Mortgage Market Commentary

Rich E. Blanchard
Managing Director, RICH Home Loans LLC
NMLS: 492461
1550 Wewatta St., 2nd Floor Denver, CO 80202

Office: 720.619.9900
Mobile: 303.328.7047
Fax: 214.975.2874
richblanchard@richhomeloans.com
View My Website

Surprise Announcement Just Made Your Refi Much More Expensive

In what can only be described as a cash grab, Fannie and Freddie just announced a new tax on refinances. Granted, it's not technically a tax, and it wasn't probably even intended to hit the pocketbooks of the American homeowner, but that's unfortunately exactly what it will do. Let's break it down...

What was announced?

Fannie and Freddie are implementing a new price adjustment for all refinance transactions of 0.5% of the loan amount (i.e. $1500 on a $300k loan). This applies to loans delivered to Fannie/Freddie in September and thereafter, which is almost all of them that aren't already well underway.

Why?!

They are saying it is due to economic and market uncertainty. Some might find that hard to swallow because this fee didn't exist last week or last month, but economic and market uncertainty definitely did.

So what's the real reason?

Lender margins are wide. In other words, lenders haven't dropped rates as much as the bond market would allow them to (a decision driven by necessity due to capacity constraints amid a refi boom and unprecedented workflow hurdles created by coronavirus rather than simple greed). The agencies or their regulator, FHFA, or some combination of the two see the wider margins and conclude lenders have extra profit to spare.

That money would help further the FHFA's stated goal of building capital reserves of the GSEs sufficient to end the government's conservatorship of the agencies. From the GSEs' perspective, the money would help reinforce their coffers in order to keep payments flowing to mortgage investors on the multitude of loans in forbearance due to covid.

In simpler terms, whether justified or not, the agencies are saying to lenders "I think some of your money should be our money instead." This fee may have never have been considered if rates were higher and lender margins were thinner. But since rates are so low, and margins are so wide, who's going to complain? Plenty for everyone, right?

So who is going to complain?

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.44	-0.18
MBS GNMA 6.0	100.25	-0.15
10 YR Treasury	4.6057	+0.0043
30 YR Treasury	4.7733	+0.0021

Pricing as of: 4/24 9:26PM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.39%	+0.01	0.00
15 Yr. Fixed	6.83%	+0.01	0.00
30 Yr. FHA	6.87%	+0.01	0.00
30 Yr. Jumbo	7.58%	0.00	0.00
5/1 ARM	7.40%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	7.10%	-0.34	0.00
15 Yr. Fixed	6.39%	-0.37	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 4/24

Ultimately, homeowners. The mortgage community is going to get things started though. Reason being, lenders have tons of loans that are already locked with expiration dates after September 1st. They are going to have to eat 50bps on all those loans. For big lenders, this is 10s of millions of dollars in instantly vaporized profit.

Again, the rationale is likely that lenders have excess profit anyway, so they can absorb this.

I truly hope that's not their rationale, but if it is, they're dumb. Any time regulators/agencies jack up fees for lenders, it's the consumer that ends up paying. I'm not saying that because it sounds sensational, but because there is a consistent track record of correlation. In fact, lenders are ALREADY sending out reprice notifications to raise rates for those loans still eligible to lock today. In other words, if it's not already locked, your refi just got hit for 0.5 points.

Does this affect purchases?

No. You're in luck there, sort of. But the agencies' stated justification is further out of luck. Think about it... Why would "market and economic uncertainty" affect refinance mortgages and not purchases? One could argue that refi mortgages are marginally riskier than purchases. Granted, recent research shows that no-cash-out refis are actually less likely to default than purchases, but that was before covid and the rapid proliferation of relaxed appraisal requirements. I don't personally feel that values are being distorted due to this shift, but if someone needed to make a case for disparate treatment of purchases vs refis, they might point to that.

The real reasons are, of course, much easier to see and understand. The GSEs have some measure of duty to promote homeownership, so they could justifiably argue it makes sense to grab this cash from refis and not purchases. On a speculative (but highly likely note), the fact that the National Association of Realtors has an incredibly strong, deep-pocketed, and effect lobbying presence probably didn't hurt. I'm not saying they were involved, but everyone knows they could be if they wanted to be.

But probably the easiest way to explain the disparate treatment would be the simple fact that many lenders have higher rates for refis vs purchases due to the insanely high refi demand. Those higher rates mean the lenders have higher margins and more profit on refis (more profit that the GSEs/FHFA would like to take, but again... they're actually taking it from consumers).

Does this suck as bad as it seems like it does?

Yes. It's a bitter pill to swallow, and a very low class move given the issues facing society at the moment (even if it's a necessary move, it was implemented in an incredibly classless way). Granted, the GSEs likely don't see it that way. They likely don't think or believe they're taking money out of consumer's pockets, but years and years of past precedent prove that's exactly what's about to happen.

Is there anything I can do to avoid this or make it better?

No. They're the government. They're here to help.

Subscribe to my newsletter online at: http://housingnewsletters.com/richhomeloans

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard