

August 14, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
Washington, DC 20219

Dear Director Thompson:

The American Bankers Association (ABA)¹ is pleased to offer comments on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) regarding Fannie Mae and Freddie Mac's single-family pricing framework. Through this RFI, the FHFA solicits comment on the goals and policy priorities that FHFA should pursue in its oversight of the pricing framework for the government-sponsored enterprises (GSEs or Enterprises). Importantly, FHFA also seeks input on the process for setting the GSEs' single-family upfront guarantee fees.

A critical principle underlying our comments is that adjustments to guarantee fees charged by the Enterprises must be aligned with credit risk. ABA does not offer recommendations on precise fee levels or methods for apportioning the fees (i.e., whether they are upfront or on-going fees). We do, however, caution that guarantee fees—the key revenue component for GSE income—must not be subject to manipulation that misaligns pricing and risk in order to achieve other ends beyond guaranteeing timely payment of principal and interest on mortgage-backed securities that GSEs issue. Therefore, we urge adherence to statutory directives intended to ensure that the GSEs operate in safe and sound manner with adequate capital and risk controls.²

Within this prudential setting, we focus our comments on certain elements outlined in the RFI. Our members note that a priority element impacting depository institution participation in GSE programs relates to the “process” of setting of single-family guarantee fees. The RFI solicits input on the *frequency* that FHFA should update the upfront guarantee fees. On this point, although we agree that the issue of timing is very important, we also urge the agency to go beyond timing to also incorporate additional process safeguards that will clarify and solidify pricing decisions going forward.

A. FHFA should adopt a process that requires agency review of fees every three years.

We believe that requiring a review of the guarantee fees every three years would establish an appropriate interval for price adjustments (if needed) to respond to market fluctuations in a timely manner. A mandatory three-year review cycle would avoid decisional delays by the agency and

¹ *The American Bankers Association is the voice of the nation's \$21.9 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$17.8 trillion in deposits and extend nearly \$11 trillion in loans.*

² *The Housing and Economic Recovery Act of 2008 (P.L. 110-289) amended the Federal Housing Enterprise Financial Safety and Soundness Act of 1992 (12 U.S.C. §4501 et seq.). This legislation established FHFA as the safety and soundness regulator and the mission regulator for the GSEs.*

stagnation of important pricing considerations that require evergreen data in the analysis of housing and economic cycles.

Our recommendation for a three-year review cycle would promote certainty in operations, as stakeholders would always have advance knowledge of scheduled changes, which would facilitate forward planning to prepare for price adjustments. Similarly, precise time intervals would facilitate efficiencies in FHFA and GSE operations, as both entities could anticipate and plan for staffing and other adjustments necessary for reviews.

We note that this temporal discipline for price reviews would also enhance the safety and soundness of the system as a whole. ABA believes in protecting the integrity of the mortgage system, and believes that GSE pricing decisions must be free of political pressures that can cause policymakers to overlook current and future welfare of homeowners and borrowers.³ Establishing regularly scheduled reviews would reduce the potential for political motivations in pricing determinations. Policymakers would have to make decisions within defined timeframes rather than political convenience. A three-year review cycle would not coincide with presidential election cycles, further protecting pricing decisions from political considerations.

B. FHFA should continue providing ample transparency regarding guarantee fee pricing and performance outcomes associated with the pricing framework.

Section 1601 of the Housing and Economic Recovery Act of 2008 (HERA) requires the agency to conduct ongoing studies of guarantee fees charged by the GSEs and to submit annual reports to Congress. These reports must detail the amount of such fees and the criteria used by the GSEs to determine them. ABA recommends that, going forward, FHFA include the following additional elements—

- The Enterprises' target return on equity to determine whether reported guarantee fee gaps are positive or negative. (This information contributes to deeper understanding of overall returns of specific product lines and better informs policy discussions regarding Enterprise product mix, Enterprise mission, and safety and soundness.)
- GSE expectations regarding whether they expect to generate profits or loss on specific loans. (Stated differently, are the expected returns positive but below targets or are the Enterprises advancing at a loss on particular segments of their business. This information would better inform discussions affecting Enterprise product mix, Enterprise mission, and safety and soundness.)
- The equity level upon which the targeted return on equity (ROE) is based. (Any discussion surrounding proper price frameworks, price adjustments and commercially reasonable returns must be informed by the Enterprises' target ROE, a figure often difficult to identify in such discussions.)
- Greater Transparency regarding allocation of GSE income. (The public needs more precise understanding regarding what the Enterprises actually retain and their capital position over time.)

C. In connection with a three-year review period, FHFA should institute certain improvements to implementation procedures when pricing changes occur.

³ This is a particular concern post *Collins vs. Yellenin* (594 U.S. ____ (2021)) which the Supreme Court ruled that FHFA's structure – an agency led by a single Director removable only for cause – was unconstitutional.

A further process improvement we recommend involves the definition of the effective date for price adjustments. In the past, when the GSEs announced price adjustments, the updated fees were deemed to be effective for all whole loans “purchased on or after a particular date,” or for loans “delivered into MBS with issue dates on or after a particular date.” Instead, ABA recommends that effective dates be based on a loan’s “application date,” not the purchase or delivery date. This compliance trigger is much clearer and allows for precise identification of loans covered by the new policy.

Moreover, the effective date of pricing updates should be a minimum of six months from the date of the announcement. A six-month runway would allow depository institutions adequate time to review the changes, manage and test system updates from vendors, perform analysis on customer impact, revise current application process, and train pricing desk staff, underwriters, processors, and originators to support the pricing transitions.

D. Additional Observations

The RFI poses additional questions for comments that are entitled “*Return on Capital*” and “*Components of Guarantee Fees*.” Those questions request input on appropriate long-term commercially reasonable returns for the GSEs and whether upfront guarantee fees should be eliminated. ABA appreciates the outreach on these important questions, but we believe that answers to these elements are entirely intertwined with decisions regarding fundamental structural reforms of the GSEs, and whether they should be allowed to exit conservatorship or whether they should operate under a “utility” or other model.

ABA reiterates its longstanding position that Congress must determine the fate of Fannie Mae and Freddie Mac. Our banks have advanced a set of reform principles, and these are found [here](#).

In addition, and consistent with principles outlined above, ABA urges FHFA to oppose efforts by Congress that use G-fees for purposes other than proper risk management, such as the 10-basis point fee first imposed in 2011 to fund transportation projects (which was extended again in 2021 in the Infrastructure Act).⁴ Such action undermines the mission and utility of the GSEs and inappropriately shifts the burden of paying for infrastructure-related initiatives to the country’s current and future homeowners. The benefits of affordable homeownership accrue to families, communities, and our national economy. These benefits are jeopardized by inflating G-fees to fund other programs or to carry out other goals.

⁴ <https://www.congress.gov/117/bills/hr3684/BILLS-117hr3684enr.pdf>

Conclusion

ABA appreciates the opportunity to offer comments on the important topics affecting the Enterprise's single-family pricing framework. If you have additional questions on the points above, or on ABA's broader principles to guide GSE reforms, please contact **Rod J. Alba** (ralba@aba.com) or **Joseph Pigg** (jpigg@aba.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Rod J. Alba". The signature is stylized and cursive.

Rod J. Alba
Senior Vice President
Real Estate Finance, Mortgage
Regulatory Compliance & Policy