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December 19, 2013

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Dear Mr. DeMarco,

On behalf of the over one million members of the National Association of REALTORS® (NAR) I am writing to share our concerns about the most recent increase in fees at both Fannie Mae and Freddie Mac (the government sponsored enterprises, or Enterprises) that either includes a specific rate of return for the Enterprises or is based on a policy decision that seems to lack performance measures. What is clear is that the higher fee structure imposes new costs on home-buying taxpayers and home owners seeking fair and affordable mortgage loans. We are also concerned that the new fees will reduce access to an ever increasing amount of borrowers. We believe that the Enterprises must continue to play a vital role in the success of our nation's housing market by serving as a reliable source of liquidity for housing finance. Unfortunately, we believe home-buying taxpayers are being charged excessive fees due to questionable agency policy goals.

NAR is America's largest trade association, including our eight affiliated Institutes, Societies and Councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

Guarantee Fees Should Protect Taxpayers From Losses, Not Increase Profit

The guarantee fee (g-fee) covers projected credit losses from borrower defaults over the life of the loans and administrative costs, and also provides a return on capital. While in conservatorship, both of the entities, along with FHFA, are making the determination of how much profit they require to guarantee mortgages while backed by the government – over and above projected losses. Many have commented that prior to the 2008 financial crisis the Enterprises underestimated projected losses, thereby underpricing this fee. FHFA's announcement of December 9, 2013, will have resulted in a more than doubling of this fee since 2007.

Additionally, each Enterprise introduced additional upfront fees (loan level pricing adjustments, or LLPAs) based on loan-to-value (LTV) ratios, credit scores, and other risk factors in March 2008. On December 13, 2013, as part of a yearly analysis of g-fees, FHFA indicated that, at its direction, Freddie Mac and Fannie Mae implemented new costing models in 2012 that resulted in sizeable increases in the Enterprises' estimates of the cost of guaranteeing single-family mortgages. Though these changes don't reflect the reduced credit losses the Enterprises experienced throughout 2013, FHFA indicated that it believes that the estimates more fully reflect the credit risk posed by the loans thus substantiating continued increases to g-fees. The same report, however, indicated that the Enterprises were guaranteeing a substantially lower amount of "high-risk" loans and that over 87% of loan originated were from borrowers with credit scores greater than or equal to 720. Equally concerning are the substantial LLPA increases that the Enterprises announced on December 16, 2013.

Our interpretation of this decision is that these fees are excessive and forcing home-buying taxpayers to pay substantially higher rates for their mortgages than the actual risk that they pose. Our concern is that we will look back a few years from now after Fannie Mae and Freddie Mac will have generated billions dollars of profits and will come to the conclusion that the cost estimate and profit that FHFA has directed the Enterprises to take was substantially higher than the actual risk borrowers presented. The result is a policy that unintentionally overcharges taxpayers. Worse, higher costs combined with a nascent rise in mortgage rates will stymie a more robust recovery.

FHFA Policy to Increase Private Market Has No Performance Measures

The Federal Housing Finance Agency (FHFA) Strategic Plan for Fiscal Years 2013-2017 includes increasing guarantee fees charged by the Enterprises to a level that is "closer to the level that other market participants would charge to assume the credit risk." This assumes that if the Enterprises continue to increase the fee they charge for the guarantee of the prompt payment of principal and interest on their mortgage backed securities, pricing will be attractive enough to draw private enterprises back into the secondary mortgage market. However, we remain concerned that this policy of raising costs for loans purchased or guaranteed by the Enterprises has had little or no impact of drawing the private sector back to the secondary mortgage market. We also question why the policy continues without adopting recommendations made by the FHFA Inspector General (OIG) that performance measures be defined in order to assess the effectiveness of this strategy.

On September 17th, 2013, NAR President Gary Thomas wrote a letter to the FHFA agreeing that more private sector participation would provide for a more balanced housing finance market. However, FHFA's continued fee increases seem to not account for the aversion to and lack of trust in firms issuing private mortgage back securities many investors still harbor since suffering tremendous losses during the crisis. This lack of trust still remains and is hard to quantify. We believe that future data will show that the effect of raising fees will be simply be increased cost to home-buying taxpayers who can afford to become homeowners and redirect more mortgage loans to FHA without enticing the private sector back into the market.

REALTORS® believe stability in the mortgage market is a key component in expanding private capital participation in the secondary mortgage market. It is difficult to encourage greater participation without the participants having a clear understanding of the rules. In addition to the "ability-to-repay" requirements that go into effect in January 2014, the Dodd-Frank Act's mortgage risk retention regulations (QRM) will also hopefully be finalized in the early part of next year. Providing the certainty of a regulatory framework for securitizing mortgages will go much further in encouraging the return of private capitol than arbitrarily increasing costs to borrowers.

Conclusion

FHFA policies must avoid the unintended consequence of raising fees so high that they choke off the housing recovery by making many homebuyers ineligible for loans. Additionally, FHFA should not encourage policies that overcharge home buyers that will result in billions of dollars of profits for the Enterprises. We urge FHFA to adhere to the OIG recommendation and establish definitions and measurement standards for its policy of increasing fees with the goal of enticing the private sector back into the mortgage market. An analysis of just what it would take to achieve this goal is crucial, especially if the policies do not achieve the intended and possibly unattainable goal of increasing private sector lending in the mortgage market in the current environment.

If you have any questions or would like to meet to discuss these concerns, please feel free to contact Charlie Dawson, NAR's Policy Representative for Financial Services, at 202.383.7522 or cdawson@realtors.org.

Sincerely,

Steve Brown

Steve Brown
2014 President, National Association of REALTORS®

cc:
The Honorable Melvin L. Watt
Mr. Timothy J. Mayopoulos, President and Chief Executive Officer, Fannie Mae
Mr. Donald H. Layton, Chief Executive Officer, Freddie Mac