FANNIE MAE AND FREDDIE MAC SINGLE-FAMILY GUARANTEE FEES IN 2019

December 2020

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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.[2] The report assists Congress in its oversight responsibilities. FHFA issued the first single-family guarantee fee report in 2009.[3]

This report discusses the guarantee fees charged in 2019 and provides a three-year perspective with data back to 2017.[4] The major findings in this report are: [5]

- For all loan products combined, the average single-family guarantee fee in 2019 increased 1 basis point to 56 basis points.
- The upfront portion of the guarantee fee, which is based on the credit risk attributes (e.g., loan purpose, loan-to-value (LTV) ratio, and credit score), decreased 2 basis points to 13 basis points.[6]
- The ongoing portion of the guarantee fee, which is based on the product type (fixed-rate or adjustable-rate, and loan term), increased 3 basis points to 43 basis points.
- The average guarantee fee in 2019 on 30-year fixed rate loans increased 2 basis points to 58 basis points, while the fee on 15-year fixed rate loans decreased by 1 basis point to 36 basis points. The fee on adjustable-rate mortgage (ARM) loans increased 2 basis points to 56 basis points.
    - For each LTV and credit score group, the average guarantee fee increased by 1-3 basis

[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] In lieu of presenting costs of providing the guarantee, we present the difference between the revenue (guarantee fees) received and the estimated cost of guaranteeing a loan for a given target rate of return on capital.
[3] See prior guarantee fee reports at https://go.usa.gov/xP6mE.
[4] The five-year perspective of prior guarantee fee reports is replaced with a three-year perspective in this year's report due to changes in data source and methodology for certain tables and figures. Prior-year data in the text and subsequent tables and charts may not be consistent with data in previous FHFA reports due to such changes or data corrections.
[5] Due to rounding, the individual numbers in the text, tables, and charts may not compute exactly to the totals.
[6] Fannie Mae refers to upfront fees as "loan level price adjustments," while Freddie Mac refers to them as "credit fees in price." 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. Depending on the attributes of the loan, a typical new 30-year loan may be expected on average to exist for about 6 years, whereas a 15-year loan may be expected to last for closer to 4 years.

points.

- The average guarantee fee by seller size was 55 basis points for the large (L) seller group, and 56 basis points for the medium (M) and small (S) seller groups.

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 the Enterprises incur when they acquire single-family loans from sellers.[7] Loans are acquired through two methods. A seller 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 seller into the secondary market. Alternatively, a seller may deliver loans to an Enterprise in return for a cash payment. The Enterprises bundle these loans into MBS and sell the MBS into the secondary market. Larger sellers tend to exchange loans for MBS, while smaller sellers tend to sell loans for cash.

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, insuring that investors receive scheduled principal and interest payments.[8] 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 the guarantee of principal and interest.

There are two types of guarantee fees: ongoing and upfront. Ongoing fees are factored into each loan's interest rate and collected each month over the life of a loan. Upfront fees are one-time payments made by sellers upon loan delivery to an Enterprise that are similarly factored into the interest rate paid by the borrower and thus recouped by the seller. Upfront fees are converted to annual guarantee fee equivalents in this report (see footnote 6).

[7] The terms lender and seller may be used interchangeably for the purposes of this report.
[8] Although the Enterprises are always the ultimate guarantors, they may choose to retain the full credit risk 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.

Ongoing fees are based primarily on the product type, such as whether the loan is a 30-year fixed rate or a 15-year fixed rate loan. Ongoing fees presented in this report include the net gain or loss generated from buy-up/buy-down transactions, in which a portion of the loan's ongoing interest is bought from or sold to the seller by the Enterprise in order to allow for loans to be pooled more flexibly during the creation of MBS. Upfront fees are used to price for specific risk attributes, including but not limited to the following:

- Specific product types (adjustable-rate mortgages)
- The LTV ratio
- The borrower's credit score
- Certain occupancy types (investment properties or second homes)
- Certain purposes (cash-out refinances)
- Certain property types (condominiums, multi-units, manufactured homes)
- The level of mortgage insurance coverage relative to requirements
- Whether the loan exceeds the baseline conforming loan limit
- Whether and how much subordinate financing was taken
- Participation in special programs

Ongoing fees are set by the Enterprises with sellers that exchange loans for MBS, while those fees are factored into the price offered to sellers that sell loans for cash. In contrast to ongoing fees, the upfront fees are publicly posted on each Enterprise's website and are required by FHFA to be charged on loans with specific attributes.[9] When comparing average guarantee fees between seller volume groups and over time, it is important to consider the effects FHFA-required upfront fees have on total guarantee fees. Acquired loans would be expected to have different mixes of risk attributes over time and accordingly would be charged different levels of these required upfront fees.

Factors Considered in Calculating Costs

Guarantee fees cover several cost components that the Enterprises expect to incur in providing their guarantee on MBS: 1) the expected default costs that result from the failure of some borrowers to make their payments; 2) the cost of holding capital necessary to protect against

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

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 equal to the amount of capital required multiplied by the target rate of return on that capital. In 2017, the Enterprises began using FHFA's capital framework to calculate the cost of holding capital.[10]

In 2008 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 fees consistent with the amount of capital they would need to support their guarantee businesses as if they were able to fully retain capital.

Using FHFA's capital framework and its own proprietary data as inputs, each Enterprise determines the estimated cost of guaranteeing a loan for various cost variables (including the types of factors listed in the previous section that directly affect the LLPA) and for a given target rate of return on capital. We define gap as the difference between the revenue (guarantee fees) received and the estimated cost. The gap serves as the measure of estimated profitability of the loan acquisition based on the cost of its risk and the revenue charged.[11] 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 capital. Lower expected returns on some business segments may help the Enterprises to fulfill their affordable housing requirements.[12]

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[10] FHFA developed this aligned risk management framework to better inform each Enterprise's business decisions while in conservatorship. Both Enterprises use this capital framework to make their regular business decisions. FHFA also uses the capital framework 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.

