

Congress to Increase Fees on Fannie Mae, Freddie Mac, and FHA

The Congress has opted to increase fees for Fannie Mae, Freddie Mac and FHA to pay for a reduction in the payroll tax. As part of an economic stimulation package, the Obama Administration ushered in a reduction in employee payroll taxes. The temporary reduction is set to expire on December 31st unless Congress votes to approve an extension.

Congress has agreed on a framework to pay for portions of the payroll tax cut extension that includes additional fees on Fannie Mae, Freddie Mac, and FHA. Under the framework, the fees that Fannie Mae and Freddie Mac charge to guarantee mortgages they purchase and insurance premiums charged by FHA will increase by one-tenth of a percent or 10 basis points for the next 10 years. The fee increase may be phased in over a 2-year period, but this timeframe could be reduced under the legislation. Revenue generated by fee increases on Fannie Mae and Freddie Mac must be deposited in the United States Treasury while FHA insurance premium increases will be used to shore up FHA's finances.

There is a significant dispute in the Congress on the overall approach to extending the payroll tax cut. The Senate has voted to extend the payroll tax cut for two months, but the House of Representatives is widely expected to reject this approach in favor of a one-year extension. While the showdown in Washington may delay extension of the payroll tax cut, this debate is not anticipated to change the fact that Congress and the Obama Administration have agreed to use Fannie Mae, Freddie Mac to raise new revenue for the federal government. The agreement also shows concern in the Congress about FHA's financial position and a willingness to increase insurance premiums to avoid a taxpayer financed bailout of the agency.