NAR Issue Brief
Government-Sponsored Enterprises: Guarantee Fees

What is a Guarantee Fee (g-fee)?

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 (think of it like MBS insurance). 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 SEC, and
- Maintaining the MBS on the open market, and selling, general and administrative expense.

Recent Congressional Action Related to G-fees

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.

More recently, on July 30, 2015, the U.S. Senate passed a 6-year highway and transit funding reauthorization bill. The bill 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 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 extends the highway program through October 29, 2015, but replenishes the Highway Trust Fund into December 2015 without the g-fee language.

Prior to the Senate vote, NAR, along with other industry stakeholders, sent a letter to lawmakers stating that g-fees should only be used to manage the companies' credit risk and not be diverted for unrelated spending by Congress.

With little time left in the fall session, there is a risk that the Senate 6-year measure will be the starting point for fall negotiations in the House.

Impact of the 10 bps G-fee Increase

Lenders who passed the original increase from the Payroll Tax on to borrowers have increased the rate offered to a borrower by at least .1% since April 1, 2012. Several sources have placed the increase in cost at approximately $4000 - $5400 over 30 years on a $200,000 loan. Since passage of the original 10bps in the Payroll Tax legislation, the g-fee has been increased far more than the legislation called for, costing homebuyers and refinancers significantly more money per annum. Since the initial increase, the average g-fee for a fixed, 30-year loan has been raised 32bps, or more than 114%.

Cost of Additional G-fee Actions

The result of 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. 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 means higher unemployment, but more importantly, a slowdown in loan originations which is what is required to fuel the "pay-for" via the g-fee.

NAR Position

The National Association of REALTORS® strongly opposes the use of guarantee fees for any use other than intended purpose. NAR understands the need to bring financial relief to the middle-class and reauthorize highway 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.