NAR Issue Summaries

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 reduce affordability, contribute to tighter mortgage lending conditions, and can threaten tax payers by driving more borrowers to government programs like the FHA. NAR's GSE Investments Policy outlines NAR's position that the Enterprises should first and foremost fund their charter mission, which is focused on homeownership, and no fees should create a burden on the homebuyers the Enterprises support.

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 burdened by tight credit and economic and social uncertainty, a punitive fee that does not support the safety and soundness of the housing finance sector will likely exacerbate the problem. A slowdown in housing impacts the economy and may mean higher unemployment, but would also likely weigh on loan originations which would ironically, undermine the very “pay-for” the 10 basis point addition was inteded.

2018 Tax Reform

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Corporate tax rates were lowered as part of the Tax Cuts and Jobs Act. Taxes are taken into account when guarntee 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.

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

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 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.

In June of 2023, Rep. Davidson (R-OH) introduced Hr. 3564, the "Middle Class Borrowers Protection Act of 2023." This bill would have added a 10 bps g-fee increase to offset the LLPA pricing changes that the House Republicans propose, moving to a purely risk-based pricing regime. NAR objects to this legislation, as well as using g-fees to pay for other programs. This bill would raise fees on all borrowers. The bill has passed the House but is unlikely to move in the Senate.

On January 14, 2020, Rep. Denny Heck (D-WA) introduced H.R. 5599, the “Fulfilling the Promise of the Housing Trust Fund Act,” which would increase g-fees and direct the proceeds to the Housing Trust Fund.

The fee ended in 2021, but in this fiscal environment we expect additional calls to use the GSEs to fund other projects through this fee. NAR adopted policy in 2020 regarding how the GSEs should invest revenues it earns above the cost of doing business and owner profits. REALTORS oppose fees added to the GSEs are a tax on middle-class homeownership. However, if they are imposed, they should only done after the charter duties of the GSEs are funded and satisfied and should only be directed to investments that benefit the housing ecosystem.

NAR continues to advocate against using g-fees as a pay-for for other projects unrelated to housing.

Previous Actions in Congress

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.

On November 4, 2016, Representatives Sanford (R-SC), Sherman (D-CA) and Neugebauer (R-TX) introduced 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) reintroduced their g-fee legislation, H.R. 916, the “Risk Management and Homeowner Stability Act."

Current Legislation/Regulation (bill number or regulation)

None at this time.

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