[11] The factors that determine cost, including the capital framework and target return on capital, are updated over time, so caution must be exercised when comparing gaps from different time periods.

[12] 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)."

Two main factors contribute to the movement in gaps over time. The first is yearly changes to each Enterprise's cost estimation model and capital-related assumptions.[13] The second is changes in loan mix, as the Enterprises acquire a greater or fewer number of loans in different risk categories each year.

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.[14]

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 and reduced differences in the ongoing fees of small volume sellers and large volume sellers. 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

[13] Please note that the gap values presented for 2017 and 2018 in this report do not match the gap values presented for the same years in the Annual G-fee Report on 2018. This is due to corrections made to the calculation of estimated cost under FHFA's capital framework.
[14] 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.

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 sellers 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 regular 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. Between September 2018 and February 2019, both Enterprises implemented a 25 basis point upfront fee on second homes. 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 sellers 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.
September 2018 & March 2019	The Enterprises implemented a 25 basis point upfront fee for loans on second homes where LTV exceeds 85 percent.

Note: Guarantee fee changes implemented in 2020 will be presented in the report on 2020.

Guarantee Fee Results for 2019

This report uses data on single-family loans acquired from 2017 to 2019 to exhibit the average guarantee fee charged by the Enterprises in each year. Because the average guarantee fee does not control for the composition of acquisitions by product, risk, or seller size, the report also displays a breakdown of fees by product type, risk class (loan purpose, LTV ratio, and credit score), and seller delivery volume. On the other hand, the average gap, or profitability, of acquisitions inherently adjusts for the composition of those acquisitions. 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).

The three-year perspective for this report was chosen because the Enterprises began to use FHFA's capital Framework to calculate capital and the cost of guaranteeing mortgages in 2017; previous years were based on different capital models.

I. Average Guarantee Fee

Table 2 presents the total study population of this report in terms of loan and dollar volume. The study population consists of single-family mortgages acquired by the Enterprises under their standard underwriting and delivery guidelines each year over the three year period from 2017 to 2019.[15]

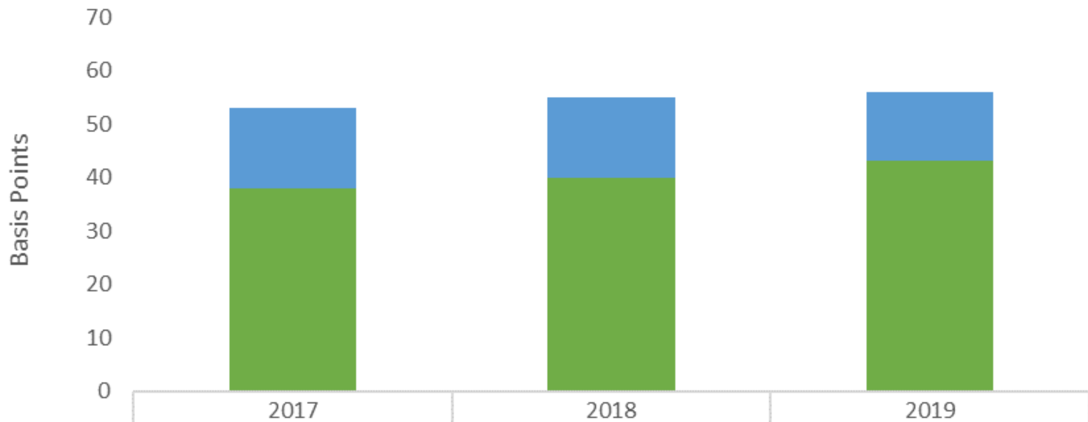
Table 2: Total Study Population – Loan and Dollar Volume

	2017	2018	2019	Change 2018 to 2019
Dollars (in Billions)	$768	$692	$955	$263
Loans (in Millions)	3.4	3.0	3.7	0.7

The average guarantee fee was 56 basis points in 2019, 1 basis point higher than that of 2018. Chart 1 shows the average guarantee fee, broken into ongoing and upfront, in 2017-2019. The upfront fee decreased by 2 basis points (or 13 percent), but this decrease was outweighed by the increase in the ongoing fee by 3 basis points (or seven percent).

[15] The study population excludes loans associated with bulk purchase transactions, the Home Affordable Refinance Program (HARP), manufactured housing, the Federal Housing Administration, and other loans outside standard underwriting and delivery guidelines.

