FANNIE MAE AND FREDDIE MAC SINGLE-FAMILY GUARANTEE FEES IN 2018

December 2019

Division of Housing Mission & Goals

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Executive Summary

Section 1601 of the Housing and Economic Recovery Act of 2008 (HERA) requires the Federal Housing Finance Agency (FHFA) to conduct an ongoing study of the guarantee fees charged by Fannie Mae and Freddie Mac (the Enterprises) and to submit a report to Congress each year.[1] The report is required to contain an analysis of the average guarantee fee and a breakdown by product type, risk class, and size. The report also must analyze the costs of providing the guarantee and provide a comparison to the prior year. FHFA issued the first single-family guarantee fee report in 2009.[2]

This report discusses the guarantee fees charged in 2018 and provides a five-year perspective with data back to 2014.[3] The major findings in this report are:

- For all loan products combined, the average single-family guarantee fee in 2018 increased 2 basis points to 55 basis points. The upfront portion of the guarantee fee, which is based on the credit risk attributes (e.g., loan purpose, loan-to-value ratio, and credit score), was unchanged at 15 basis points.[4] The ongoing portion of the guarantee fee, which is based on the product type (fixed-rate or adjustable-rate, and loan term), increased 2 basis points to 40 basis points.
- The average guarantee fee in 2018 on 30-year fixed rate loans was unchanged at 56 basis points, while the fee on 15-year fixed rate loans increased by 1 basis point to 37 basis points. The fee on adjustable-rate mortgage (ARM) loans fell 4 basis points to 54 basis points.
- Higher interest rates accompanied by increasing house prices in 2018 led to a smaller share of both rate-term refinances and 15-year loans acquired by the Enterprises. The larger share of purchase loans and a growing focus on programs for first-time homebuyers and affordable housing led to a slight increase in the share of loans with higher loan-to-value (LTV) ratios and lower credit scores.

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[1] See Section 1601 of the Housing and Economic Recovery Act of 2008, Public Law 110-289, 122 Stat 2824 at https://www.congress.gov/110/plaws/publ289/PLAW-110publ289.pdf.

[2] See prior guarantee fee reports at https://go.usa.gov/xP6mE.

[3] Prior-year data in the text and subsequent tables and charts may not be consistent with data in previous FHFA reports due to changes in methodology or data corrections. Also, due to rounding, the individual numbers in the text, tables, and charts may not compute exactly to the totals.

[4] Upfront fees are converted to an annual g-fee equivalent by dividing the upfront fee by the expected number of years a loan will remain outstanding.

Questions and comments about this report may be addressed to FHFA at:
https://www.fhfa.gov/AboutUs/Contact/Pages/General-Questions-and-Comments.aspx

Guarantee Fees: Background

Guarantee fees are intended to cover the credit risk and other administrative and operational costs that Fannie Mae and Freddie Mac incur when they acquire single-family loans from lenders. Loans are acquired through two methods. A lender may exchange or swap a group of loans for a Fannie Mae or Freddie Mac-guaranteed mortgage-backed security (MBS) collateralized by these loans, which may then be sold by the lender into the secondary market to recoup funds to make more loans to borrowers. Alternatively, a lender may deliver loans to an Enterprise in return for a cash payment. Larger lenders tend to exchange loans for MBS, while smaller lenders tend to sell loans for cash and these loans are later bundled by the Enterprises into MBS.

While the private holders of MBS assume market risk (the risk that the price of the security may fall due to changes in market interest rates), the Enterprises assume the credit risk on the loans.[5] The Enterprises charge a guarantee fee in exchange for providing this guarantee. Investors are willing to pay a higher price for Enterprise MBS due to their guarantee of principal and interest.

There are two types of guarantee fees: ongoing and upfront. Ongoing fees are collected each month over the life of a loan. Upfront fees are one-time payments made by lenders upon loan delivery to an Enterprise that are converted to an annual equivalent in this report (see footnote 4). Fannie Mae refers to upfront fees as "loan level price adjustments," while Freddie Mac refers to them as "delivery fees." Both ongoing and upfront fees compensate the Enterprises for the costs of providing the guarantee. Ongoing fees are based primarily on the product type, such as a 30-year fixed rate or a 15-year fixed rate loan. Upfront fees are used to price for specific risk attributes, such as the LTV ratio and credit score.

[5] Although the Enterprises are always the ultimate guarantors, they may choose to retain the credit risk on their own balance sheet or, as part of their credit risk transfer (CRT) programs, pay private entities to bear some of the credit risk. Loans with front-end risk transfer and lender recourse have been excluded from the study population due to non-standard guarantee fee pricing. While the other loans in the study population may have risk transfer after acquisition, this report does not include any impact from CRT in the estimated costs or profitability (gap).

Ongoing fees are set by the Enterprises with lenders that exchange loans for MBS, while those fees are embedded into the price offered to lenders that sell loans for cash. In contrast to ongoing fees, the upfront fees are publicly posted on each Enterprise's website.[6]

The upfront fees assessed by the two Enterprises generally are in alignment.

Factors Considered in Setting Fees

I. Estimated Cost

Guarantee fees cover several cost components that the Enterprises expect to incur in providing their guarantee on MBS: 1) the expected costs that result from the failure of some borrowers to make their payments; 2) the cost of holding the modeled capital amount necessary to protect against potentially much larger unexpected and catastrophic losses that result from the failure of some borrowers to make their payments in a severe stress environment; 3) general and administrative expenses; and 4) 10 basis points allocated to the U.S. Department of the Treasury as required by the Temporary Payroll Tax Cut Continuation Act of 2011.

Of these components, the cost of holding capital is by far the most significant. A firm bearing mortgage credit risk needs enough capital to survive a stressful credit environment, such as what occurred during the most recent housing market crisis. The annual cost of holding capital to protect against unexpected losses is the amount of capital required multiplied by the target rate of return on that capital. In 2017, the Enterprises began using FHFA's Conservatorship Capital Framework (CCF) to calculate the cost of holding capital.[7]

In 2018, each Enterprise was subject to a Senior Preferred Stock Purchase Agreement with the U.S. Department of the Treasury, which restricted the ability to retain capital beyond a $3 billion capital reserve. Furthermore, FHFA suspended its quarterly classifications of the capital adequacy of each Enterprise when it placed the Enterprises into conservatorship. However, in order to maintain a sound pricing framework, FHFA expects each Enterprise to set guarantee

[6] See Enterprise upfront fees at https://www.fanniemae.com/content/pricing/llpa-matrix.pdf and http://www.freddiemac.com/singlefamily/pdf/ex19.pdf.

