

June 22, 2016

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

Re: Loan-Level Price Adjustments and Guarantee Fees

Dear Director Watt:

Following the Federal Housing Finance Agency's (FHFA) Duty to Serve proposed rule, our organizations are writing to further comment on the need for the reduction or elimination of loan-level price adjustments (LLPAs) charged by Fannie Mae and Freddie Mac (the government-sponsored enterprises, or "GSEs").

The GSEs' credit pricing includes LLPAs and ongoing guarantee fees (g-fees), the former of which are paid at the time the loan is delivered to the GSEs. The cost of LLPAs and g-fees are ultimately borne by borrowers as part of their up-front closing costs and/or as part of their ongoing monthly payments. LLPAs were introduced in 2008 and can vary greatly based on loan terms including borrowers' credit scores, loan-to-value ratios and other risk factors. LLPAs can total up to 4.0 percent of the loan value for some borrowers. In addition, g-fees have increased sharply since 2009 and, combined with LLPAs, have resulted in substantial gains in the GSEs' income, without achieving broad access to credit despite the unprecedented liquidity provided by the U.S. Treasury Department and Federal Reserve to Fannie Mae and Freddie Mac. No borrower should face arbitrarily high prices for mortgage credit, especially when the burden is felt particularly hard by low- and moderate-income and first-time homebuyers. We therefore request that FHFA direct the GSEs to reduce or eliminate LLPAs going forward.

Since 2008, a number of developments have both increased mortgage credit quality and reduced GSE risk exposure, including:

- Rigorous mortgage underwriting and fully documented mortgage files. New regulations and prudent mortgage lending practices have led to high-quality mortgages in both the credit guarantee and portfolio businesses at both GSEs.
- Enhanced mortgage insurer reliability. New capital standards established by the GSEs for private mortgage insurers (MI) have been implemented to strengthen the MIs' ability to pay claims in all economic cycles. Additionally, new Master Policy Agreements provide clarity and certainty of coverage for when MIs pay claims; and
- Improved industry standards and regulation. Representations and warranties framework standardization, repurchase enforcement reforms, loan data transparency and accuracy, and underwriting rules have been improved since the financial crisis and should restore investor confidence and reduce GSE/taxpayer risk exposure.

These positive developments in the housing finance system support our recommendation to reduce or eliminate LLPAs.

In 2014, FHFA solicited input on GSE g-fees,¹ including LLPAs. Many industry participants, consumer advocates and other stakeholders collectively agreed that fees charged by the GSEs were excessive and

¹ RFI on guarantee fees

opposed further arbitrary increases in g-fees and LLPAs. The average g-fee increased approximately 164% from 22 basis points to 58 basis points between 2009 and 2014,² while at the same time credit quality increased and regulations took effect that limits the risk to the GSEs. Despite this, the framework for calculating g-fees and LLPAs has largely remained the same.

Our organizations believe that the framework used to set g-fees and LLPAs should be transparent. In light of the strong capital requirements established by PMIERS, the credit pricing framework should also fully account for the risk-reducing benefits of MI in the first-loss position, as well as significant improvements in underwriting requirements as a result of the Dodd-Frank Act. The combination of g-fees that have more than doubled since 2011 and the market impact of LLPAs have effectively resulted in many qualified borrowers being priced away from the conforming loan market, undermining the Enterprises' public mission. The credit pricing framework should not be based on maximizing income to the GSEs, or funding non-housing related government expenditures. Rather, it should provide access to credit for a broad range of borrowers, and promote a "liquid and efficient national housing market," while maintaining the safety and solvency of the GSEs.

Eight years after the financial crisis, mortgage credit quality has improved dramatically and regulations have improved the industries risk management practices. We believe these changes justify eliminating LLPAs. Our organizations and members appreciate the opportunity to raise this important issue so closely tied to expanding homeownership for millions of Americans. We welcome the opportunity to further discuss the need to reduce or eliminate LLPAs as part of the GSEs' duty to serve.

Sincerely,

America's Homeowner Alliance	NAACP
American Bankers Association	National Association of Federal Credit Unions
American Escrow Association	National Association of Hispanic Real Estate Professionals
American Land Title Association	National Association of Home Builders
Asian Real Estate Association of America	National Association of Real Estate Brokers
Center for Responsible Lending	National Association of REALTORS®
Community Association Institute	National Council of La Raza
Consumer Federation of America	National Fair Housing Alliance
Consumer Mortgage Coalition	National Housing Conference
Credit Union National Association	Real Estate Settlement Procedures Council
Enterprise Community Partners	The Realty Alliance
Habitat for Humanity International	U.S. Mortgage Insurers
Mortgage Bankers Association	

cc: Bob Ryan, Acting Director of the Division of Conservatorship

² This increase includes the 10 basis point increase mandated by Congress to fund the Temporary Payroll Tax Cut Continuation Act of 2011.