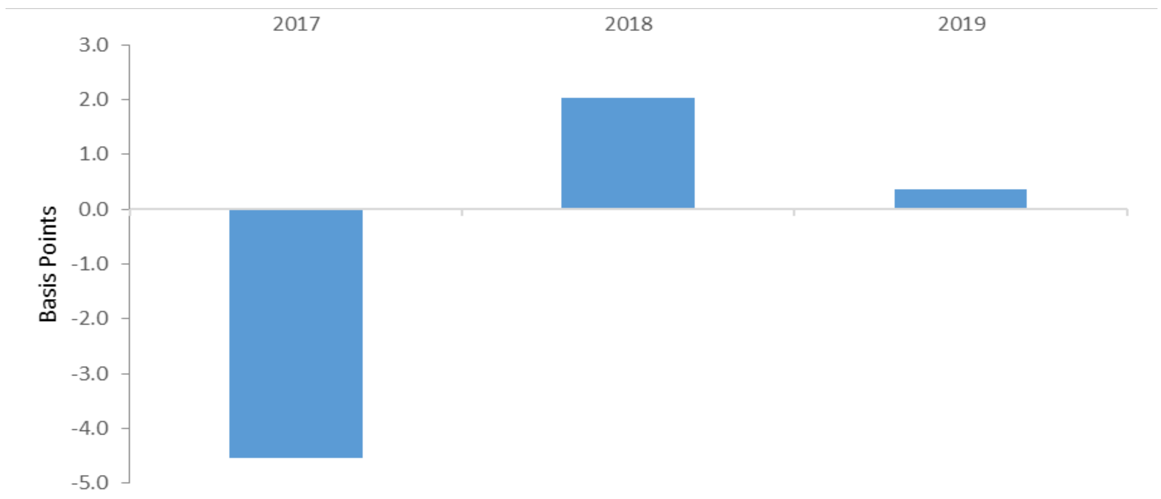
Chart 1: Average Guarantee Fee



	2017	2018	2019
Total	53	55	56
Upfront	15	15	13
Ongoing	38	40	43

Chart 2 below shows the average yearly gap from 2017 to 2019. In 2019, the average gap was lower than the average gap in 2018, indicating that the (risk-adjusted) profitability on new loan acquisitions decreased. While close to zero, the gap was still positive, indicating that the Enterprises continued to meet their return on capital targets.

Chart 2: Average Gap



II. Guarantee Fees by Product Type

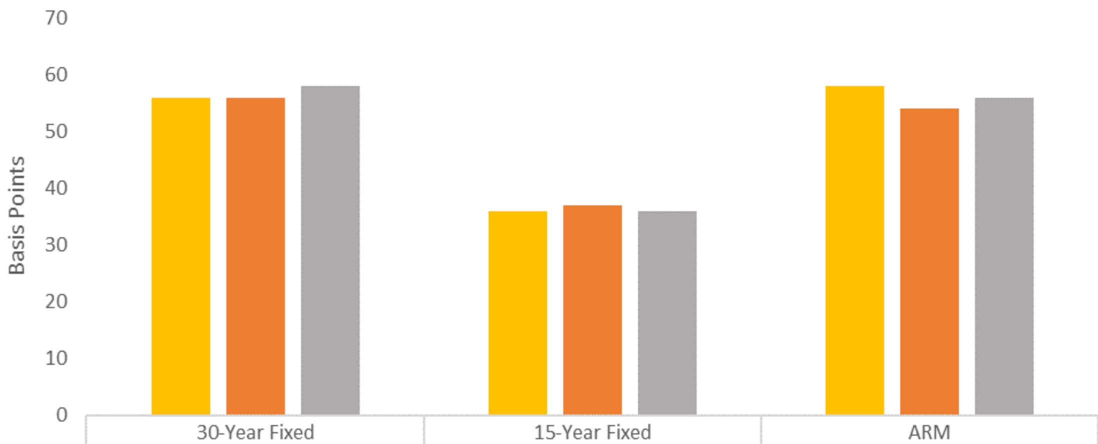
Table 3a shows the dollar volume acquisition share by product type over the three-year study period. Acquisition shares of 30-year and 15-year fixed rate loans were largely unchanged.

Table 3a: Acquisition Share by Product Type

Product Type	2017	2018	2019	Change 2018 to 2019
30-Year Fixed	78%	85%	85%	0%
15-Year Fixed	13%	9%	10%	1%
Fixed Other Terms	6%	4%	4%	0%
ARM	3%	2%	1%	-1%

Chart 3 shows the guarantee fees by product type. The average guarantee fee on 30-year fixed rate loans increased by 2 basis points to 58 basis points, while the average fee for 15-year fixed rate loans decreased by 1 basis point to 36 basis points. The average guarantee fee rose by 2 basis points to 56 basis points for ARM loans.

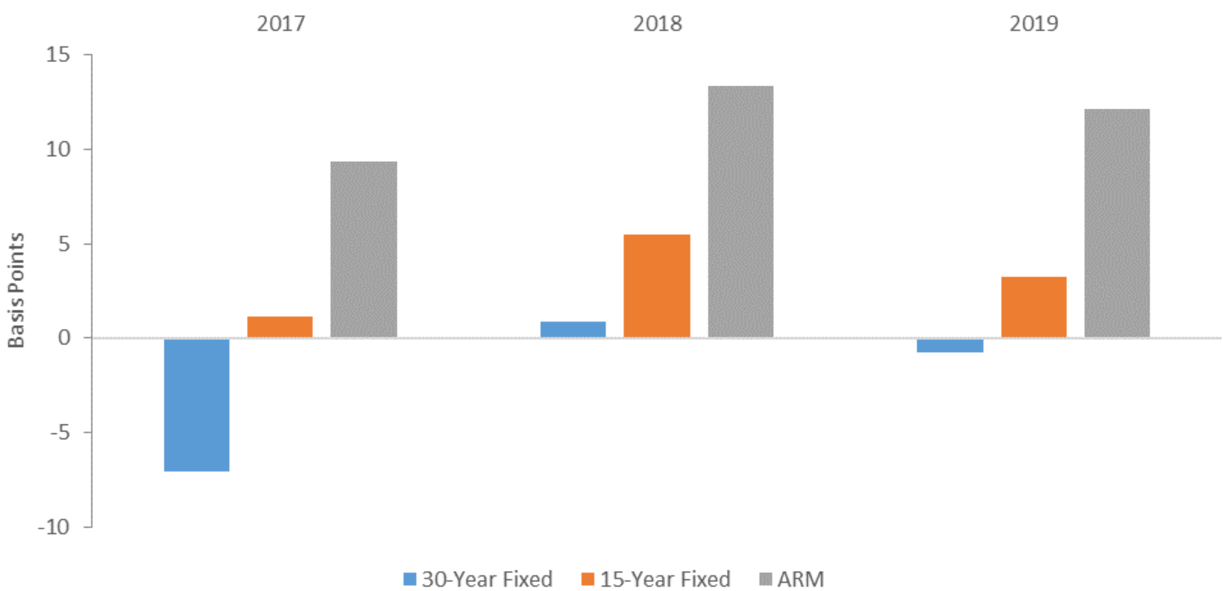
Chart 3: Guarantee Fee by Product Type



	30-Year Fixed	15-Year Fixed	ARM
2017	56	36	58
2018	56	37	54
2019	58	36	56

Chart 4 shows modest changes in the product type gaps for 2019. Profitability decreased for all product types; returns on 30-year fixed rate loans were slightly below target.

