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No, FHA Won't Be Offering 40 Year Loans

Ginnie Mae sent out a press release last week could create some confusion for those readers who only skimmed the lede. The opening paragraph states that the agency is creating a new pool of mortgages for securitization on the secondary market. The pool, to be known as Pool Type C-ET, will contain loans with terms up to 40 years while the current set of pool types only supports loans with 30 year or shorter terms. It is easy to miss that **this special pool is not a new offering for borrowers but is limited to loans that have gone through a loan modification.**

It is probable that this pool is being created in anticipation of the number of FHA, VA, and USDA loans that will be coming out of pandemic-related forbearance plans. The latest survey by the Mortgage Bankers Association estimated that 5.13 percent of homeowners with those loans were still in the program as of June 20. Black Knight's weekly survey estimates the raw number at over 800,000. Many of these borrowers **have either entered or will soon enter he last three months of eligibility which is currently capped at 18 months**, and most will have significant past due balances.

Borrowers who leave the program are offered several options for paying back their arrearages including several types of loan modifications. Among them is a re-amortization of the loan to spread the amount over the remaining life of the loan, but in many cases this could result in an unaffordable monthly payment.

The new pool type is expected to be available by October, at about the time the 18 month terms begin to expire. It will be a "Custom" pool with a minimum size of one loan and a $25,000 minimum balance. There will be no upper limit on the loan amount as long as the eligible collateral meets the participating agency's requirements. That collateral will be participating agency modified loans with original terms of 361 months or more, capped at 480 months. All modifications of an included mortgage loan after its origination must have been occasioned by default or reasonably foreseeable default.

"It's important that Ginnie Mae issuers have secondary market liquidity for options that our agency partners determine are appropriate for supporting homeowners in distress," said Michael Drayne, Ginnie Mae's Acting Executive Vice President. "Because an extended term up to 40 years can be a powerful tool in reducing monthly payment obligations **with the goal of home retention, we have begun work to make this security product available**."

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	100.31	-0.04
10 YR Treasury	4.8625	+0.0273
30 YR Treasury	5.2640	+0.0085

Pricing as of: 11/6 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Drayne noted that the terms and extent of use of the included loans would ultimately be determined by the FHA, HUD's Office of Public and Indian Housing, VA, and USDA' Rural Development Program. Their loans are the basis for the Ginnie Mae pools.

"Ginnie Mae has been integral to the interagency actions to prevent foreclosure for homeowners experiencing financial hardship as a result of COVID-19," said Alanna McCargo, HUD Senior Advisor to Secretary Marcia Fudge. "The challenges of the last year require meaningful solutions to help keep people in their homes, which has been a priority for Secretary Fudge. As interest rates rise, this 40-year feature will enable more payment reduction options to help homeowners."

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