[7] FHFA developed this aligned risk management framework to better inform each Enterprise's business decisions while in conservatorship. Both Enterprises use the CCF to make their regular business decisions. FHFA also uses the CCF in its role as conservator to assess Enterprise guarantee fees, activities, and operations and to guard against the Enterprises making competitive decisions that could adversely impact safety and soundness.

fees consistent with the amount of capital they would need to support their guarantee businesses if they were able to fully retain capital.

The following are the main risk characteristics that determine the estimated cost of guaranteeing a single-family loan:

- Borrower credit history;
- Debt-to-income ratio;
- Loan-to-value ratio;
- Mortgage insurance coverage;
- Loan purpose (purchase, rate-term refinance, cash-out refinance);
- Occupancy status (primary home, investor);
- Property type (single-family, condo/co-op, 2-4 unit);
- Product type (fixed or adjustable rate, maturity term); and
- Target return on capital.

Using the CCF and its own proprietary data as inputs, each Enterprise determines the estimated cost of guaranteeing a loan. We define gap as the difference between the guarantee fee actually charged on a loan and the estimated cost. The gap serves as the measure of estimated profitability of the loan acquisition.[8] If the gap on a loan is positive or zero, the Enterprise expects to achieve at least its target rate of return on capital. If the gap is negative, the Enterprise may still earn a positive return on the loan despite not achieving its overall target rate of return on the loan. At acquisition, each Enterprise expects to earn a positive return, whether above or below target, on nearly all of its loans. Lower expected returns on some business segments may help the Enterprises to fulfill their affordable housing requirements.[9]

[8] The Enterprise models, CCF, and target return on capital, which are used to determine the estimated cost, are updated over time, so caution must be exercised when comparing gaps from different time periods.

[9] The Federal Housing Enterprises Financial Safety and Soundness Act, as amended by HERA, requires FHFA "to ensure that the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities)."

II. Other Factors

Another factor in determining guarantee fees is the lending environment. For example, Fannie Mae and Freddie Mac compete with each other for a lender's business,[10] and lenders may choose among alternatives to the Enterprises, such as retaining loans in portfolio, originating loans insured by the Federal Housing Administration, or securitizing loans in the private-label securities market. If the Enterprises' guarantee fees rise relative to the prices of these alternatives, some reduction in the market share for the Enterprises for certain types of loans would be expected.

Timeline of Changes in Guarantee Fees

Faced with deteriorating conditions in the housing market, each Enterprise implemented a guarantee fee increase in March 2008 to better align fees with credit risk. Specifically, the Enterprises increased ongoing fees and introduced two new upfront fees, a fee based on a borrower's LTV ratio and credit score and an adverse market charge. Later in 2008, the Enterprises refined their LTV ratio and credit score-based upfront fees, and in subsequent years gradually raised their fees to better reflect credit risk.

On December 23, 2011, the President signed into law the Temporary Payroll Tax Cut Continuation Act of 2011 (TCCA) to fund an extension of the payroll tax cut. To comply with the TCCA, in late December 2011 FHFA directed the Enterprises to increase the ongoing fees for all loans by 10 basis points effective with April 2012 deliveries.[11]

In August 2012, FHFA directed the Enterprises to increase their guarantee fees by an additional 10 basis points on average to more fully compensate taxpayers for bearing credit risk. The increase was allocated in a way that more closely aligned the gaps of 15-year and 30-year loans

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[10] In June 2019, the Enterprises began issuing a new, common, single MBS which should eliminate pricing disparity between the securities. Fannie Mae's MBS tended to trade at higher prices (with corresponding lower interest rate yields) than similar securities from Freddie Mac. Freddie Mac was able to compete with Fannie Mae for business by offering market adjusted pricing (MAP) to its lenders that exchange loans for MBS. While the guarantee fees in this report are shown on a combined basis (Fannie Mae and Freddie Mac fees together weighted by the respective acquisition volumes), the Freddie Mac component of the combined guarantee fees included the effect of the MAP pricing discount. https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Update-on-Implementation-of-the-Single-Security-and-CSP_November-2018.pdf

[11] The Enterprises collect the TCCA fee and pass it through to the U.S. Department of the Treasury. For reporting purposes to FHFA, the Enterprises include the 10 basis point TCCA fee in both the guarantee fee and model fee. The gaps shown in this report do not reflect the benefit of the 10 basis point fee because it is both an income and an expense item.

and reduced differences in the ongoing fees of small volume lenders and large volume lenders. This change was effective with December 2012 deliveries.

FHFA announced another guarantee fee change in December 2013 that would have increased ongoing fees by 10 basis points and made other changes to the fee structure. However, in January 2014, FHFA suspended implementation of the change pending further review. In April 2015, FHFA completed its further review of the adequacy of the Enterprises' guarantee fees and found no compelling economic reason to change the overall level of fees. However, FHFA directed the Enterprises to make certain minor and targeted fee adjustments effective with September 2015 deliveries:

- Due to improvements in the housing market, the 25 basis point upfront adverse market charge in place since 2008 was removed.

- To offset the revenue lost from the removal of the adverse market charge, FHFA made targeted increases in upfront fees for a subset of loans, including some higher-risk loan segments (cash-out refinances, jumbo conforming loans, investment properties, and loans with secondary financing) and those with both high credit scores and low LTV ratios.

Fees were not increased on loans with low credit scores or high LTV ratios. An important factor that contributed to FHFA's determination to leave the upfront fees the same for higher LTV ratio loans was FHFA's separate action in April 2015 to finalize new standards for mortgage insurers – the Private Mortgage Insurer Eligibility Requirements (PMIERs). Loans with less than a 20 percent down payment are required to share credit risk with the private sector through charter-eligible credit enhancements, which lenders typically satisfy with private mortgage insurance. The finalized PMIERs provide modest cost savings to the Enterprises by reducing mortgage insurer counterparty exposure. Overall, the changes to guarantee fees implemented with September 2015 deliveries were approximately revenue neutral and resulted in little or no change in loan interest rates for most borrowers.

In 2016, as part of its quarterly monitoring of guarantee fees, FHFA observed that the average of ongoing fees charged by the two Enterprises was declining. FHFA directed the Enterprises in July 2016 to set minimum ongoing guarantee fees by product type effective in November 2016, consistent with its responsibility to ensure safety and soundness. In December 2017, FHFA directed the Enterprises to meet specified return on capital targets, effective with February 2018 loan deliveries.

Table 1 shows a timeline of the major changes to guarantee fees dating back to 2008.

