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The Day Ahead: Mega Recap of New Refi Fee and a Call to Action

This began as my normal daily "day ahead" article, but as you can see based on the time of day and the following content, it turned into something else. Apologies for the break from the norm, but we have bigger fish to fry at the moment. Why? In a word: because of this.

This has instantly created a very big mess in the mortgage market, and a ton of anger--justifiably so! For those that aren't going to click the link above or who don't really understand it, let's break it down in even shorter, simpler terms.

- GSEs (Fannie/Freddie and/or "the agencies") announced a new hit on all conventional refis (except certain construction-to-perm loans) effective for loans delivered to the agencies on 9/1 or later. That applies to any conventional refi that isn't currently locked and that can't close before the end of next week (depending on the lender... they need time to get the loan to the GSEs and for the GSEs to purchase them)
- The hit is 0.50% of the loan amount (i.e. $1500 on a $300k loan).
- It will be applied as an LLPA although many lenders have simply raised costs today and will implement the LLPA shortly
- Lenders will be eating this fee on loans that are already locked
- Multiple lenders repriced for the worse last night (latest reprices we've ever seen, suggesting many lenders were truly caught off guard).
- Other lenders simply hit rate sheets this morning, ironically affecting the purchase mortgages that were not supposed to be affected by this.

Why is this happening? The party line is that this fee is due to "market and economic uncertainty." For those who'd like to geek out on the potentially valid, esoteric justifications, here are two links that might help build that case:

- https://www.americanbanker.com/news/fannie-freddie-to-face-bank-like-liquidity-standards-starting-sept-1
- https://singlefamily.fanniemae.com/media/23101/display
- The thesis is that GSEs are hitting the time frame where they have to cover servicing deficiencies due to covid-related forbearances at the same time that their capital requirements are becoming more onerous. Truly, this is not a bad counterpoint, but if it's the real justification, it raises **several critical questions:**

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM EST

    - Why are purchases not affected?
    - Why now as opposed to a month ago?
    - Why roll it out in a way that immediately hits the biggest lenders for 10s of millions of dollars unexpectedly?
    - Why roll it out in a way that instantly and unavoidably makes homeownership more expensive and that hits the pocketbooks of millions of Americans eager to take advantage of record-low rates?

Why is this really happening?

- I'm a big fan of the middle path and balanced viewpoints. My views have been (and mostly continue to be) fairly one-sided on this topic--largely due to how it was communicated and the other considerations mentioned above. I will entertain that there is a middle ground here and you should too (based on the two links above). That said, what follows is the more cynical--and in my opinion, more defensible--view
- Lender margins are very wide for a few reasons (a combination of latent covid-related uncertainty but mostly overwhelmed capacity). GSEs can plainly see this and GSEs/FHFA would like more money for GSEs.
- In other words, the agencies are basically saying "we see you have quite a bit of extra money there and we think some of your money should be our money instead."
- Would they still be reaching for the same 50bps in the same ridiculous way if margins were tight? I doubt it.

If that seems a bit cynical and reactionary to you, consider the following:

- Again, why now versus a month or two ago? The writing was clearly on the wall. The only thing that's really changed is the revelation of very wide lender margins--especially on refis.
- Why wouldn't this apply to purchase mortgages? (see the previous bullet point)
- Why do it in a way that blindsides lenders, costs them a significant amount of money instantly, and forces them to pass those costs on to consumers by varying degrees? This is the hardest one for me to reconcile. I really can't come up with any way to view this in a constructive light. In fact, it seems like fairly damning evidence that the move was made with some level of disdain for the mortgage industry, disdain for FHFA on the part of GSEs (it makes FHFA look bad), or worst of all, a very high level of ignorance about how these types of changes actually affect mortgage pricing for Americans.

To help flesh out my assessment, let's consider a few comments by Bob Broeksmit, president of the MBA. I've been impressed with Bob's comments throughout 2020 as they strike a difficult-to-achieve balance of forcefulness, emotion, logic, and diplomacy. In today's note to MBA members, he was as animated as I've seen him in defense of the mortgage industry. Here are a few highlights:

- "As I think you all know, I do not traffic in hyperbole, but Director Calabria's directive requiring Fannie Mae and Freddie Mac to impose a fifty basis point price increase on all refinances effective September 1st is a stunningly brazen confiscation, and it must not stand. It will first cost lenders hundreds of millions of dollars as the bulk of your enormous locked pipelines cannot be closed and delivered by the end of August, and it will, starting today, cost consumers billions in the midst of a pandemic when the administration claims to be working to get relief and stimulus to the struggling economy. "
- In referencing the purchase vs refi issue mentioned above, Broeksmit says "Refinances, generally speaking, are less risky than purchases, and there is no increase in pricing for purchases. Let's face it – in order for the GSEs to make a refinance loan, the borrower must be paying timely on the current loan, and since most refinances reduce the monthly payment, how can they be more risky than the current historically high guaranty fees contemplate? I have seen this move referred to as a "cash grab," which sounds apt to me. "
- He goes on to highlight attempts to contact FHFA and the GSEs starting on Monday without a reply. In fact, even now there is no update or press release directly from the FHFA. Just the implementation of the fee through the GSEs. Not even a Ray Liotta meme! Bob's take: "Make no mistake – FHFA knew that this absurdly short implementation window would mean that lenders would bear the brunt of the cost of this on your locked pipelines, and yet they proceeded."

- His closing thoughts need no preface from me: "For the GSEs to add a 50-basis point surcharge on refinances when the nation is struggling with the greatest economic downturn since the Great Depression is outrageous. We will shout from the mountaintops, ourselves and together with other organizations, reaching the media, elected representatives, and policymakers, and I urge you to do the same. Call your Senators and Representatives. This is still America, and we cannot sit still in the face of this wholly unwarranted confiscation."

Find MBA's call to action here: https://www.votervoice.net/MBA/campaigns/76617/respond

Now, about that "Day Ahead"... Frankly, who cares? We have bigger fish to fry today. Markets are calm enough that I would advise all of you to focus on navigating the sudden storm. As always, we'll send alerts and updates as needed, but even then, pricing strategies will be all over the board and not likely as connected to market movement as normal. A few thoughts as you batten down the hatches:

- Not every lender has the 50bps on their LLPA list yet. In those cases, pricing has been hit across the board (tough luck for purchases!) and we'd expect it to be "un-hit" when the LLPA shows up
- In a few cases, we've heard the LLPA will be applied to loans even if it isn't showing up in pricing engines
- In almost no case would we expect to see a lender attempt to alter the terms of an already-locked loan. This would violate COC policies best we can tell.
- Again, this applies to ALL conventional refis (not FHA/VA/USDA). The only exceptions are certain construction to perm refis for the 3 of you that are actually doing those.
- If it's not locked yet, and it can't close by next week assume you're getting hit
- Assume you're getting a bit of a double whammy until further notice due to weaker pricing AND the 50bp LLPA.

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