Chart 4: Gap by Product Type



III. Guarantee Fees by Risk Class

Table 3b shows the dollar volume acquisition share by risk profile over the three-year study period. 2019 acquisition shares reflect a slightly different risk mix overall compared to 2018. Decreasing interest rates contributed to an increase in the share of rate-term refinance loans and a decrease in the share of purchase loans. The greater share of rate-term refinance loans partly contributed to a greater share of lower LTV loans, because rate-term refinancers usually have more equity in a property than purchasers, and to a greater share of higher credit score loans. This in turn contributed to the decline in average upfront fees.

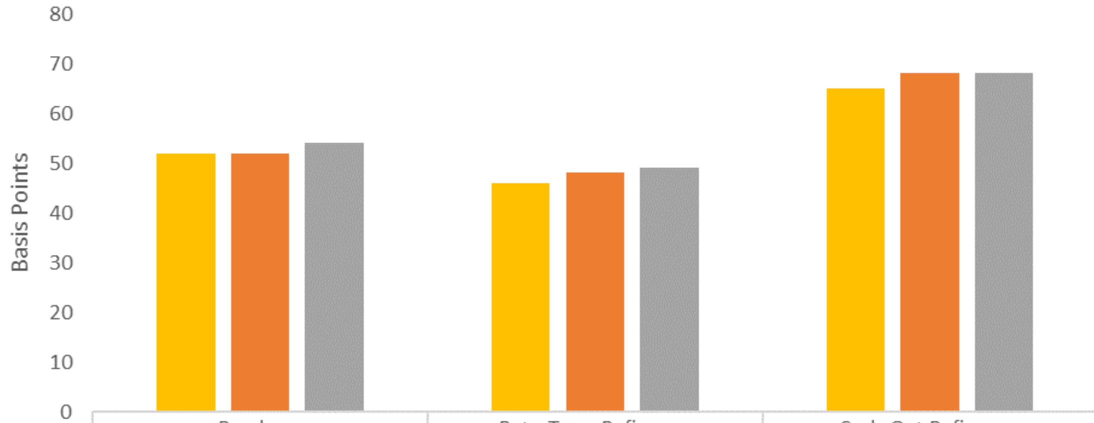
Table 3b: Acquisition Share by Risk Profile

Loan Purpose	2017	2018	2019	Change 2018 to 2019
Purchase	57%	67%	54%	-13%
Rate-Term Refinance	21%	12%	27%	15%
Cash-Out Refinance	22%	20%	19%	-1%
LTV Ratio				
<=70 Percent	31%	27%	29%	2%
70.1 - 80 Percent	40%	38%	37%	-1%
80.1 - 90 Percent	12%	13%	14%	1%
> 90 Percent	17%	22%	20%	-2%
Credit Score				
>= 720	73%	73%	77%	4%
660 - 719	22%	23%	20%	-3%
< 660	4%	5%	3%	-2%

A. Loan Purpose

Chart 5 shows guarantee fees by loan purpose. The higher fees on cash-out refinance loans shown below reflect the higher upfront fees required for this loan purpose. The average fee for cash-out refinance loans was unchanged in 2019, while the average fees for purchase and rate-term refinance loans increased by 2 basis points and 1 basis point, respectively.

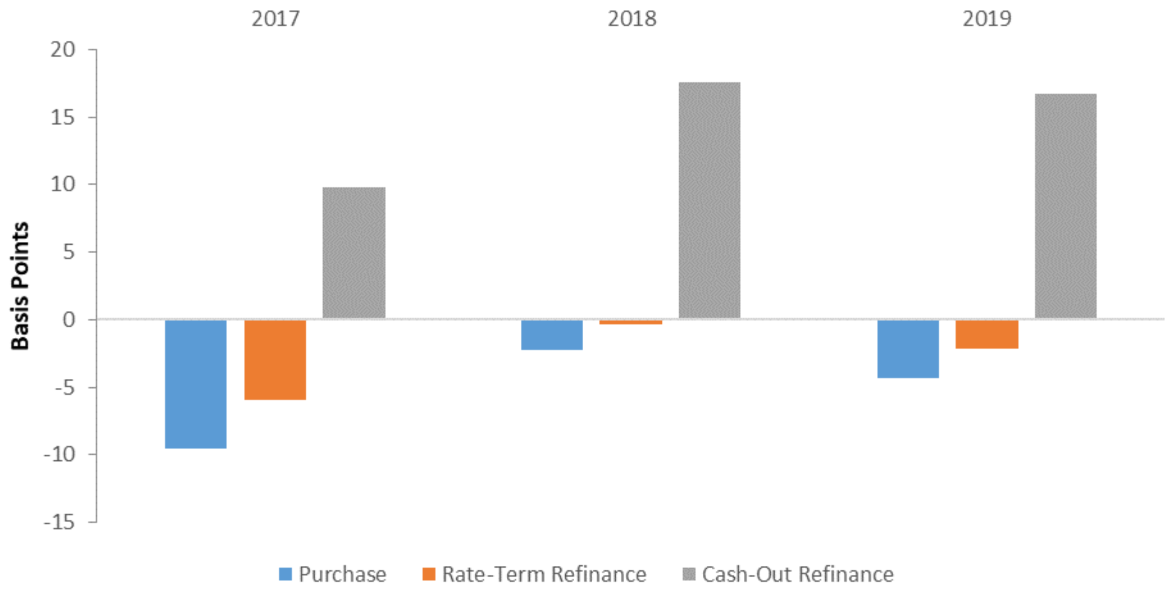
Chart 5: Guarantee Fee by Loan Purpose



	Purchase	Rate-Term Refinance	Cash-Out Refinance
2017	52	46	65
2018	52	48	68
2019	54	49	68