Table 1: Timeline of Changes in Fees

Event Date	Change
March 2008	The Enterprises increased ongoing fees and added two new upfront fees: a fee based on the borrower's LTV ratio and credit score, and a 25 basis point adverse market charge.
Late 2008 through 2011	The Enterprises gradually raised fees and refined their upfront fee schedules.
December 2011	Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, FHFA directed the Enterprises to increase the ongoing fee for all loans by 10 basis points. This fee is paid to the U.S. Department of the Treasury. This fee increase was effective with April 2012 deliveries and will expire after 10 years.
August 2012	FHFA directed the Enterprises to raise fees by an additional 10 basis points on average to better compensate for credit risk exposure. Fees were raised more on loans with terms longer than 15 years than on shorter-term loans to better align the gaps, and the fees were made more uniform for lenders that deliver larger and smaller volumes of loans. These changes were effective with December 2012 MBS deliveries.
December 2013	FHFA directed the Enterprises to increase ongoing fees by 10 basis points, change upfront fees to better align pricing with credit risk characteristics, and remove the 25 basis point adverse market charge for all but four states. However, in January 2014, FHFA suspended the implementation of these changes pending review.
April 2015	FHFA completed its fee review and directed the Enterprises to eliminate the adverse market charge in all markets and add targeted increases for specific loan groups effective with September 2015 deliveries. These changes were approximately revenue neutral with little or no impact for most borrowers.
July 2016	Based on findings from FHFA's quarterly guarantee fee reviews, the Agency directed the Enterprises to set minimum ongoing guarantee fees by product type, effective in November 2016, consistent with FHFA's responsibility to ensure the safety and soundness of the Enterprises.
December 2017	FHFA directed the Enterprises to meet specified return on capital targets, effective with February 2018 loan deliveries.

Guarantee Fee Results for 2018

This report uses data on single-family loans acquired from 2014 to 2018 to exhibit the average guarantee fee charged by the Enterprises, as well as a breakdown of fees by product type, risk class (loan purpose, LTV ratio, and credit score), and lender delivery volume. Because this report uses economic concepts, rather than accounting data, to analyze guarantee fees, this report differs from the published financial statements of the Enterprises which are prepared in accordance with Generally Accepted Accounting Principles (GAAP).

In 2017, the Enterprises began to use CCF to calculate capital and the cost of guaranteeing mortgages, so this report will show the gap only for 2017 and 2018, as previous years were based on different capital models.

This report includes loans acquired by the Enterprises under their standard underwriting and delivery guidelines.[12] The size of the study population is shown in Table 2.

Table 2: Study Population

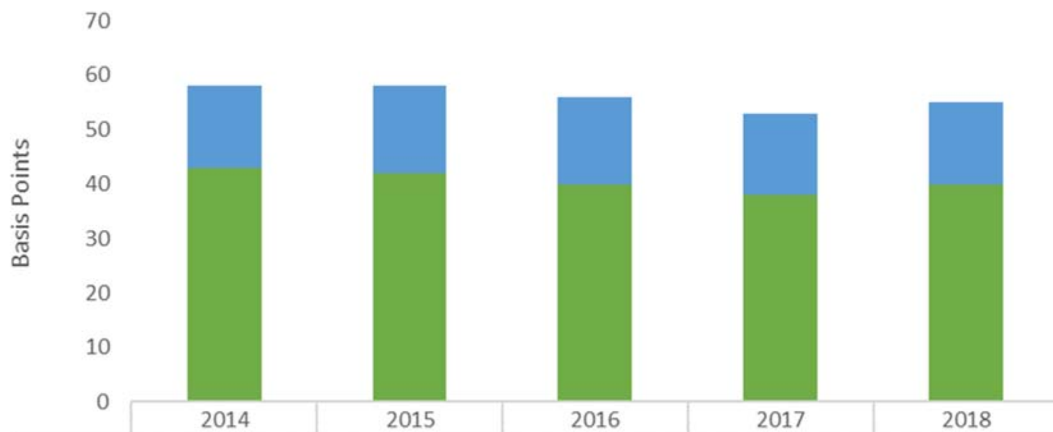
	2014	2015	2016	2017	2018	Change 2017 to 2018
Dollars (in Billions)	$564	$760	$897	$768	$692	-$76
Loans (in Millions)	2.7	3.4	3.8	3.4	3.0	-0.4

[12] The study population does not include loans from bulk purchase transactions, the Home Affordable Refinance Program (HARP), manufactured housing, FHA loans, and other loans outside standard underwriting and delivery guidelines. These excluded categories account for 8 percent of the total single-family mortgage loan acquisitions.

I. Average Guarantee Fee, Gap, and Risk Profile

Chart 1 shows that in 2018, the average guarantee fee of 55 basis points was 2 basis points higher than that of 2017,[13] but lower than average guarantee fee of 56-59 basis points between 2014 and 2016. In 2018 as compared to 2017, the upfront component was unchanged, but the ongoing fee component increased by 2 basis points.

Chart 1: Average Guarantee Fee



	2014	2015	2016	2017	2018
Total	57	59	56	53	55
Upfront	15	16	16	15	15
Ongoing	43	42	40	38	40

Table 3 shows the acquisition share by risk profile over the five-year study period. The acquisition profile in 2018 reflects a slightly higher risk mix overall compared to 2017. Rising interest rates contributed to a decrease in the share of rate-term refinance loans and an increase in the share of purchase loans. The greater share of purchase loans partly contributed to a greater share of higher LTV loans, because purchasers usually have less equity in a property than rate-term refinancers. More purchase and fewer rate-term refinance loans also contributed to an increase in the share of 30-year fixed rate loans and a decrease in the share of 15-year fixed rate loans. The share of lower credit score loans also increased marginally in 2018.

The greater share of loans with higher LTV ratios and lower credit scores would normally result in higher upfront fees. However, upfront fees remained constant from the previous year due to

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[13] The 2018 Report showed an average guarantee fee for 2017 of 56 basis points. FHFA has determined that buy-up/buy-down adjustments should be included in measuring guarantee fee, which results in an average guarantee fee for 2017 of 53 basis points. This methodology was employed throughout this report.

pilot programs in which upfront fees were capped to support affordable and first-time buyer housing programs. The 2 basis points increase in the ongoing fee was driven by the shift from 15-year fixed rate loans to 30-year fixed rate loans, as 30-year loans have higher ongoing fees than 15-year loans.

