NAR Issue Brief
Government-Sponsored Enterprises: Guarantee Fees

What is a Guarantee Fee (g-fee)?

GSE guarantee fees are charged by Freddie Mac and Fannie Mae, to lenders for the bundling, servicing, selling and reporting MBS to investors. The main component of the guarantee fee is charged to protect against credit-related losses in the mortgage portfolio (think of it like MBS insurance), but small sub-fees are also deducted to cover internal expenses for such services as:

- Managing and administering the securitized mortgage pools,
- Selling the MBS to investors,
- Reporting to investors and the SEC, and
- Maintaining the MBS on the open market, and selling, general and administrative expense.

Recent Congressional Action Related to G-fees

Congress recently enacted the "Temporary Payroll Tax Cut Continuation Act of 2011" to fund a two-month extension of the payroll tax cut, unemployment benefits, and Medicare reimbursements. The extension is paid for by a 10 basis point (bp) increase in the average g-fee charged by Fannie Mae and Freddie Mac for the next 10 years.

Impact of the Current 10 bps G-fee Increase

Lenders who choose to pass this increase on to borrowers will likely increase the rate offered to a borrower by at least .1% sometime before April 1, 2012. Several sources have placed the increase in cost at approximately \$4000 - \$5400 over 30 years on a \$200,000 loan. On a monthly basis, the approximate increase will be \$11-15. However, those estimates are conservative, as some housing industry advocates believe that the impact is more in the 50 to 80 bps range for consumers.

That thinking is confirmed by J.P. Morgan's January 20th *Securitized Products Weekly* that states, "many market analysts have expressed concern that g-fees will increase even higher than the 10 bps called for in the legislation. For example, the Act states that average g-fees for 2012 originations must be at least 10 bps higher than for 2011 originations. However, the Federal Housing Finance Agency calls for implementation beginning April 1, 2012. Therefore, with no increase during the first quarter of 2012, the average g-fee increase for 2012 will be less than 10 bps without subsequent g-fee increases later in the year."

Moreover, under the existing legislation to cover the 2-month extension, the Director was given a mandate to "increase the g-fee amount to reflect the risk of loss, as well as the cost of capital allocated to similar assets held by other fully private regulated financial institutions, …" By virtue of this language, the g-fee could be increased even further above the 10 bps over 2011 g-fee average, costing homebuyers and refinancers significantly more money per annum.

Cost of Additional G-fee Actions

The result of the initial increase, with the additional mandate to price risk similar to private capital, and any proposed additional increase to cover a 10-month extension of the Payroll Tax, will raise the cost of a mortgage and likely cause homebuyers to reconsider a potential home purchase or refinance. At a time when the housing market is beginning to show signs of recovery, and inventories are beginning to fall, a punitive fee that does not support the safety and soundness of the housing finance sector, will likely exacerbate the problem it was intended to fix. A slowdown in housing means higher unemployment, but more importantly, a slowdown in loan originations which is what is required to fuel the "pay-for" via the g-fee.

NAR Position

The National Association of REALTORS® strongly opposes the use of guarantee fees for any use other than intended purpose. We understand, and appreciate the need to bring financial relief to the middle-class, but effectively imposing a tax on housing is not prudent given the instability of the housing sector. It makes little sense to tax mortgage originations or refinances of middle class Americans in order to generate the desired revenue to cover the cost of a 10-month payroll tax extension aimed at providing relief to the middle-class.