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FHFA Drops a Bomb; Your Refi Just Got Much More Expensive!

In what can only be described as a cash grab, Fannie and Freddie's regulator 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?

The FHFA, Fannie and Freddie's regulator, is 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 consider that to be a load of horse *** because this fee didn't exist last week or last month, but economic and market uncertainty definitely did.

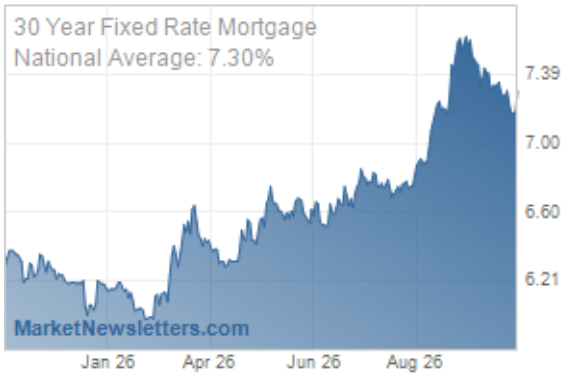
So what's the real reason?

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). FHFA sees the wider margins and concludes 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. In simpler terms, FHFA is saying to lenders "I think some of your money should be our money instead." Rest assured, this fee would 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?

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

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 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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dollars in instantly vaporized profit.

Again, FHFA's 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 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. FHFA's explanation, however, is further out of luck. Think about it... Why would "market and economic uncertainty" affect refinance mortgages and not purchases? I'll tell you why... Many lenders currently 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 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. Granted, the FHFA likely doesn't see it that way. They likely don't think or believe they're taking money out of consumer's pockets, but years and year 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.

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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.

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