United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

May 8, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219

Dear Director Thompson:

I write today to express my concerns related to the Federal Housing Finance Agency's (FHFA) actions to change the pricing framework for Fannie Mae and Freddie Mac (the Enterprises).[1] In defending your decision, you claim the changes will "more accurately align pricing with the expected financial performance and risks of the underlying loans."[2] Rather than providing clarity, however, your comments on the pricing changes have only raised more questions, and to date, FHFA has failed to provide any supporting analysis to back up these claims.

As you are aware, prior to 2008, the Enterprises did not engage in risk-based pricing—guarantee fees varied according to the volume of mortgages delivered by individual lenders, where larger lenders received better pricing than smaller lenders.

Following the collapse of the GSEs into conservatorship, guarantee fees were increased and became more risk-based, resulting in pricing differences tailored to loan characteristics.[3] Congress further required an increase in guarantee fees by the Enterprises of at least ten basis points and directed FHFA to gradually increase them by making "adjustments in pricing based on *risk* levels."[4] However, despite congressional mandates and initial efforts to introduce risk-based pricing for fees charged on loans delivered to the Enterprises, the average price has remained in the same range for years.

With these recent changes, risk-based pricing has seemingly been diluted in an effort to introduce additional cross-subsidies, the latest change being announced in January 2023. A quick review of the Enterprises' pricing framework reveals that for borrowers with a given loan-to-value (LTV) ratio, the changes from the prior pricing framework results in *decreased* fees assessed for acquisitions of loans to borrowers with lower credit scores yet *increased* fees for

[1] Press Release, FHFA Announces Updates to the Enterprises' Single-Family Pricing Framework (Jan. 19, 2023), https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Updates-to-Enterprises-SF-Pricing-Framework.aspx.
[2] Statement from the Hon. Sandra Thompson, Dir., Fed. Hous. Fin. Agency, Setting the Record Straight on Mortgage Pricing (Apr. 25, 2023), https://www.fhfa.gov/Media/PublicAffairs/Pages/Statement-from-FHFA-Director-Sandra-Thompson-on-Mortgage-Pricing.aspx.
[3] Fed. Hous. Fin. Agency, Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2013, at 8 (Nov. 20, 2014), https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/GFeeReport1120914.pdf.
[4] Temporary Payroll Tax Cut Continuation Act of 2011 § 401, 12 U.S.C. § 4547 (c)(1)(B) (2011) (emphasis added).

loans to borrowers with higher credit scores. This holds true for loans with LTVs below 80 percent and without private mortgage insurance or other forms of credit enhancement. Moreover, loans to borrowers with minimal downpayments resulted in lower fees, regardless of credit score. Whereas initial adjustments to the pricing framework were described as changes that "[b]egan to address the issue of lower-risk loans subsidizing the pricing of higher-risk loans,"[5] the changes made under your leadership have clearly resulted in a reduction of risk-based pricing by flattening the relationship of credit risk to credit score and LTV.

Furthermore, you claim that "the Enterprises engage in risk-based pricing to, among other things, better ensure their safety and soundness, protect taxpayers, and serve their mission,"[6] but the evidence is lacking. I request that you schedule a briefing with my staff to set the record straight to occur no later than May 19, 2023. Before the briefing, please also answer the following questions and provide the requested information:

1. How, if at all, has the average guarantee fee changed under your leadership?
2. Has cross-subsidization increased in the pricing of credit risk associated with loans delivered to the Enterprises?
3. How will the updated pricing framework "further the safety and soundness of the Enterprises, [helping] them better achieve their mission?"[7]
4. You admit that since collapsing into conservatorship, "the Enterprises have remained undercapitalized and maintain a taxpayer backstop should they confront significant losses."[8] Do you believe the guarantee fees are appropriately set so that the Enterprises are on a durable footing to support sustainable mortgage credit?
5. Can you confirm that each fee—as updated in the pricing framework changes announced in January 2023—is appropriately calibrated to cover the actual costs of loans delivered to the Enterprises?
6. Congress intended guarantee fee increases for loans delivered to the Enterprises to be risk-based. What are the expected losses for each category of loans across the Enterprises' fee matrices?
7. For Fannie Mae's HomeReady Mortgage and Freddie Mac's Home Possible Mortgage, please provide the following data for each year since availability of the products: average

[5] *Guarantee Fees History*, FED. HOUS. FIN. AGENCY, https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Guarantee-Fees-History.aspx (last updated Dec. 21, 2021).
[6] Statement from the Hon. Sandra Thompson, *supra* note 2. *See also* Sandra Thompson, Letter to the Editor, *FHFA Responds on New Mortgage-Fee Rule*, WALL ST. J., Apr. 26, 2023, https://www.wsj.com/articles/fhfa-responds-housing-mortgage-fee-rule-36e279d0 ("FHFA updated Fannie and Freddie's pricing framework to ensure they are compensated appropriately for the exposures they guarantee.").
[7] Statement from the Hon. Sandra Thompson, *supra* note 2
[8] *Id.*

credit score, average LTV, default rate, and any other historical performance data that FHFA analyzed before deciding to reduce the fees on these mortgages to zero.

8. Please provide supporting analysis, including expected loss data, to justify the proposed debt-to-income (DTI) ratio-based fee announced in January 2023.

Thank you for your attention to this important matter.

Sincerely,

Tim Scott
Ranking Member