



GSE Activity Report

Monday, February 12, 2018

FHA Gets a Nuisance Charge and the GSEs Get the Shaft

Summary

The FY18 Trump budget keeps FHA largely as is, but mandates a 10 bps g-fee hike for Fannie and Freddie. Every dollar counts these days.

Impact

From a mortgage lender's perspective, the Trump budget cuts it two ways. For FHA, the premium stays as is, neither lowered as the industry sought nor raised as House Republicans have demanded. A small bit of change is, though, exerted on lenders due to a \$20 million user fee to improve FHA's IT.

The real dollars come out of the industry's hide in the new GSE g-fee. The current surcharge imposed in 2011 to pay for Obama stimulus measures would be extended and increased by an additional 10 bps to 20bps lasting until 2023. This adds \$26 billion to the budget atop the forward-looking \$38 billion the current fee hands over. Given that the budget also assumes a \$5.1 billion draw this year due to Fannie's DTAs, every little bit is indeed helpful.

Imposing this will take a statutory fight unless a new FHFA feels inclined to raise the g-fee under its existing authority to help out on the deficit front. Republicans in both the House and Senate will be inclined to agree to the g-fee hike, with Democrats saving their fire for the budget's other GSE proposal: an end to affordable-housing trust and magnet-fund contributions. This is a net wash for the federal bottom line – the contributions go to HUD and Treasury and would come Treasury's way anyway as long as the GSEs are profitable. It is of course still symbolic of the Administration's views and will be pushed hard by the House.

Outlook

We do not think an additional 10 bps g-fee atop the FHFA-set one will have material impact on lender decision-making, although it gives a bit of an edge to FHA in the HLTV space. Lenders with portfolio capacity will have another reason to retain good loans and adversely select Fannie and Freddie, but this should make only a marginal difference to the GSEs. For as long as agency paper enjoys all its market and capital benefits, the bulk of big-bank portfolio growth is in the non-conforming, non-conventional space and is likely to stay there, new fee notwithstanding.

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