

Fannie, Freddie to hike mortgage guarantee

Fee hike seeks to drive private firms into the housing market: FHFA

Ronald D. Orol, August 31, 2012

WASHINGTON (MarketWatch) — In an attempt to reduce the government’s role in housing finance, the nation’s regulator for Fannie Mae and Freddie Mac announced Friday that the government-seized housing giants will raise fees for guaranteeing credit risk, a move that could increase the amount borrowers pay for mortgages.

Fannie Mae (OBB:FNMA) and Freddie Mac (OBB:FMCC) buy whole mortgages from banks and other direct lenders and package them into bonds and mortgage-backed securities. They charge investors a “guarantee fee” in return for backing the bonds they sell.

Edward DeMarco, acting director of the Federal Housing Finance Agency, said the agency has directed Fannie Mae and Freddie Mac to raise the guarantee fees they charge on single-family mortgages by an average of 10 basis points.

The changes to the guarantee fee pricing “represent a step toward encouraging greater participation in the mortgage market by private firms,” said DeMarco in a statement.

Matthew Jozoff, an analyst at J.P. Morgan Chase & Co., said that the increase will partly be passed on to borrowers, raising the costs of mortgages slightly. A 10 basis point hike translates into roughly \$15-a-month hike in fees on a \$200,000 mortgage over the life of a 30-year-fixed mortgage.

Nevertheless, higher fees, DeMarco noted, could help the private market, currently all but frozen, be more competitive against the Fannie- and Freddie-backed market.

“These changes will move Fannie Mae and Freddie Mac pricing closer to the level one might expect to see if mortgage credit risk was borne solely by private capital,” DeMarco said.

According to a report from the regulator, the average guarantee fee charged by the mortgage giants increased from 26 basis points in 2010 to 28 basis points in 2011. The fee increase will take effect Nov. 1 or Dec. 1 depending on the structure of the loan.

Jozoff said that lately the government is responsible for about 90% of mortgage origination. Jozoff added that he didn’t believe the move will bring in any new private players.

Mark Calabria, director of financial regulation studies at the Cato Institute in Washington, agreed that in today's fragile housing market, the change won't have a major impact. He added that such a change would have been a "game changer" in the booming market immediately before the crisis of 2008.

"It's a small important change on the margins," Calabria said. "The 10 basis points could start to attract other private players."

Calabria noted that while DeMarco wants to make changes to encourage the private market, Fannie and Freddie have a different agenda.

"Fannie and Freddie want to raise the guarantee fee without getting other players into the market because they don't want it to hurt their market dominance while DeMarco wants to attract other players," Calabria said.

He added that it will help reduce the deficit by a tiny amount, or a "rounding error."

The fee increase comes after the Treasury Department announced Aug. 17 that it is changing the terms of its four-year-old financial backing for Fannie Mae and Freddie Mac, setting up a new arrangement where all profits from the firms will be provided to the Treasury. Previously, Fannie and Freddie paid 10% quarterly dividend payments to Treasury and were forced to borrow from the government every time they didn't have a large profitable quarter. [See story about Treasury Department move.](#)

Fannie and Freddie were placed into government conservatorship in September 2008 at the height of the financial crisis and have already cost taxpayers \$188 billion.

The action comes after Congress agreed in the waning days of 2011 to extend the payroll tax cut by two months and pay for it by increasing and diverting guarantee fees charged by Fannie Mae and Freddie Mac to guarantee mortgages.

That statute required FHFA to raise guarantee fees to cover the costs to Treasury by at least 10 basis points. [Read about how the payroll tax law may starve, reform Fannie, Freddie](#)

Jozoff noted that Friday's guarantee fee increase was enacted, in part, so that Fannie and Freddie would be in compliance with the payroll tax-cut bill.

Mike McMahon, managing director at Redwood Trust Inc., a publicly traded real estate investment trust, said the "increase is a safe, measured step toward the goal of leveling the playing field between [Fannie and Freddie] and the private sector."