

July 23, 2014

The Honorable Mel Watt
Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, DC 20024

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

Dear Director Watt:

The undersigned organizations are writing in response to the Request for Input on the guarantee fees (g-fees) charged by Fannie Mae and Freddie Mac (the GSEs). We appreciate the efforts by the Federal Housing Finance Agency (FHFA) to engage with stakeholders in a thoughtful manner on this important issue. The levels and types of g-fees, including loan-level price adjustments (LLPAs), charged by Fannie Mae and Freddie Mac have a direct and significant impact on the affordability of residential mortgage credit. We are strongly against any further, arbitrary increases in g-fees or LLPAs, such as were envisioned in the December proposal.

While many of our organizations will be submitting individual comment letters on the Request for Input, we all are concerned by the current lack of financing for first-time homebuyers and other underserved borrowers. At present, the cost of mortgage credit is preventing many credit-worthy homebuyers from obtaining financing by making loans less affordable. Today's g-fees already well exceed what is necessary to support the extraordinary credit quality of the GSEs' current book of business. The strong credit quality of the GSEs' current book is likely to continue into the foreseeable future because of the rigorous income documentation and underwriting standards mandated by the Consumer Financial Protection Bureau's "Ability to Repay" rule.

The burden of higher g-fees has fallen especially hard on first-time homebuyers, low wealth borrowers, and borrowers in typically underserved areas, such as areas with large minority populations, and is exacerbated by the loan-level price adjustments. We note also that although higher LTV loans require loan level mortgage insurance, current LLPA and g-fee pricing do not appear to give full credit to the support that is provided, resulting in overall charges that are higher than they need to be and presenting an unnecessary obstacle to home purchases. Reducing LLPAs would be one means of relieving this cost burden, and would be consistent with the GSEs' traditional, countercyclical role.

In setting appropriate g-fees for the longer term, FHFA should strike a balance between maintaining economic solvency and fulfilling the GSEs' mission to promote a "liquid and efficient national housing market." The GSEs' g-fee pricing should also reflect their status as entities in conservatorship. The GSEs are currently operating with limited

capital, and are prohibited from building additional capital – in fact, they are required to continue reducing capital for the next few years. Moreover, given the existing arrangement with Treasury under the Third Amendment to the Preferred Stock Purchase Agreements, it is questionable whether it is appropriate for the GSEs to target private sector returns while in conservatorship.

Beyond the next few years, legislative housing finance reform will likely lead to a new framework for credit pricing that would necessarily be implemented with an extended transition period. There is no reason for the GSEs to act today as if that new framework were already in place. Rather, per the terms of the conservatorship and the existing GSE charters, they should continue to play their vital, counter-cyclical role of providing liquidity in all markets, especially for lending to low-wealth borrowers and first-time homebuyers, and in traditionally underserved markets.

Finally, FHFA should not attempt to “crowd in” private capital through g-fee increases. As Treasury Secretary Jacob Lew made clear in his speech on June 26th of this year, the private-label mortgage-backed securities market remains stagnant primarily due to structural hurdles in the economic and regulatory arenas. Raising the costs of homeownership through increased g-fees and high LLPAs will not bring back the PLS market more quickly. Instead, it will likely exacerbate the current trend of borrowers opting for FHA loans, or else leaving the market entirely.

Pricing for risks and a reasonable return on capital must be balanced with the GSEs’ housing mission and their current status. The housing finance sector faces significant challenges and uncertainty going forward. We strongly urge FHFA and the GSEs to ensure that short-term pricing and rate of return considerations do not add to the litany of concerns standing between borrowers and the American Dream.

Sincerely,

Center for American Progress
Center for Responsible Lending
Consumer Federation of America
Mortgage Bankers Association
National Association of Home Builders
National Association of Realtors
National Community Reinvestment Coalition
National Council of La Raza
National Housing Conference
National Urban League