposed increases to guarantee fees (g-fees) that Fannie Mae and Freddie Mac charge lenders, the Investors Unite Coalition, on behalf of all GSE shareholders, encourages you to consider this decision within the context of Treasury's 100 percent net worth sweep of the enterprises. Simply put, as long as Treasury is taking all of Fannie and Freddie's profits, any increase in g-fees would amount to nothing more than a new tax applied to general deficit reduction.

As you know, g-fees were historically determined by the GSEs and FHFA does not have a mandate as conservator to run the GSEs as not-for-profit entities. We urge you to adhere to a set of principles that takes into account the critical purpose of setting appropriate guarantee fees while respecting the rights of all economic stakeholders, including the GSE's shareholders. Ideally, after undoing the 2012 sweep, when setting guarantees fees, FHFA should also take into full consideration that:

1. Fannie Mae and Freddie Mac have profit-making purposes onto which public mandates are layered, and they should charge guarantee fees that earn an appropriate market-based return on the capital employed, whether taxpayer capital or private capital. This is an **absolutely critical** factor "other than expected losses, unexpected losses and G&A fees" that should be considered when determining g-fees.
2. Increasing guarantee fees will provide more cash flow with which the GSEs can build capital and be restored to "safe and solvent condition." Maximizing returns is not only consistent with, but arguably required by, the conservatorship.
3. FHFA as conservator has legal duties to the direct economic stakeholders – including all shareholders – that must be respected alongside the interests of other parties.
4. Earning an appropriate return on capital is entirely consistent with the conservatorship and affordable housing mandates. There is no conflict here between the GSEs building capital and setting aside funds for affordable housing. Indeed, it is only when the GSEs have earned their way back to a "safe and solvent condition" that they can sustainably meet their public affordable-housing mandates. After the GSEs have adequate capital, the



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suspension of those mandates can be reversed, i.e. the affordable housing support can be turned back on.

5. Keeping guarantee fees low to support the housing market in general, including homeowners and homebuyers that are well off and do not need help, is not as important as charging higher guarantee fees (a) to build a capital base to protect against future credit losses, and (b) to redistribute a portion of earnings to targeted constituencies that particularly need financial support.
6. Guarantee fee rates should be tied to sound underwriting standards. If FHFA directs the GSEs to relax underwriting standards, it is essential that guarantee fees be adjusted upwards to account for the greater credit risk assumed in doing so.

Ultimately, g-fees profits should be allowed to stay within the housing market and should be set at levels that help ensure safety and soundness of the GSEs, that protect long-term health of the housing market, and that respect the rights of all economic stakeholders-including the GSE's shareholders.

On behalf of our coalition and all GSE shareholders, thank you for your time and consideration.

Sincerely,

Tim Pagliara
Executive Director
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