Chart 6 shows gap performance by loan purpose for 2019 compared to 2018. Returns fell slightly for cash-out refinances while still staying well above the target rate of return. Returns fell slightly further below the target rate of return for both purchase and rate-term refinance loans.

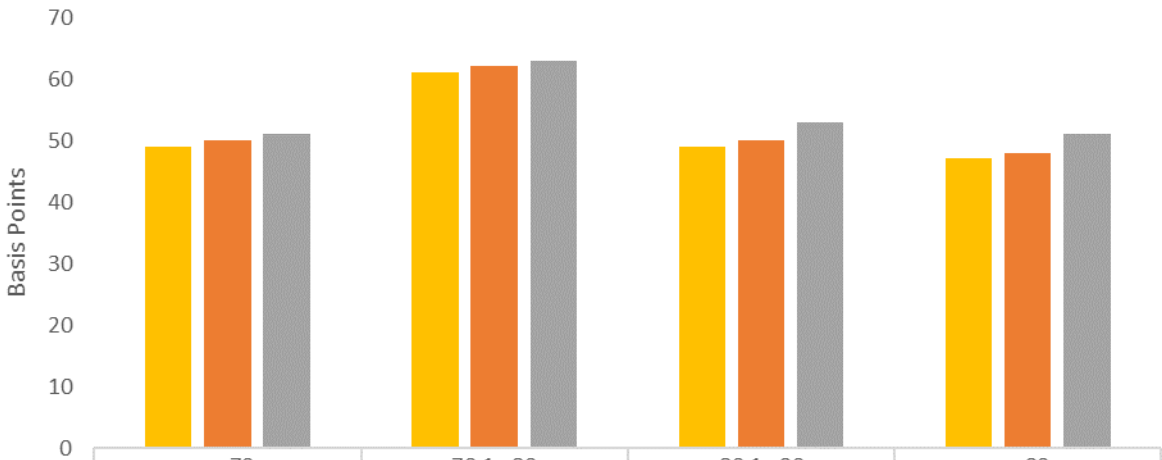
Chart 6: Gap by Loan Purpose



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 3 basis points for loans with less than 10 percent borrower equity (> 90 LTV). Despite the increases in guarantee fees in each LTV group, acquisitions became more concentrated in the lowest LTV group in 2019 (see Table 3), contributing to the decline in average upfront fees.

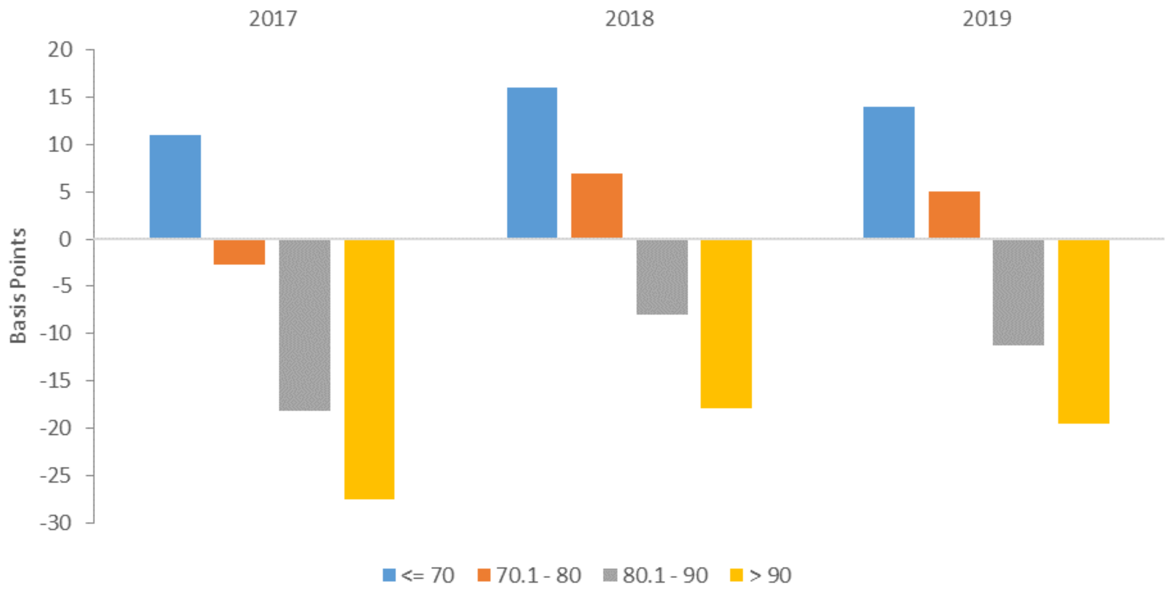
Chart 7: Guarantee Fee by Loan-to-Value Ratio



	<= 70	70.1 - 80	80.1 - 90	> 90
2017	49	61	49	47
2018	50	62	50	48
2019	51	63	53	51

Chart 8 shows very slight decreases in profitability for each of the LTV ratio groups in 2019. Consistent with 2018, the Enterprises earned above-target returns on loans with LTV ratios up to 80 percent, and below-target returns on loans with LTV ratios greater than 80 percent.

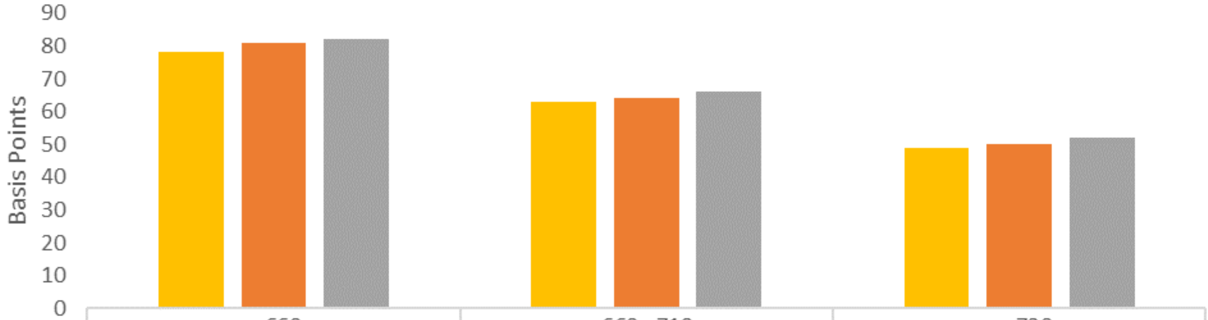
Chart 8: Gap by Loan-to-Value Ratio



C. Credit Score

Chart 9 shows guarantee fees by credit score. The lowest credit score group (< 660) had an increase of 1 basis point in the average guarantee fee in 2019, and the mid-range (660-719) and highest (≥ 720) groups each had an increase of 2 basis points.

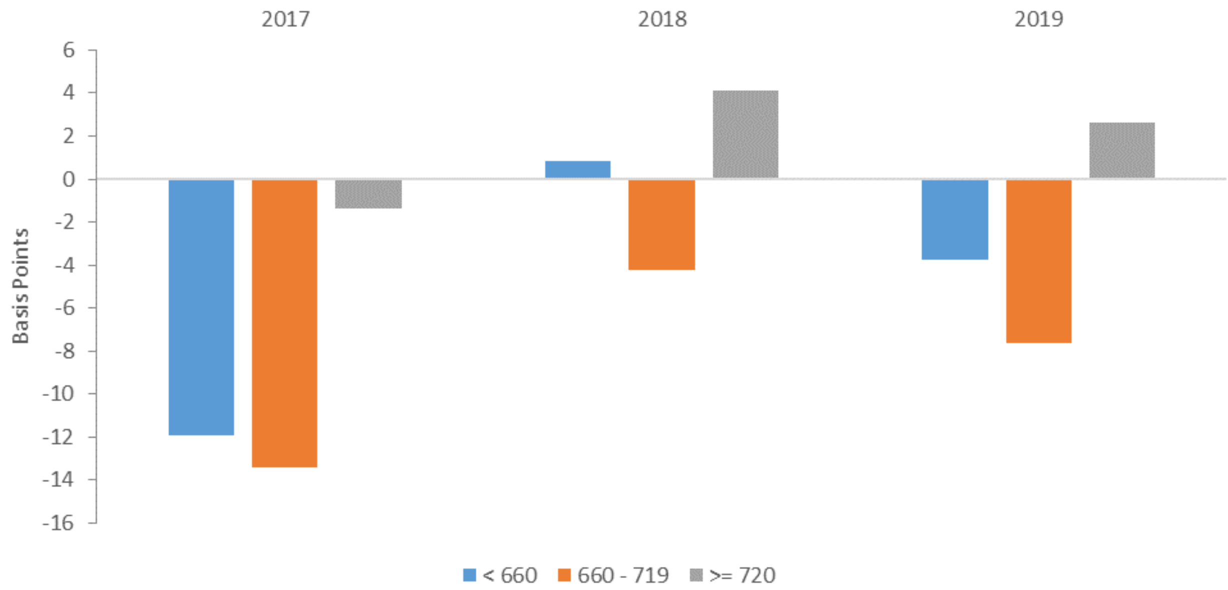
Chart 9: Guarantee Fee by Credit Score



	< 660	660 - 719	>= 720
2017	78	63	49
2018	81	64	50
2019	82	66	52

Chart 10 shows decreases in the profitability of all three credit score groups in 2019, with the < 660 group going from returns that were slightly higher than the target to below-target returns. However, overall profitability stayed above-target (see Chart 2) since the share of loans >= 720 increased to over three quarters of acquisitions in 2019 (see Table 3).

Chart 10: Gap by Credit Score



IV. Guarantee Fees by Seller Volume

Together the Enterprises acquired loans from 1,725 sellers in 2019, with each Enterprise individually acquiring loans from about 1,000 sellers. FHFA divided these sellers into three seller groups based on their share of total Enterprise acquisition volume. This is a departure from reports of previous years in which lenders were classified separately for each Enterprise.[16] The seller volume groups are comprised of those sellers with share of total Enterprise acquisition volume at or above 2% (Large), greater than or equal to 0.1% and less than 2% (Medium), and below 0.1% (Small), within each year studied. Generally, smaller sellers tend to sell loans for cash, and larger sellers exchange loans for MBS, as reflected in Tables 4a and 4b.

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

Group	Seller Share of Total Volume	2017	2018	2019	Change 2018 to 2019
L	>= 2%	72%	71%	71%	0%
M	>= 0.1% and < 2%	27%	28%	28%	0%
S	< 0.1%	1%	1%	1%	0%

The domination of MBS acquisitions by larger sellers remained consistent in 2019, with no change in shares attributed to specific size groups. However, the small (S) seller group saw a decline in its share of cash window acquisitions by 1 percentage point, while the large (L) seller group saw an increase in the same by 1 percentage point.

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

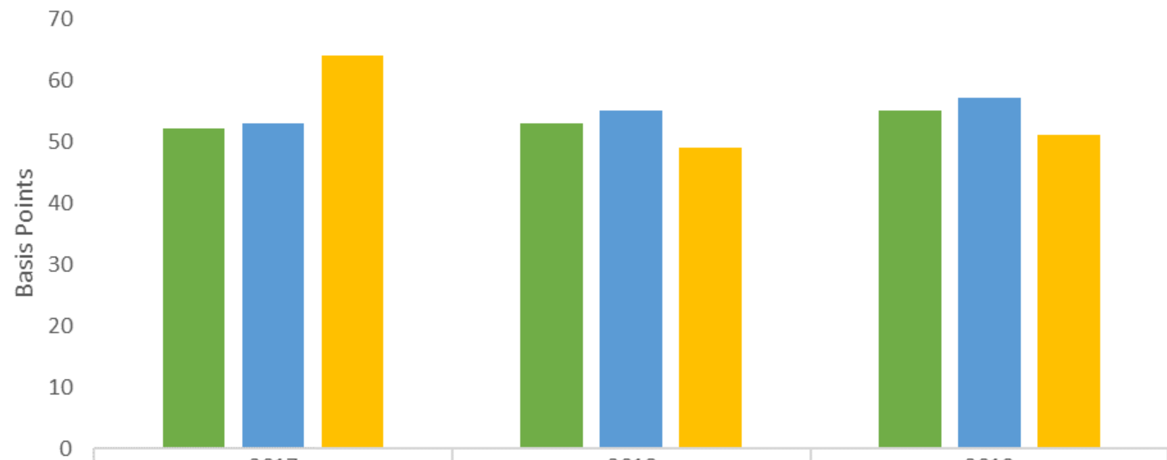
Group	Seller Share of Total Volume	2017	2018	2019	Change 2018 to 2019
L	>= 2%	11%	22%	23%	1%
M	>= 0.1% and < 2%	52%	48%	48%	0%
S	< 0.1%	37%	30%	29%	-1%

[16] In reports of previous years, the seller volume groups were calculated separately for each Enterprise due to data limitations, and were 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). This year's report combines seller volume across Enterprises in order to calculate each seller's share of total annual Enterprise acquisition volume, consistent with the study population exclusions described in footnote 15. Discrepancies in seller size categorizations may exist due to mergers and acquisitions not captured appropriately in the data.

Across both MBS and cash window channels combined, the average guarantee fee by seller size was 55 basis points for the large (L) seller group, and 56 basis points for the medium (M) and small (S) seller groups. The tables below show guarantee fees by seller volume group, separately for MBS acquisitions and cash window acquisitions. In the cash window 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 liquidity risk and hedging cost. Therefore, guarantee fees through the cash window channel are not comparable to guarantee fees through the MBS channel.

Chart 11a shows guarantee fees by seller volume group for MBS acquisitions. In 2019, the average guarantee fee increased by 2 basis points for all three seller volume groups.

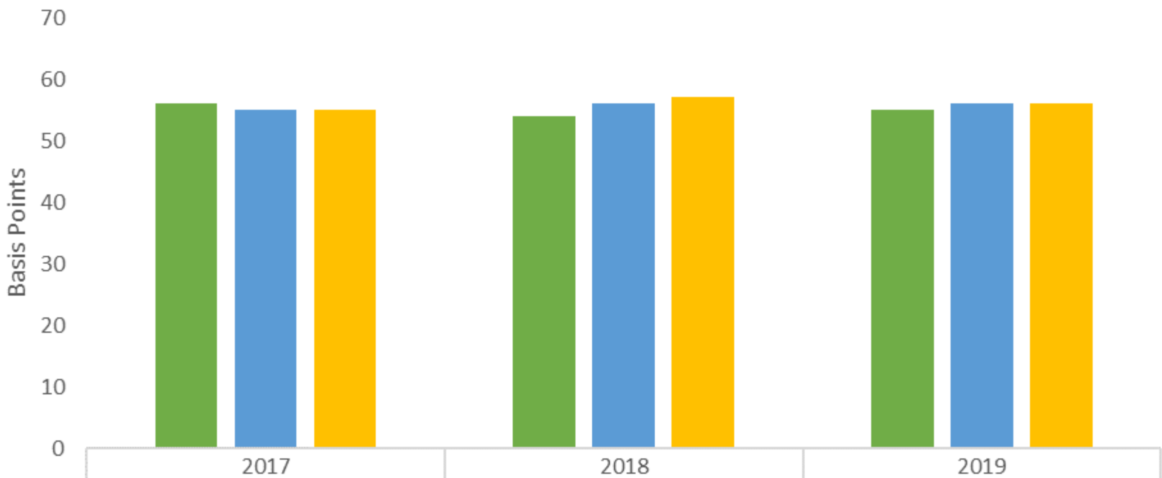
Chart 11a: Guarantee Fee by Seller Volume Group, MBS



	2017	2018	2019
L	52	53	55
M	53	55	57
S	64	49	51

Chart 11b shows guarantee fees by seller volume group for cash acquisitions. In 2019, the average guarantee fee increased by 1 basis points for the large (L) seller group, remained the same for the medium (M) seller group, and decreased by 1 basis point for the small (S) seller group, reducing the difference between the large (L) and small (S) seller groups to 1 basis point from 3 basis points.

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



	2017	2018	2019
L	56	54	55
M	55	56	56
S	55	57	56

Chart 12a shows changes in the profitability of the different seller groups in 2019 for MBS acquisitions. We observe small decreases in the profitability of large (L) and medium (M) groups and a large decrease in the already largely below-target profitability of the small (S) group. Measured by loan principal balance, approximately half of the 2019 acquisitions from the small (S) group came from housing finance authorities. Many of these loans were exempt from upfront delivery fees and some were provided subsidies, which resulted in the large, negative gap shown below. However, this below-target profitability of the small (S) group has a negligible impact on total profitability of the MBS acquisition channel given their 1 percent share of MBS acquisitions (see Table 4a).

Chart 12a: Gap by Seller Volume Group, MBS

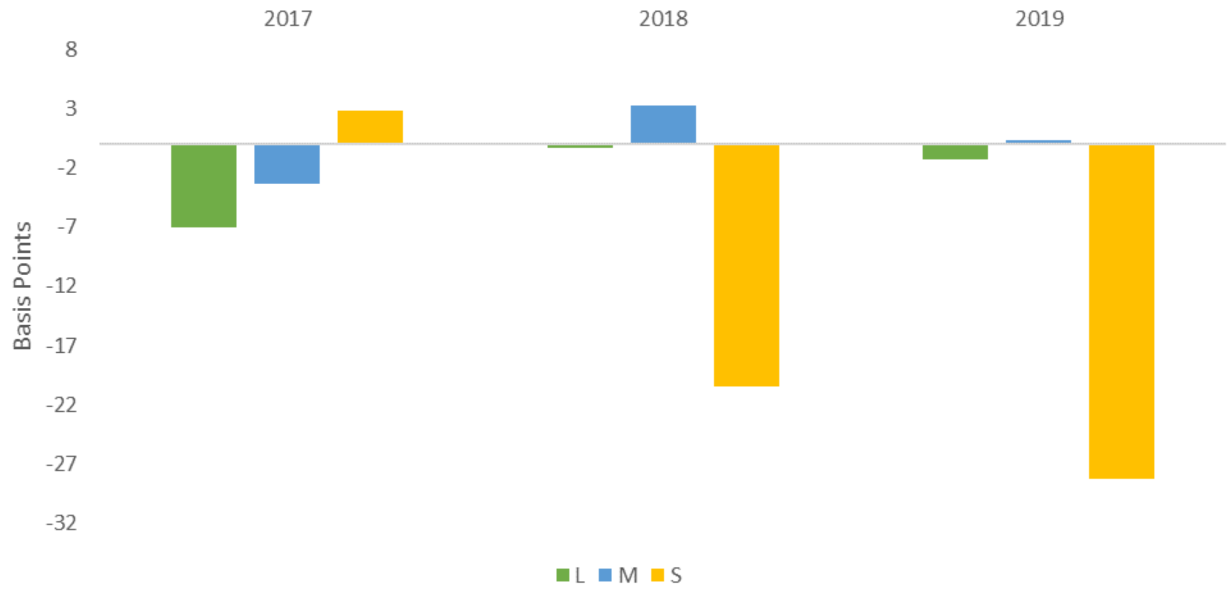
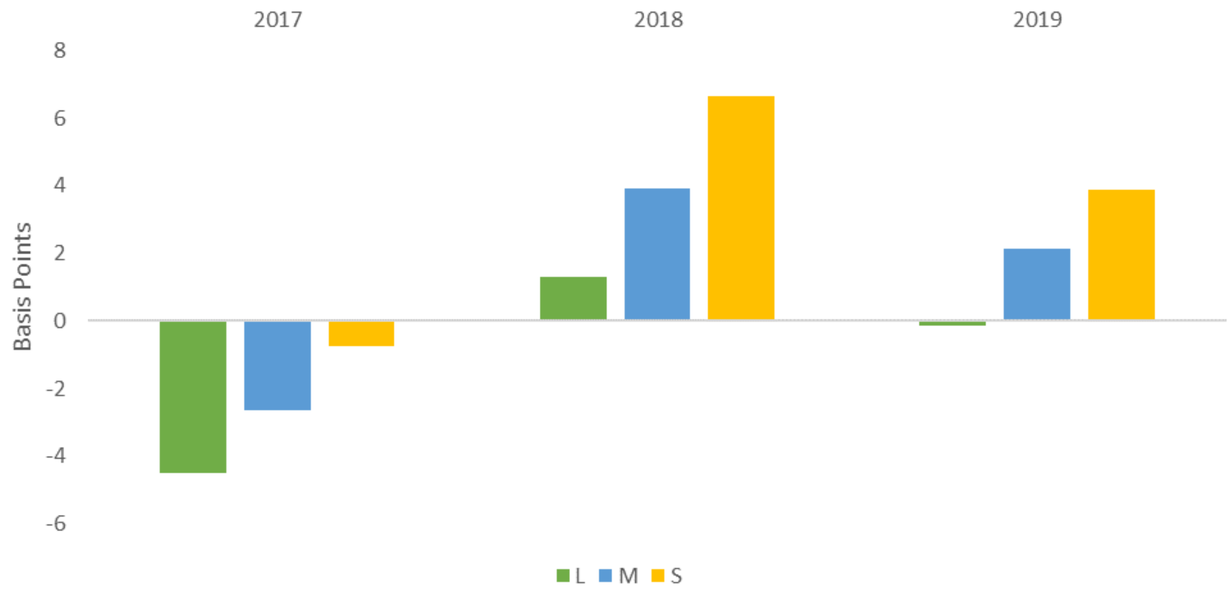


Chart 12b presents the same comparison for cash window acquisitions. We see decreases in the profitability of all seller groups in 2019, with the largest absolute change observed for the small (S) seller group.

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



FHFA is strongly committed to ensuring a level playing field for sellers of all sizes and will continue to enhance its metrics, analysis, and monitoring of guarantee fees.