NATIONAL ASSOCIATION OF REALTORS®

April 26, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Thompson:

On behalf of the more than 1.5 million members of the National Association of REALTORS® (NAR), we would like to express our concern about the pending pricing change going into effect on May 1, 2023, from the Federal Housing Finance Agency (FHFA) to Fannie Mae and Freddie Mac (the Enterprises) to raise upfront fees paid by some homebuyers known as loan level pricing adjustments (LLPAs). NAR supports the FHFA's efforts to improve the fee setting processes at the Enterprises and to maintain safety and soundness but strongly believes that some of the changes run counter to the Enterprises' charter duties and should be eliminated. Given the sharp increase in mortgage rates over the last year, no homebuyers should face higher fees.

NAR is America's largest trade association, including NAR's five commercial real estate institutes and its 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 1,200 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 25,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock, along with its availability to the widest range of potential homebuyers.

Changes Eliminate Flexibility and Harms Some Borrowers

Over the last two years, the FHFA has made three revisions to the Enterprises' LLPA structure. This process is a subtle, but important part of the reform of the Enterprises. As part of this third revision, separate pricing grids were created for purchase, refinance, and cash-out refinance borrowers. Another significant change is a new fee on borrowers with debt-to-income ratios (DTIs) greater than 40 percent, which is slated to be implemented August 1, 2023.

NAR appreciates the FHFA's effort to make a holistic revision to the Enterprises' pricing framework. However, NAR opposes the fee on borrowers with higher DTIs. Such a fee can change during the financing process, making it difficult to underwrite the loans. What is more, adding a fee raises the borrower's DTI, making them more likely to default. NAR favors the use of compensating factors, where a borrower with a risky factor like a low credit score must have another underwriting factor that is stronger to offset the risk such as a larger down payment or lower DTI. We urge you to reconsider this new fee and the impact on borrowers, including their ability to qualify for a loan.

An Unnecessary Fee Hike

The other significant change to the LLPA structure is a reduction in fees for borrowers with credit scores below 680 as well as many borrowers with higher scores but lower down payments. REALTORS® appreciate this important change given the spike in mortgage rates and strong price growth in recent years that weigh on affordability for all homebuyers. Furthermore, the LLPA reduction will help the Enterprises balance the 30-basis point reduction in the Federal Housing Administration's mortgage insurance premium implemented on March 20, 2023. This change was a responsible move to support the Enterprises' role in the entry-level portion of the market.

However, this fee reduction on entry level borrowers accompanied an increase in LLPAs on borrowers who make down payments of 5 percent to 25 percent and with credit scores greater than 680. For instance, as depicted in the table below, a borrower with a 730-credit score and 17 percent down payment will see their annual mortgage rate jump by 15 basis points or the difference between 6.0 percent and 6.15 percent. This group is a significant segment of the Enterprises' portfolio and represents both trade-up borrowers and middle-wealth Americans. These borrowers face the same surge in financing costs as entry level homebuyers experienced over the last year.

	May 1st LLPA Changes Converted to Annual Rate Add-ons								
	< 30.00%	30.01 – 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%
>760	0	-5	-5	-10	2.5	2.5	0	-10	-12.5
760-779	0	-5	-5	-5	7.5	7.5	5	-5	-10
740-759	0	-5	-2.5	-2.5	12.5	15	10	-2.5	-5
720-739	0	0	0	5	10	15	10	7.5	-5
700-719	0	0	-2.5	-2.5	2.5	10	5	2.5	-12.5
680-699	0	0	2.5	-2.5	0	7.5	5	2.5	-7.5
660-679	0	0	-5	-17.5	-17.5	-12.5	-10	-12.5	-20
640-659	0	-10	-2.5	-25	-15	-15	-15	-17.5	-25
<640	-10	-7.5	0	-17.5	-5	-7.5	-12.5	-20	
Source: NAR Calcuation based on Enterprises LLPA Grids									

The Enterprises Market-Wide Responsibility

The fee increase is unnecessary, though. Both Fannie Mae and Freddie Mac are profitable, adding $12.9 billion[1] and $9.3 billion[2] in net worth in 2022, respectively.

While the Enterprises are under conservatorship, the FHFA has a responsibility to conserve their resources, but it also must continue to operate the companies to comply with their Congressionally-chartered duty to promote access to mortgage credit throughout the Nation.[3] NAR and colleagues have argued that the Enterprises should be converted to market utilities[4], while others argue that they are already effectively transformed into this structure but await further reforms.[5] As market utilities, the Enterprises should garner returns on equity of 6% to 9%, well below the near 12%[6] returns factored into the current pricing models. The return on equity held against retained capital is a main driver of the LLPA levels.

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[1] https://www.fanniemae.com/media/46286/display
[2] https://www.freddiemac.com/investors/financials/pdf/10k_022223.pdf
[3] https://www.fanniemae.com/sites/g/files/koqyhd191/files/migrated-files/resources/file/aboutus/pdf/fm-amended-charter.pdf
[4] Richard Cooperstein, Ken Fears & Susan Wachter (2019) *A Vision for Enduring Housing Finance Reform*. Working Paper. https://www.nar.realtor/sites/default/files/documents/2019-Working-Paper-A-Vision-For-Enduring-Housing-Finance-Reform.pdf
[5] See comments by former Freddie Mac CEO Don Layton https://themreport.com/news/government/10-19-2022/former-freddie-mac
[6] Richard Cooperstein, Ken Fears & Susan Wachter (2021*) Government-Sponsored Enterprises: Their Viability as Public Utilities*, Housing Policy Debate, 31:1, 33-50, DOI: 10.1080/10511482.2020.1850013 https://penniur.upenn.edu/uploads/media/2-Cooperstein-Fears-Wachter.pdf

Furthermore, in November of 2021, NAR wrote[7] the FHFA in response to your request for input on the proposed revision to the Enterprise Regulatory Capital Rule (ECRF*), that the rule retained excessive buffer capital that was not related to risk*. Thus, the Enterprises have excess capital and revenues built into their pricing and cost structures that they should devote to their duties as market utilities, rather than raising fees on middle-wealth borrowers.

Finally, the Office of Management and Budget (OMB) has recognized that the Enterprises have a "public mission to provide stability in and increase the liquidity of the residential mortgage market and to help increase the availability of mortgage credit to low- and moderate-income families and in underserved areas." REALTORS® appreciate the FHFA effort to safeguard consumers as well as safety and soundness but reiterate our concern that in specifying capital for individual borrower profiles, those individual capital profiles will in turn be used to specify guarantee pricing for individual borrowers. Without an accompanying framework to outline how the Enterprises should allocate rates of return to support the public mission, these risk-based capital standards could result in risk-based pricing that will increase the cost significantly for those borrowers that the GSEs are explicitly tasked with supporting.

Further Collaboration

Thank you again for your efforts to revise the Enterprises pricing structure and support the nation's homeowners. Now is not the time for fee increases on homebuyers. We would greatly appreciate the opportunity to discuss the proposed modification to the LLPAs detailed in this letter. If you have any questions or comments, please feel free to reach out Ken Fears (KFears@Nar.Realtor), Director of Conventional Finance and Valuation Policy.

Sincerely,

Kenny Parcell
2023 President, National Association of REALTORS®

[7] https://narfocus.com/billdatabase/clientfiles/172/3/4512.pdf