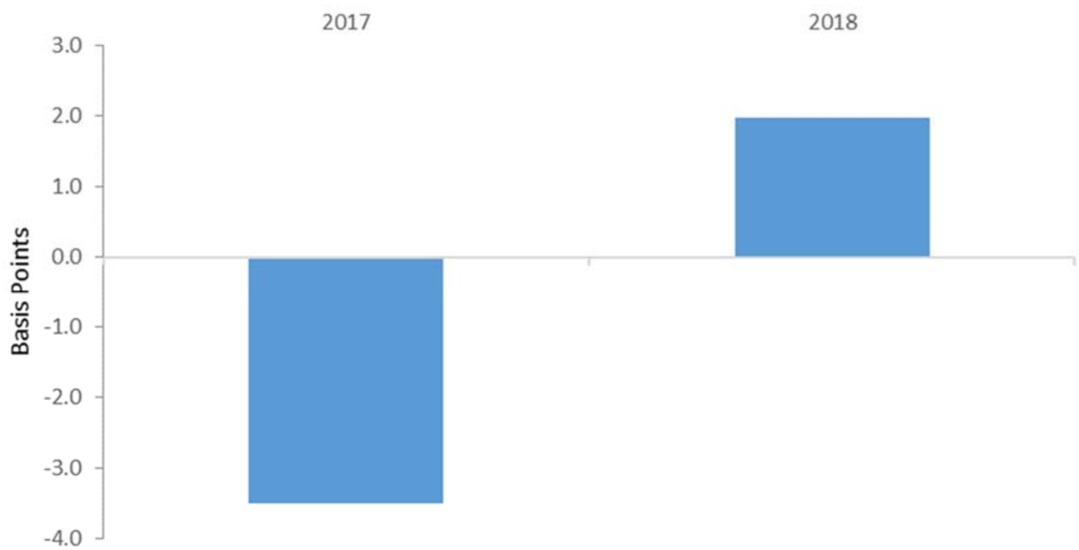
Table 3: Acquisition Share by Risk Profile

Product Type	2014	2015	2016	2017	2018	Change 2017 to 2018
30-Year Fixed	75%	75%	76%	78%	85%	7%
15-Year Fixed	16%	16%	16%	13%	9%	-4%
Fixed Other Terms	4%	6%	7%	6%	4%	-2%
ARM	6%	3%	2%	3%	2%	-1%
Loan Purpose						
Purchase	57%	46%	45%	57%	67%	10%
Rate-Term Refinance	26%	34%	34%	21%	12%	-9%
Cash-Out Refinance	17%	20%	20%	22%	20%	-2%
LTV Ratio						
<=70 Percent	29%	33%	35%	31%	27%	-4%
70.1 - 80 Percent	44%	42%	39%	40%	38%	-2%
80.1 - 90 Percent	12%	12%	12%	12%	13%	1%
> 90 Percent	16%	14%	14%	17%	22%	5%
Credit Score						
>= 720	74%	77%	77%	73%	73%	0%
660 - 719	21%	20%	20%	22%	23%	1%
< 660	4%	4%	3%	4%	5%	1%
Risk Layering						
Jumbo Conforming	8%	9%	10%	9%	8%	-1%
Condo/Cooperative	9%	9%	9%	9%	9%	0%
Investment Properties	6%	5%	5%	6%	5%	-1%

Chart 2 shows that the average gap in 2018 was greater than the average gap in 2017. This indicates that the expected profitability on new loan acquisitions was above the Enterprises' return on capital targets.

Two main factors contribute to the movement in gaps over time. First, yearly changes to each Enterprise's cost estimation model and capital-related assumptions affect the gaps. Second, changes in the loan mix affect the gap, as the Enterprises acquire more or less loans in different risk categories each year.

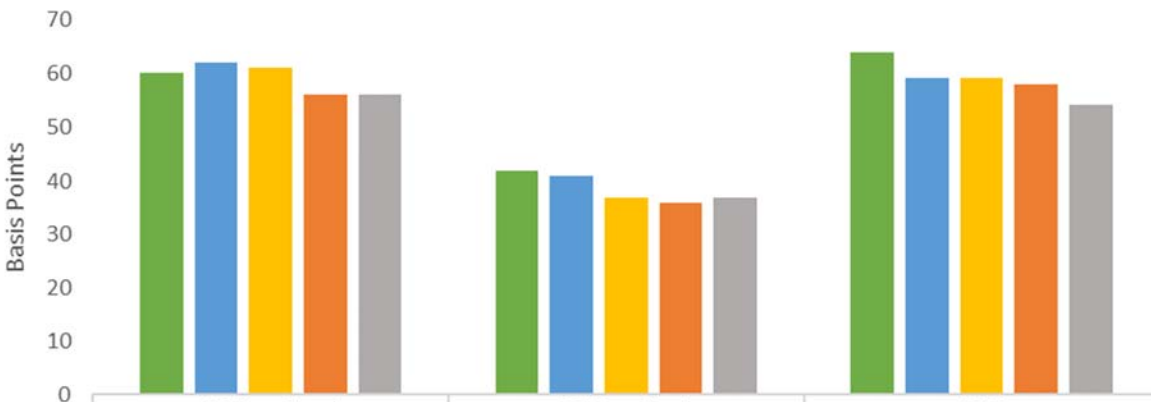
Chart 2: Average Gap



II. Guarantee Fees by Product Type

Chart 3 shows the guarantee fees by product type. The average guarantee fee remained unchanged on 30-year fixed rate loans at 56 basis points, while the average fee for 15-year fixed rate loans increased by 1 basis point to 37 basis points. The average guarantee fee fell by 4 basis points to 54 basis points for ARM loans.

Chart 3: Guarantee Fee by Product Type



	30-Year Fixed	15-Year Fixed	ARM
2014	60	42	64
2015	62	41	59
2016	61	37	59
2017	56	36	58
2018	56	37	54

Chart 4 shows modest changes in the product type gaps for 2018. Expected profitability improved for all product types. 30-year fixed rate loans were expected to generate returns slightly above the targeted level, while the 15-year fixed rate and ARM loans were expected to generate returns further above the targeted level.

