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August 14, 2023

Sandra Thompson  
Director  
Federal Housing Finance Agency  
400 7<sup>th</sup> St SW  
Washington, DC 20219

**RE: Fannie Mae and Freddie Mac Single-family Mortgage Pricing Framework RFI**

Dear Director Thompson,

The Independent Community Bankers of America (ICBA)<sup>1</sup> appreciates the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) request for information (RFI) regarding Fannie Mae and Freddie Mac's (the Enterprises or GSEs) single-family pricing framework. FHFA also requests feedback regarding setting a minimum threshold for return on equity (ROE), risk-based upfront guarantee fees, and, more broadly, the process for setting upfront guarantee fees and whether it is necessary to link these fees to the Enterprise Regulatory Capital Framework (ERCF).

ICBA appreciates FHFA's transparency and stakeholder outreach with regard to Enterprise pricing and regulatory oversight, and it is commendable that FHFA continues to focus policy decisions on the Enterprises' safety and soundness and mission. However, we are concerned that this pricing framework fails to consider crucial challenges facing the Enterprises as they reach their fifteenth year in conservatorship; specifically, it does not address concerns that the

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<sup>1</sup> The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding \$5.8 trillion in assets, \$4.8 trillion in deposits, and \$3.8 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).

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ERCF needs a substantial revision to better reflect the Enterprises' risk profile and unique business models. Moreover, it does not consider the role of the GSEs outside of conservatorship and the appropriate pricing framework and ROE necessary to make them competitive and raise outside capital.

ICBA therefore strongly urges the FHFA to establish a revised single-family pricing framework alongside a roadmap for the Enterprises to raise outside equity, eventually exit conservatorship, and to do so with a clear vision of their ongoing role in the secondary housing market.

### **ICBA Comments**

It is first critical that FHFA consider a pricing framework that allows the Enterprises to remain safe and sound while achieving their mission and rebuilding capital to eventually exit conservatorship. As you know, the Enterprises can currently only build capital through retained earnings. Given the large amounts of capital needed to be considered fully capitalized, it will take at least ten years for the Enterprises to meet those requirements and be well positioned to be released. Further, it is important FHFA address the fact that the sweep of Enterprise earnings has only been paused until they are recapitalized. Absent any changes to the preferred stock purchasing agreements (PSPAs), this means that they will then be required to resume sweeping any excess earnings to the Treasury, effectively making it impossible to exit conservatorship. ICBA has long argued that a perpetual conservatorship is unacceptable and unsustainable.

### **Changes to the GSE Enterprise Regulatory Capital Framework**

ICBA suggests that FHFA consider fundamental changes to the ERCF as it finalizes the proposed pricing framework. ICBA has long called for robust capital requirements for the GSEs that reflect their risk, size, complexity, and the critical roles they play in supporting the housing finance system. Such an approach will ensure the safety and soundness of the housing market while protecting the taxpayer.

We therefore encourage FHFA to revisit the ERCF to determine areas uncorrelated to risk that may result in unnecessary costs and force the Enterprises to hold more capital than necessary. This may involve considering the fact that the quality of lending the GSEs guarantee is substantially stronger than before the financial crisis – loan performance and credit quality

have improved while riskier loan products have been banned. Further, loss mitigation options have been enhanced and expanded, reducing the cost to the GSEs of borrowers who default.<sup>2</sup> ICBA also encourages FHFA to account for guarantee fee income generated by the GSEs. For example, as noted in an Urban Institute study: “a loan with a risk-based capital charge of 100 basis points generates 64 basis points of income a year above that needed to cover expected costs and losses.”<sup>3</sup> It makes very little sense for the GSEs not to be able to count any of this revenue as capital.

## Return on Equity

FHFA needs to provide a pricing framework that clarifies the role of the GSEs – both in conservatorship and how they will function once they exit – in the secondary mortgage market. This will determine appropriate levels of ROE and will meaningfully impact the rate in which the GSEs rebuild capital and attract outside investment. ICBA has historically argued for the GSEs to be regulated as utilities.<sup>4</sup> The benefits of a utility model for prospective investors are relatively straightforward: a consistent and steady, but low risk, return of roughly 9 to 10 percent.<sup>5</sup> However, under the current ECRF, studies estimate that this, in turn, will require the GSEs to increase pricing by around 9 to 10 basis points.<sup>6</sup>

An increase in guarantee fees of this magnitude will almost certainly have negative impacts on affordability and access to credit. To achieve commercially acceptable returns of 12 to 14 percent on capital as private shareholder owned companies – which they are – would require guarantee fees to be even higher, almost double the current levels. Present returns at 5 to 6 percent are unacceptable as either a shareholder owned utility or private company. The Urban Institute paper also argues that the current GSE structure is comparable to Government Controlled Utilities, which is likely an accurate assessment.<sup>7</sup> However, this is not how they are legally chartered. They are chartered to be shareholder-owned private companies, and any change to that will require Congressional action.

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<sup>2</sup> <https://www.urban.org/sites/default/files/2023-08/How%20to%20Think%20about%20Fannie%20Mae%20and%20Freddie%20Mac%E2%80%99s%20Pricing.pdf>, p. 8-9.

<sup>3</sup> Ibid.

<sup>4</sup> <https://www.icba.org/docs/default-source/icba/advocacy-documents/priorities/icbaprinciplesforgsereform.pdf>, p. 6.

<sup>5</sup> “How to Think about Fannie Mae and Freddie Mac’s Pricing”, p. 10.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

Without acknowledging that the GSEs need to prepare to exit conservatorship, there is little incentive to materially change to ROE to a rate that would make them competitive for investor funding as semi-private companies. This concern is exacerbated by the fact that the GSEs remain undercapitalized according to the existing ECRF and that the government's ownership of the Enterprises remains unresolved. As mandated by the Housing and Economic Recovery Act (HERA), FHFA must therefore collaborate with the U.S. Treasury to begin the process of resolving the government's ownership of Fannie Mae and Freddie Mac.

After nearly fifteen years of conservatorship, ICBA is greatly concerned that the lack of progress in resolving this issue by FHFA and the Treasury endangers the safety and soundness of both Enterprises and could pose a threat to the stability of the mortgage market.

ICBA appreciates the opportunity to comment on this RFI and looks forward to working with the FHFA on this issue in the coming months. Please contact the undersigned if you have any questions regarding this letter.

Sincerely,

/s/

Tim Roy  
Assistant Vice President - Housing Finance Policy

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