



GSE Activity Report

Wednesday, May 17, 2023

Setting Purpose Via Prices

Summary

With Republicans on the anti-LLPA warpath, FHFA is hoping to preserve as much of the current fee structure as possible without paying too high a political price, issuing a [request for information](#) (RFI) in hopes that letter-writing will keep everyone busy until Congress moves on to other matters. If FHFA does redefine the capital thresholds by which pricing is judged, it could well also redefine the products the GSEs will purchase.

Impact

In its RFI, FHFA is unapologetic about the current pricing framework established in recent [scorecards](#). However, it notes the manifold objectives single-family pricing must serve, seeking comment now on how best to balance them through its supervision not only of loan-level pricing, but also g-fees. For example, FHFA is also asking for comment on a paradigm-shifting approach in which there would be no more upfront fees, with the GSEs only pricing for risk via g-fees.

Importantly, the RFI opens a fundamental issue up to public scrutiny: the GSEs' return on capital in the course of their conservatorship. The RFI assumes continuation of the current construct in which the ROC is calculated based on a "commercially-reasonable" rate, but FHFA is now floating allowing the GSEs to achieve lower returns for certain types of mortgages, a policy that would further slow privatization but accelerate the FHFA's equitable-finance mission. Conversely, FHFA is also contemplating mandating a higher ROC for certain mortgages, requiring them to be more profitable and thus dissuading Fannie and Freddie from certain lines of business or pricing strategies.

Outlook

Comment on this RFI is due August 14. Based on today's HFSC Housing Subcommittee LLPA hearing, Republicans will try to force FHFA's hand, Democrats will block this, and FHFA will do what it wants when it wants to – at least for now.