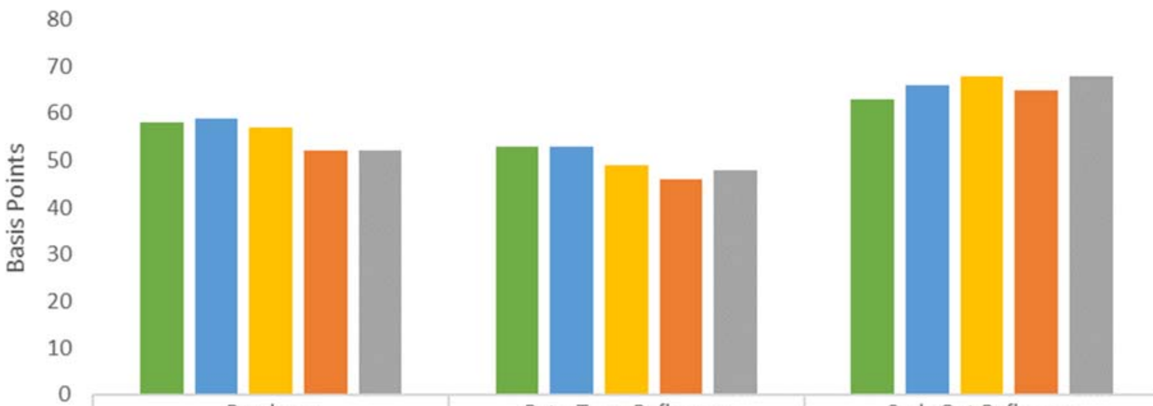
Chart 4: Gap by Product Type

III. Guarantee Fees by Risk Class

A. Loan Purpose

Chart 5 shows guarantee fees by loan purpose. The average fee for purchase loans was unchanged in 2018, while the average fee for rate-term and cash-out refinance loans increased by 2 basis points and 3 basis points, respectively. The differences were driven by small changes in the loan mix attributes within each group.

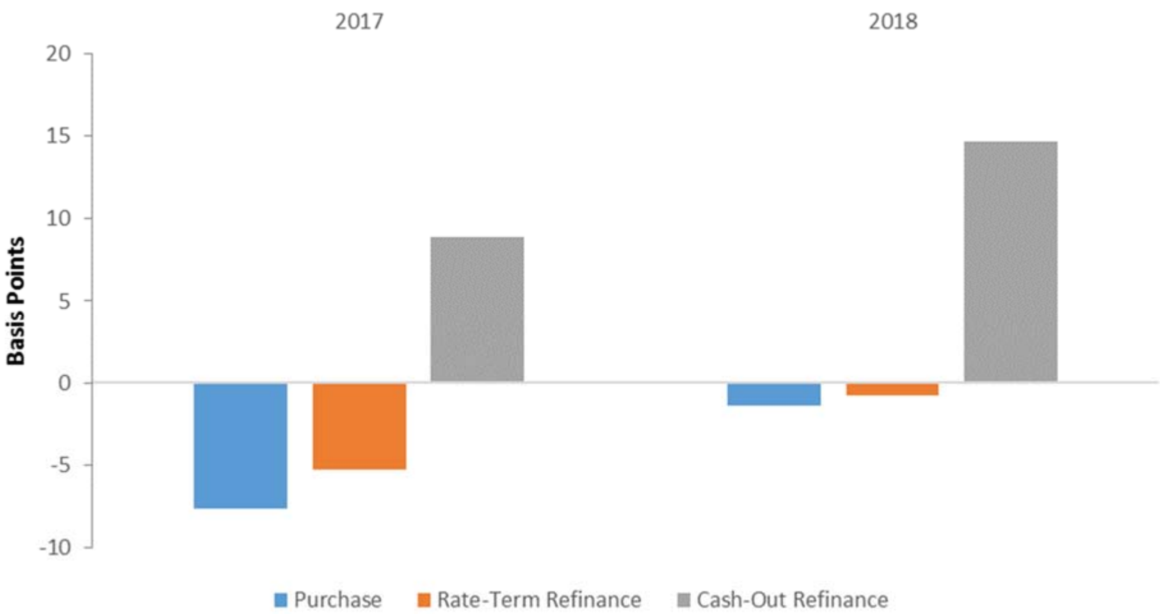
Chart 5: Guarantee Fee by Loan Purpose



	Purchase	Rate-Term Refinance	Cash-Out Refinance
2014	58	53	63
2015	59	53	66
2016	57	49	68
2017	52	46	65
2018	52	48	68

Chart 6 shows an increase in the gap for cash-out refinance loans and smaller increases in the gaps for purchase and rate-term refinance loans. In late 2015, FHFA directed the Enterprises to institute a fee increase for cash-out refinances, and the expected returns on these loans now exceed the Enterprise-wide target. While the gaps for rate-term refinance and purchase loans narrowed, those loans still had expected returns below the targeted levels.

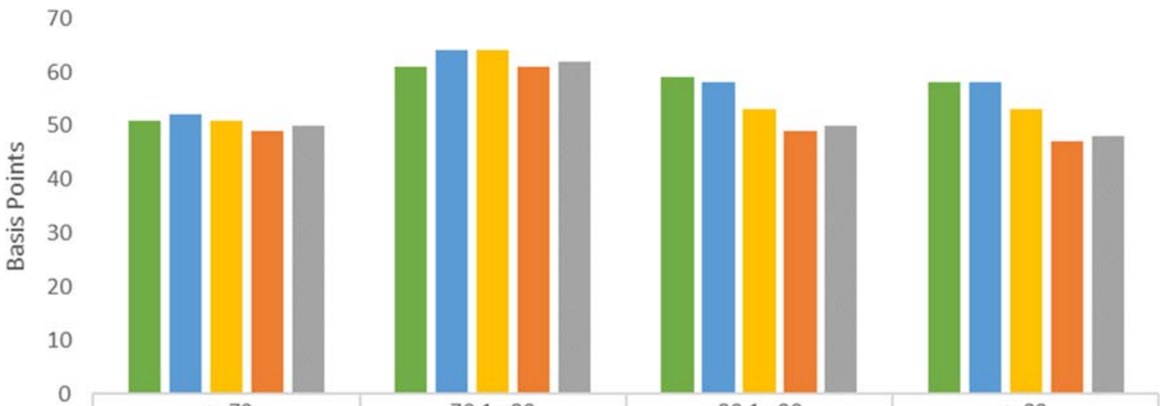
Chart 6: Gap by Loan Purpose



B. Loan-to-Value Ratio

Chart 7 shows modest changes in the guarantee fees by loan-to-value ratio. Guarantee fees increased for all LTV groups. The average fee increased by 1 basis point for loans with borrower equity of at least 30 percent (≤70 LTV). The average fee increased by 1 basis point for loans with less than 10 percent borrower equity (>90 LTV). The acquisition share for the lowest LTV group fell by 4 percent, while the acquisition share for the highest LTV group grew by 5 percent (see Table 3).

