Mortgage Market Commentary

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2021's Big Bad Mortgage Fee Hikes Have Been Removed! (Sort Of...)

Earlier this year, the FHFA and Treasury amended Treasury's preferred stock repurchase agreements (PSPAs) to put limits on Fannie Mae and Freddie Mac (collectively, the GSEs). These limits resulted in widespread fee increases for several categories of mortgages with investment properties and 2nd homes taking the heaviest damage. Here's a quick list of our previous coverage:

Initial coverage:
Fannie Warns Lenders on Investment Properties and 2nd Homes
Big Hit to Second Home and Investment Mortgages

Criticism:
UI Urges Abandoning New Fannie/Freddie Amendments

Fallout:
Calabria is Out at FHFA

Much of the sense of urgency behind the initial changes came as a consequence of the changing of the administrative guard. Previous FHFA Director Calabria was intent on leaving a legacy as "the guy who finally shrunk the government's indirect footprint in the mortgage market." But by early January, the clock was ticking on his office door being re-keyed for an eventual Biden appointee.

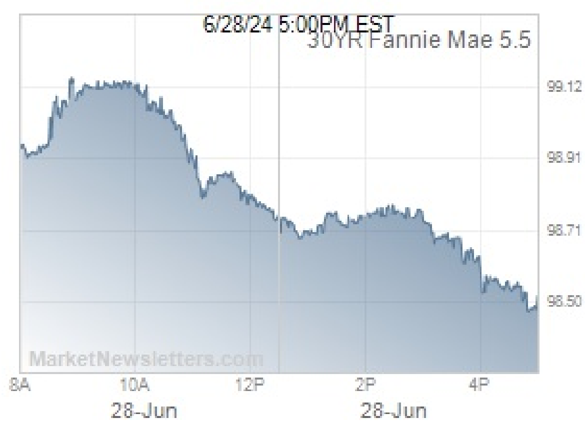
Calabria pushed the administration to use a consent order in an attempt to "lock-in" his libertarian intentions (or at least make them harder to undo). After meeting resistance from then Treasury Secretary Mnuchin, the boldest available was to amend the PSPAs in such a way that the GSEs' portfolio composition was limited. The most pressing implication was the need to slow the portfolio growth of non-owner occupied and 2nd home loans.

Fannie and Freddie understandably dragged their feet on this directive. After all, it was 2021, and maybe a new FHFA director would have virtual cup of coffee with new Treasury Secretary Yellen and decide to undo the PSPA change. A few elbow bumps and signatures later and it would be business as usual for the GSEs! Unfortunately, the new administration's hands were tied as they waited on a Supreme Court ruling to confirm that Calabria COULD even be fired!

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3931	-0.0049
30 YR Treasury	4.5597	-0.0043

Pricing as of: 6/30 10:43PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.02%	-0.05	0.65
15 Yr. Fixed	6.60%	-0.15	0.55
30 Yr. FHA	6.87%	0.00	0.92
30 Yr. Jumbo	7.18%	-0.03	0.54
5/1 ARM	6.45%	+0.08	0.81

Rates as of: 6/28

The weeks ticked by with GSE portfolios receiving more investment/2nd home loans than they would be allowed to keep at the end of the year. They were forced to act, and they weren't careful about how they acted (some would say, intentionally, in an attempt to stir trade groups to political action... after all, the GSEs like to do however many of these loans they want to do. They're profitable). Trade groups rallied, and the Biden admin acted quickly as soon as the window opened.

(**Read More:** **Mortgage Market's Most Powerful Person Just Got Fired. What Are The Implications?**)

With all of that out of the way, we're equipped to understand what just happened this afternoon. In a word (several words actually), the big changes to the PSPAs that started 2021's loan pricing drama have been suspended for at least a year while the FHFA and Treasury decide whether any changes were needed at all. In the meantime, GSEs will be free to lower the barriers to non-owner occupied and 2nd home loans (i.e. decrease the "hits" that apply to the pricing on those loans).

It's not quite as simple as Fannie and Freddie changing their fees though. In fact, most of the loan pricing drama was due to the GSEs advising certain lenders to originate fewer of these loans. Lenders accomplished this by jacking up the rates on said loans (i.e. deterring the business by making it prohibitively expensive).

Bottom line: GSEs will have to notify lenders of the change and lenders would then decide how to proceed. Some will make rate-friendly changes immediately while others will wait, or take a more piecemeal approach. In short, the headline should really be that 2021's big bad mortgage fee hikes CAN NOW BE removed. The timing and details are up to lenders and the GSEs.

Official announcement from FHFA

News Release

FHFA and Treasury Suspending Certain Portions of the 2021 Preferred Stock Purchase Agreements

FOR IMMEDIATE RELEASE

9/14/2021

Washington, D.C. – Today, the Federal Housing Finance Agency (FHFA) and the U.S. Department of the Treasury (Treasury) suspended certain provisions added to the Preferred Stock Purchase Agreements (PSPAs) with Fannie Mae and Freddie Mac (the Enterprises) on January 14, 2021.

"This suspension will provide FHFA time to review the extent to which these requirements are redundant or inconsistent with existing FHFA standards, policies, and directives that mandate sustainable lending standards," said Acting Director Sandra L. Thompson.

FHFA will consult with Treasury on the scope of the review and on any recommended revisions to the PSPA requirements. The suspended provisions include limits on the Enterprises' cash windows (loans acquired for cash consideration), multifamily lending, loans with higher risk characteristics, and second homes and investment properties. The Enterprises will continue to build capital under the continuing provisions of the PSPAs. FHFA also continues to direct the Enterprises to operate in a safe and sound manner consistent with their statutory mission, and to foster resilient housing finance markets given prevailing housing market conditions, which include elevated demand relative to available inventory.

Additionally, FHFA is reviewing the Enterprise Regulatory Capital Framework and expects to announce further action in the near future.

Letter Agreement for Fannie Mae

Letter Agreement for Freddie Mac

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Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is “your rates sound too good to be true”. Well they’re not, and here is why…

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It’s simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It’s just a lie that the big box mortgage companies have been telling you for years. Don’t believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

Mike Baker