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Melvin L. Watt
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street SW
Washington, DC 20219

Dear Director Watt:

On behalf of the 1.3 million members of the National Association of REALTORS® (NAR), REALTORS® ask that you reduce the guarantee fees charged by the government sponsored enterprises to reflect the lower corporate tax rate finalized in the Tax Cuts and Jobs Act.

Fannie Mae and Freddie Mac (the government sponsored enterprises, or "GSEs") buy, securitize, and guarantee single-family mortgages from mortgage companies, commercial banks, credit unions, and other financial institutions. A key revenue component for the GSEs is a guarantee fee (g-fee) received for guaranteeing the payment of principal and interest from their mortgage-backed securities (MBS) to investors. The g-fee covers projected credit losses from borrower defaults over the life of the loans, general and administrative costs, a temporary 10 basis point fee as required by the Temporary Payroll Tax Cut Continuation Act of 2011, and the cost of holding a modeled amount of capital necessary to protect against unexpected losses at a target rate of return. NAR members believe this target rate of return and modeled capital should reflect improvements in the private mortgage insurance industry and consumers' credit quality and prioritize supporting taxpayers, not achieving Wall Street returns.

The guarantee fee is determined based on the GSEs' pre-tax rate of return. Consequently, a decline in the corporate tax rate will boost the GSEs' rate of return on a post-tax basis. To account for the impact of tax reform on the rate of return, the FHFA should reduce g-fees to reflect the lower corporate tax rate and to preserve the current target rate of return.

Furthermore, in March 2008 the Enterprises created loan level pricing adjustments (LLPAs), which are additional fees based on loan-to-value (LTV) ratios, credit scores, and other risk factors. These charges are passed onto borrowers, typically in the form of higher mortgage rates. Since corporate tax rates affect the rate of return on LLPAs, they too should be reduced to reflect the lower corporate tax rate.

REALTORS® believe that the FHFA should act quickly to reduce g-fees and LLPAs. While the GSEs' deferred tax assets are affected by the new tax law, this one-time change was ameliorated by the FHFA's agreement with the Department of Treasury to allow the GSEs to retain $3 billion of earnings in a

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capital buffer. If this reserve proves insufficient, it or a reserve outside the GSE, as previously suggested by NAR, could be augmented with more of the GSEs' significant earnings. On the contrary, maintaining current g-fees would simply allow the GSEs to over-charge tax-paying homeowners using earnings in excess of modeled capital and a target rate of return to fund non-housing activities. What's more, the benefit of reduced fees to homebuyers will gain importance as economic growth drives mortgage rates higher in the coming years. NAR looks forward to working with you to improve the real estate market. Any questions or comments can be directed to Charlie Dawson, NAR Managing Director – Regulatory and Industry Relations, 202.383.7522 or CDawson@REALTORS.org, or Ken Fears, NAR Senior Policy Representative – Data Analytics, 202.383.1066 or KFears@REALTORS.org.

Sincerely,

Elizabeth Mendenhall
2018 President, National Association of REALTORS®