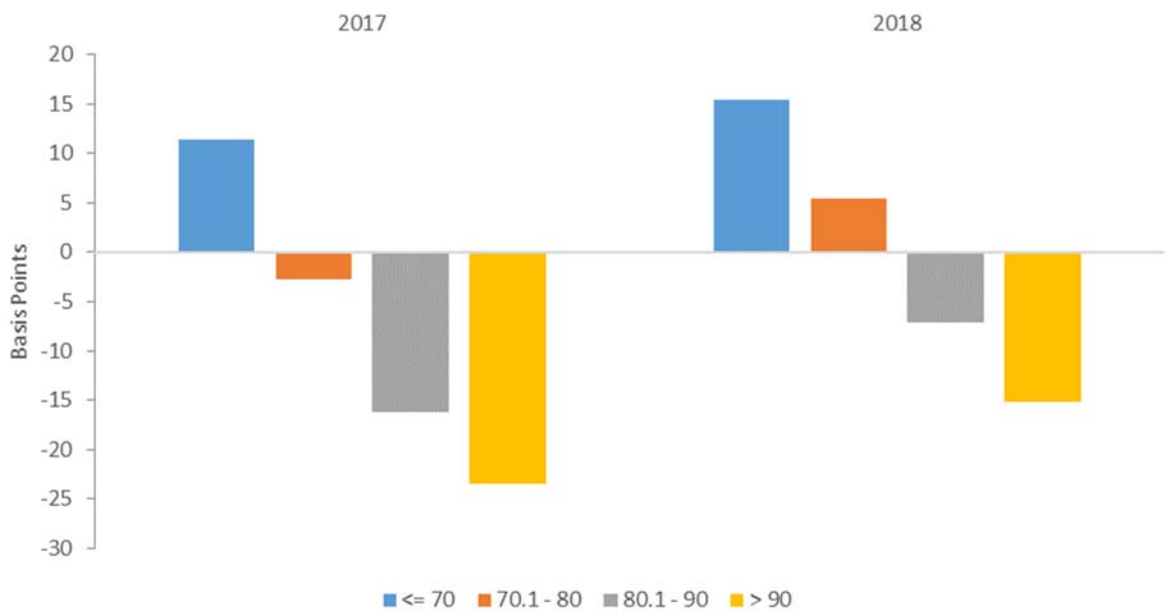
Chart 7: Guarantee Fee by Loan-to-Value Ratio



	<= 70	70.1 - 80	80.1 - 90	> 90
2014	51	61	59	58
2015	52	64	58	58
2016	51	64	53	53
2017	49	61	49	47
2018	50	62	50	48

Chart 8 shows better gap performance in each of the LTV ratio groups in 2018. In 2018 the Enterprises expected to earn more than their target rate of return on loans with LTV ratios up to 70 percent, slightly positive returns for loans with LTV ratios between 70.1 and 80 percent, and below-target returns on loans with LTV ratios greater than 80 percent.

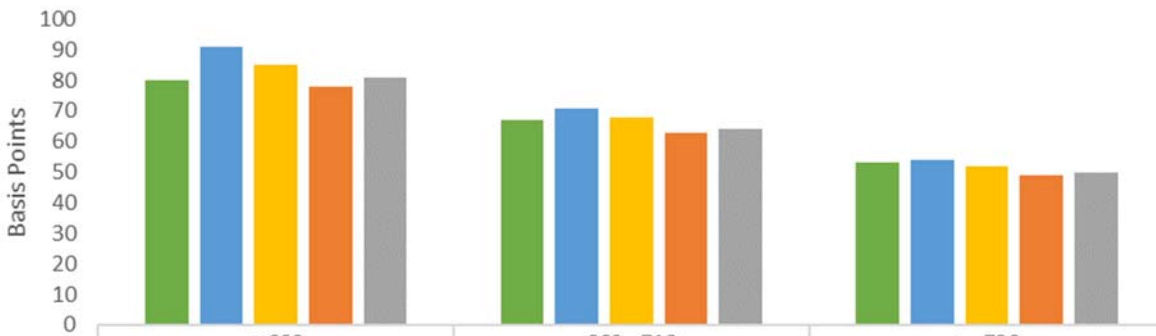
Chart 8: Gap by Loan-to-Value Ratio



C. Credit Score

Chart 9 shows guarantee fees by credit score. The lowest credit score group (<660) had an increase of 3 basis points in the average guarantee fee in 2018, and the mid-range group (660-719) had an increase of 1 basis point. The average guarantee fee for the highest credit score group (>=720) also increased by 1 basis point. While the acquisitions were still concentrated in the highest credit score loans, Table 3 shows slight increases in the shares of loans with credit scores below 720.

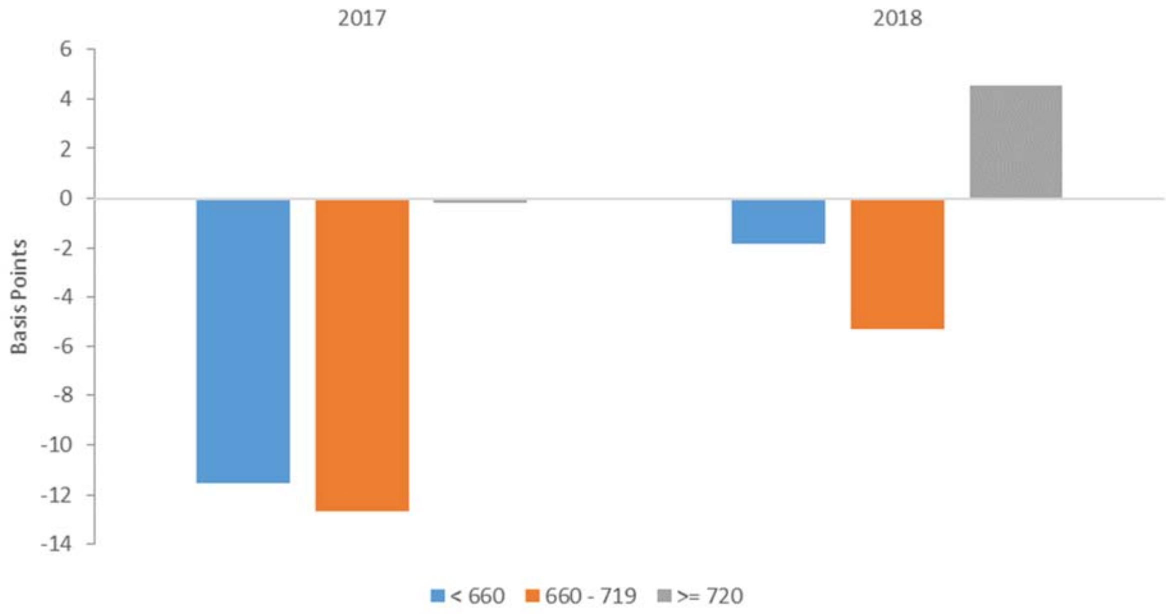
Chart 9: Guarantee Fee by Credit Score



	< 660	660 - 719	>= 720
2014	80	67	53
2015	91	71	54
2016	85	68	52
2017	78	63	49
2018	81	64	50

Chart 10 shows major gains in the expected profitability of all three credit score groups in 2018. Despite the gap improvements, expected returns were still below the targeted levels for the credit score groups below 720. While these loan groups were below target, they are still expected to generate positive returns for the Enterprises.

