

NAR Issue Summary

Conventional Residential Lending / Government-Sponsored Enterprises Guarantee Fees (G-fees)

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

GSE guarantee fees are charged by Freddie Mac and Fannie Mae to lenders for bundling, selling, and guaranteeing the payment of principal and interest on their Mortgage Backed Securities (MBS). These fees are generally passed on to consumers in the form of higher interest rates. The main component of guarantee fee covers projected credit losses from borrower defaults over the life of the loans, administrative costs, and a return on capital. The fees are also used 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 Securities and Exchange Commission, and
- Maintaining the MBS on the open market, and selling, general and administrative expense.

I am a real estate professional. What does this mean for my business?

Higher g-fees contribute to tighter mortgage lending conditions. Any proposed extension of the g-fee increase will maintain the higher cost of a mortgage credit and continue to cause homebuyers to reconsider a potential home purchase or refinance.

Impact of a 10 bps G-fee Increase

In 2011, lenders passed a 10 basis points “Payroll Tax Fee” onto consumers by adding it to their mortgage rate. These 10 basis points cost the average consumer with a \$200,000 mortgage roughly \$4,250 over the 30-year life of the loan. What’s more, this fee was not the last fee tacked on to consumers. In subsequent years, the FHFA raised g-fees several more times and by 2015, fees had risen 114% since 2011.

Cost of Additional G-fee Actions

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 impacts the economy and may mean higher unemployment, but more importantly, it means a slowdown in loan originations which are required to fuel the “pay-for” via the g-fee.

2018 Tax Reform

Corporate tax rates were lowered as part of the Tax Cuts and Jobs Act. Taxes are taken into account when guarantee fees are factored. The FHFA has previously based their g-fees on a “target rate of return”. If g-fees are not lowered to reflect the lower tax rate, realized returns will eclipse the FHFA’s target return.

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NAR Policy:

NAR strongly opposes the use of guarantee fees for any use other than its intended purpose. The Association understands the need to fund government programs, but effectively imposing a tax on housing is not prudent given the continued need for stability in 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 unrelated expenditures.

Opposition Arguments:

Higher g-fees may help the GSE's better manage their credit risk.

Legislative/Regulatory Status/Outlook

In 2011, Congress enacted the "Temporary Payroll Tax Cut Continuation Act of 2011" (Payroll Tax) 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 through 2021.

On July 30, 2015, the U.S. Senate passed a 6-year highway and transit funding reauthorization bill, which included a controversial funding provision that would extend the use of guarantee fees (g-fees) for an additional 4 years. The multi-year bill passed the Senate by a vote of 65-34. The U.S. House made clear that the U.S. Senate's 6-year bill wouldn't receive a vote in the lower chamber. The Senate then passed a short-term highway and transit bill, which extended the highway program through October 29, 2015.

On December 4, 2015, President Obama signed into law H.R. 22, "Fixing America's Surface Transportation Act (FAST Act)." The Act set federal policy and funding levels for highways, transit, passenger rail and bridge programs through 2020 in addition to reviving the expired Export-Import Bank. Through NAR's extensive lobbying efforts and use of its Call-for-Action system, the controversial use of the GSE's guarantee fees as a funding mechanism was dropped from the bill.

Last year, Representatives Sanford (R-SC), Sherman (D-CA) and Neugebauer (R-TX) did introduce H.R. 4893, the "Risk Management and Homeownership Stability Act" which amends the Congressional Budget and Impoundment Control Act of 1974 to prohibit the use of G-fees as offsets. During the same year, Senators Crapo (R-ID) and Warner (D-VA) introduced S. 752. This legislation would establish a scorekeeping rule to ensure that increases in G-fees shall not be used to offset provisions that increase the deficit.

In 2017, Reps. Sanford (R-SC) and Sherman (D-CA) have reintroduced their g-fee legislation, which is now referred to as H.R. 916, the "Risk Management and Homeowner Stability Act." Currently, it is unclear whether similar legislation will be introduced in the U.S. Senate.

Finally, NAR is very concerned with the high G-fees charged by Fannie Mae and Freddie Mac, which have translated into huge profits for the entities. These exorbitant profits show that current fees and

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pricing don't reflect the improved profitability or reduced credit losses that the GSEs experienced over the last few years. NAR will continue to push FHFA and the GSEs for robust underwriting guidelines that put homeownership above profitability so that conventional borrowers aren't priced out of the market.

Current Legislation/Regulation (bill number or regulation)

H.R. 916, the "Risk Management and Homeowner Stability Act" (Reps. Sanford (R-SC) and Sherman (D-CA))

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