



FEDERAL HOUSING FINANCE AGENCY

Office of the Director

July 12, 2023

Kenny Parcell
2023 President
National Association of Realtors
500 New Jersey Ave. NW
Washington, DC 20001

Dear Mr. Parcell:

Thank you for your letter dated April 26, 2023, regarding changes to Fannie Mae and Freddie Mac's (the Enterprises) upfront guarantee fee pricing. I would like to take this opportunity to address the actions taken by the Federal Housing Finance Agency (FHFA) with respect to the Enterprises' pricing.

As you are aware, FHFA, as the conservator of Fannie Mae and Freddie Mac, has been conducting a holistic review of the Enterprises' guarantee fee pricing framework, with a special focus on upfront fees. Our objectives in updating the framework were expressed in both the 2022 and 2023 Scorecards for Fannie Mae, Freddie Mac, and Common Securitization Solutions.¹ These objectives include fostering capital accumulation at the Enterprises and achieving viable returns on capital. In addition, we are working to address the acute housing affordability challenges by increasing support for many creditworthy first-time homebuyers.

We have taken a series of steps since January 5, 2022,² to achieve these goals with fee increases for certain loans and as announced on October 24, 2022,³ targeted eliminations of upfront fees for creditworthy borrowers limited by income or wealth. These fee eliminations for creditworthy first-time homebuyers (based on the borrower's income relative to the area median income), borrowers purchasing homes in rural communities, and those purchasing manufactured homes

¹ The annual Scorecard is a mechanism FHFA, as Conservator, uses for communicating its priorities and expectations for the Enterprises and providing transparency to the public about these expectations. FHFA, "2023 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions," available at <https://www.fhfa.gov/AboutUs/Reports/Pages/2023-Scorecard-for-Fannie-Freddie-and-CSS.aspx>.

FHFA, "2022 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions," available at <https://www.fhfa.gov/AboutUs/Reports/Pages/2022-Scorecard-for-Fannie-Mae-Freddie-Mac-and-CSS.aspx>.

² FHFA, "FHFA Announces Targeted Increases to Enterprise Pricing Framework" available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Targeted-Increases-to-Enterprise-Pricing-Framework.aspx>.

³ FHFA, "FHFA Announces Targeted Pricing Changes to Enterprise Pricing Framework," available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Targeted-Pricing-Changes-to-Enterprise-Pricing-Framework.aspx>.

were primarily offset by increasing upfront fees for loans on second/vacation homes, high-balance loans, and cash-out refinance loans.

On January 19, 2023,⁴ we announced the latest iteration of changes to the upfront fee framework that lenders took steps to implement earlier this year which became effective on May 1, 2023. In addition, I issued a public statement on this topic on April 25, 2023, responding to many of the concerns that have recently been raised.⁵

The updated pricing grids maintain risk-based pricing and more closely calibrate the upfront fees to the expected long-term financial performance of the mortgages backed by the Enterprises. It has been over eight years since a comprehensive review of the Enterprises' pricing framework was conducted.⁶ As market conditions and loan performance change over time, it is important to update the Enterprises' pricing to better reflect those changes.

The updated pricing grids are calibrated based upon the Enterprise Regulatory Capital Framework (ERCF) that was finalized in 2020 and became effective in 2022.⁷ The January 2023 updates help ensure that the Enterprises' capital requirements and pricing framework are more closely aligned to support a more resilient housing finance system.

As was noted in the Agency's most recent annual Guarantee Fee Report,⁸ as well as a Request for Input on the Enterprises' single-family pricing framework published on May 15, 2023,⁹ the transition to the ERCF will change capital requirements across credit characteristics, and the flatter risk gradients embedded in ERCF will result in a lower and flatter return profile across the credit risk spectrum. Several features of the ERCF, including a minimum risk-weight floor for all mortgage exposures and risk-insensitive capital buffers for stability, stress, and leverage, are applied evenly across all loans acquired by the Enterprises. This dynamic results in loans with stronger credit characteristics receiving more significant capital increases than loans with weaker credit characteristics, relative to the prior proposed capital requirements.

⁴ FHFA, "FHFA Announces Updates to the Enterprises' Single-Family Pricing Framework," available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Updates-to-Enterprises-SF-Pricing-Framework.aspx>.

⁵ FHFA, "Setting the Record Straight on Mortgage Pricing: A Statement from FHFA Director Sandra L. Thompson," available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/Statement-from-FHFA-Director-Sandra-Thompson-on-Mortgage-Pricing.aspx>.

⁶ FHFA, "FHFA Completes Guarantee Fee Review: G-fees to Remain at Current Levels with Modest Adjustments," available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Completes-Guarantee-Fee-Review-4-17-2015.aspx>.

⁷ FHFA, "FHFA Announces Final Capital Rule for the Enterprises," available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Final-Capital-Rule-for-the-Enterprises.aspx>.

⁸ FHFA, "Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2021," available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Issues-Report-on-Enterprise-Single-Family-Guarantee-Fees-in-2021.aspx>.

⁹ FHFA, "FHFA Requests Input on the Enterprises' Single-Family Pricing Framework," available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Requests-Input-on-the-Enterprises-Single-Family-Pricing-Framework.aspx>.

To ensure the Enterprises are best positioned to successfully fulfill their mandate to provide liquidity across the country in any market environment, the updated pricing framework will advance safety and soundness by enhancing their capital accumulation and better protecting taxpayers from potential future losses.

We will continue to engage with stakeholders on specific issues related to the pricing framework to ensure it meets our stated objectives of fostering capital accumulation at the Enterprises, achieving viable returns on capital, and increasing support for creditworthy first-time homebuyers. FHFA received numerous comments, for example, related to operational and other challenges associated with an upfront fee based on a borrower's debt-to-income ratio and subsequently removed the fee in May 2023.¹⁰ In addition, and as noted above, to ensure stakeholders can share their perspectives on a variety of issues related to the Enterprises' pricing framework, on May 15, 2023, FHFA published a public request for input on the topic.¹¹

I appreciate your feedback on this topic and look forward to your continued engagement on this and other issues. If you wish to discuss this topic further, please contact Andrew Varrieur, Senior Associate Director in the Office of Capital Policy, at andrew.varrieur@fhfa.gov.

Sincerely,



Sandra L. Thompson

Enclosure

¹⁰ FHFA, "FHFA Announces Rescission of Enterprise Upfront Fees Based on Debt-To-Income (DTI) Ratio," available at <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Rescission-of-Enterprise-Upfront-Fees-Based-on-Debt-To-Income-Ratio.aspx>.

¹¹ FHFA, "FHFA Requests Input on the Enterprises' Single-Family Pricing Framework," available at: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Requests-Input-on-the-Enterprises-Single-Family-Pricing-Framework.aspx>.