Chart 10: Gap by Credit Score



IV. Guarantee Fees by Lender Volume

Each Enterprise acquired loans from about 1,000 lenders in 2018. For each Enterprise, FHFA divided these lenders into five lender groups based on volume size.[14] Generally, smaller lenders tend to sell loans for cash, and larger lenders exchange loans for MBS as reflected in Tables 4a and 4b. In 2018, 61 percent of MBS acquisitions were by the extra-large (XL) lenders, and 61 percent of cash acquisitions were by the small (S) and extra-small (XS) lenders.

Table 4a: Acquisition Share by Lender Volume Group, MBS

Group	Lender Rank	2014	2015	2016	2017	2018	Change 2017 to 2018
XL	1-5	51%	52%	50%	58%	61%	3%
L	6-15	23%	23%	25%	23%	20%	-3%
M	16-25	11%	8%	9%	7%	9%	2%
S	26-100	13%	15%	15%	11%	8%	-3%
XS	101+	1%	1%	2%	1%	1%	0%

The trend of MBS acquisitions dominated by larger lenders continues with the top five lenders increasing their share by 3 percent. However, small (S) and extra-small (XS) lender groups saw a decline in their share in cash acquisitions by 10 percent. At the same time, a growing share of large and extra-large lender groups are using the cash window.

[14] The lender volume groups are the top 5 lenders for each Enterprise each year (XL), the next 10 lenders (L), the next 10 lenders (M), the next 75 lenders (S), and all others (XS). The groups at Fannie Mae and Freddie Mac may contain different lenders. For example, the XL Rank 1-5 corresponds to the top 5 lenders for Fannie Mae and the top 5 lenders for Freddie Mac, based on each Enterprise's acquisition volume from a particular lender by year.

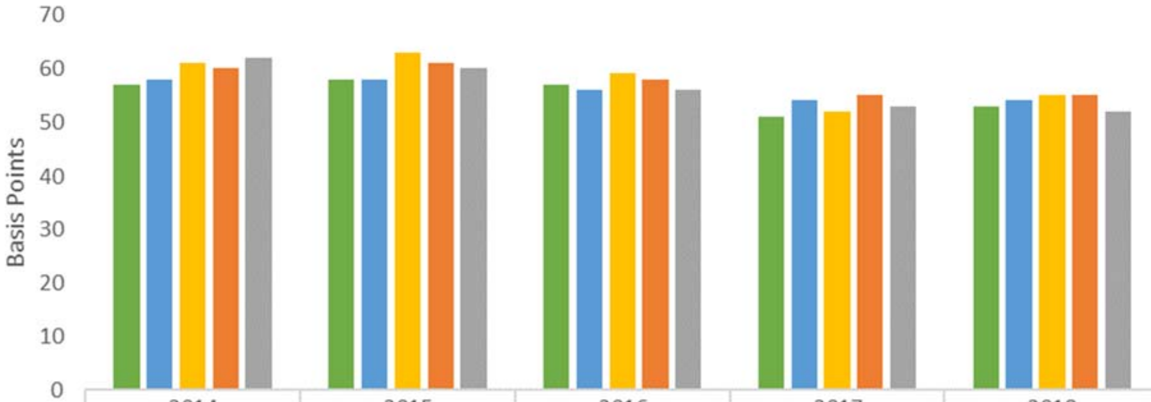
Table 4b: Acquisition Share by Lender Volume Group, Cash Window

Group	Lender Rank	2014	2015	2016	2017	2018	Change 2017 to 2018
XL	1-5	0%	0%	5%	4%	9%	5%
L	6-15	11%	12%	11%	12%	19%	7%
M	16-25	5%	9%	11%	13%	10%	-3%
S	26-100	39%	36%	33%	35%	33%	-2%
XS	101+	44%	42%	39%	36%	28%	-8%

We show guarantee fees by lender volume group, separately for MBS acquisitions and cash window acquisitions. In the cash channel, the Enterprises hold the acquired loans in portfolio until they can be securitized. In the process, the Enterprises take on additional costs and risk, including but not limited to, holding cost, hedging cost, and interest rate risk. Therefore, by themselves, guarantee fees through the cash channel may not fully reflect the overall competitiveness of the execution offered and are not comparable to guarantee fees through the MBS channel.

Chart 11a shows guarantee fees by lender volume group for MBS acquisitions. In 2018, the average guarantee fee decreased by 1 basis point for the extra-small (XS) lender group, but increased by 2 basis points for the extra-large (XL) and 3 basis points for the mid-range lender (M) groups.

Chart 11a: Guarantee Fee by Lender Volume Group, MBS

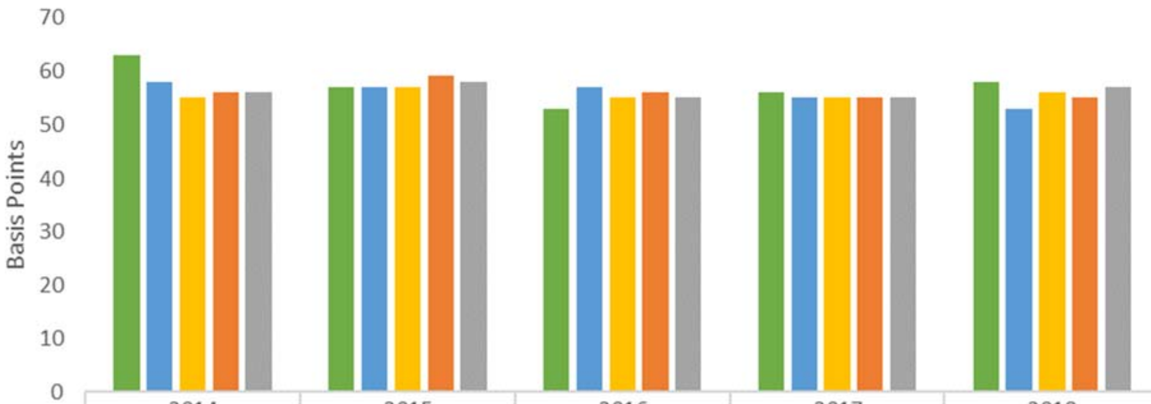


	2014	2015	2016	2017	2018
XL	57	58	57	51	53
L	58	58	56	54	54
M	61	63	59	52	55
S	60	61	58	55	55
XS	62	60	56	53	52

Chart 11b shows guarantee fees by lender volume group for cash acquisitions. In 2018, the average guarantee fee decreased by 2 basis points for the large (L) lender group. All other lender groups saw an increase of up to 2 basis points.[15]

[15] Prior to 2012, the Enterprises had historically provided pricing discounts to lenders that delivered a larger volume of loans. In August 2012, FHFA took action to remove that pricing disparity and implemented a 10 basis point fee increase. The ongoing portion of the guarantee fee was raised for lenders that exchange loans for MBS than for lenders that sell loans for cash..

Chart 11b: Guarantee Fee by Lender Volume Group, Cash Window



	2014	2015	2016	2017	2018
XL	63	57	53	56	58
L	58	57	57	55	53
M	55	57	55	55	56
S	56	59	56	55	55
XS	56	58	55	55	57

Chart 12a shows changes in the expected profitability of the different lender groups in 2018 for MBS acquisitions. We observed gains in the expected profitability of all but the extra-small (XS) lender group. The extra-small lenders account for 90 percent of the lenders but only 1 percent of the total MBS business (see Table 4a).

Chart 12a: Gap by Lender Volume Group, MBS

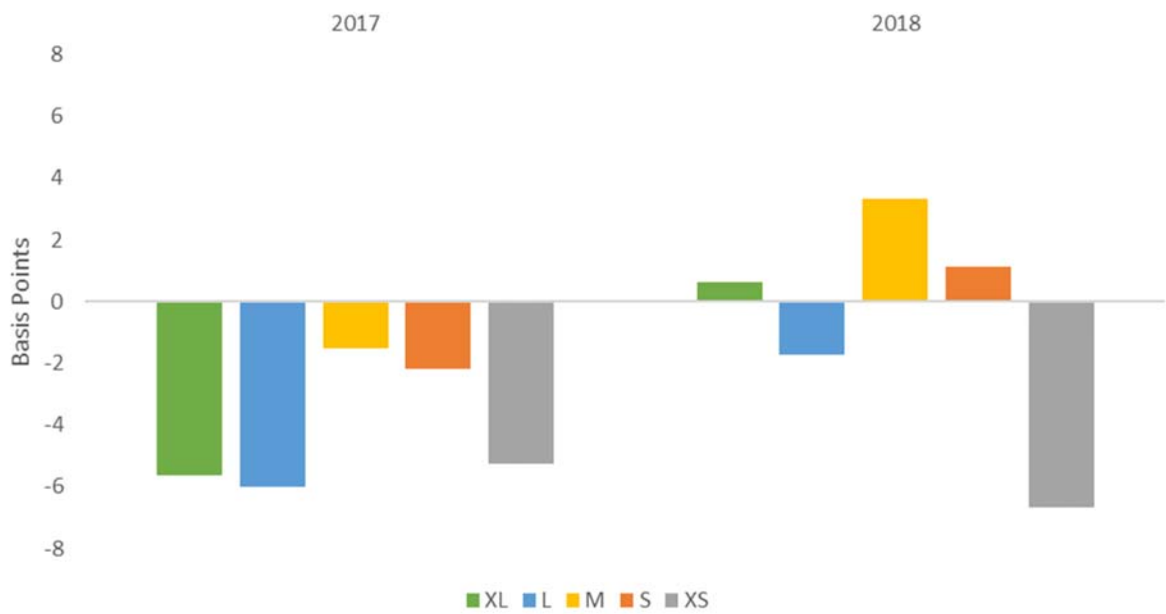
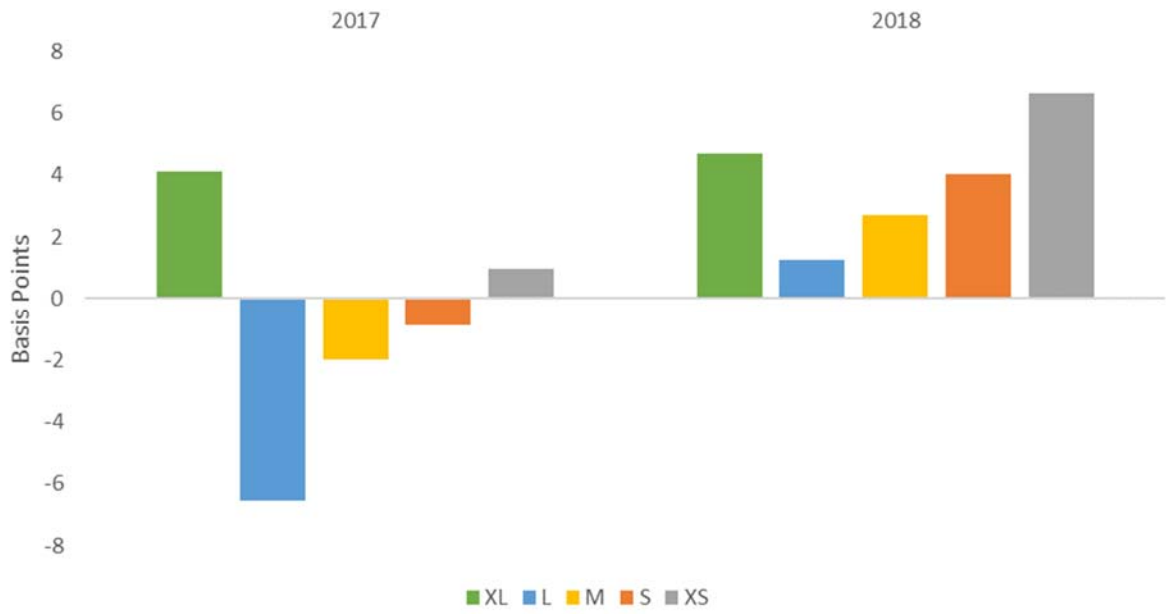


Chart 12b shows changes in the expected profitability of the different lender groups in 2018 for cash acquisitions. We observe gains in the expected profitability of all lender groups.

Chart 12b: Gap by Lender Volume Group, Cash Window



FHFA continuously monitors the Enterprise guarantee fees and will continue to refine its analysis and metrics to ensure transparency.