MORTGAGE RATE WATCH
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That Big Bad Fee on Refinances Has Been Delayed! Here's What It Means

Two weeks ago, Fannie and Freddie announced a new guaranty fee (aka "g-fee") for virtually all refinances. To say this has been a hot topic for the mortgage market would be an understatement. I'd highly recommend reading my initial coverage if you haven't already:

> Here's the initial reaction from Wednesday night
>
> Here's a more detailed list of bullet points from the following morning

For those who don't like reading or who already know everything I'm about to say, feel free to skip to the next section ("what does this all mean") below.

G-fees are a longstanding ingredient in the mortgage market equation. They are collected by Fannie Mae and Freddie Mac (collectively the "agencies" or GSEs) in order to guarantee timely repayment to mortgage investors. In other words, if borrowers don't pay, the GSEs will make sure investors get paid. No objection there! This guarantee makes mortgages more affordable in the bigger picture and it makes credit more available to more people.

These fees are paid over time directly from the lender/servicer to the agencies AND they're also collected upfront based on the risk factors on any given loan. Keep in mind, a higher interest rate can be used to offset higher upfront fees. That's why you might be quoted a higher rate for an investment property or lower credit score. Alternatively, you could opt to pay those fees in the form of higher closing costs and then get access to the same rate as someone buying a home with 20% down and excellent credit.

The upfront portion of the G-fee is referred to as LLPAs or "loan level price adjustments." These are almost exclusively determined by the scenario and qualifications, but there are also "adverse market fees" that fall into the LLPA category. These are applied to a broad range of loans regardless of the borrower.

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Long story short, the fee announced 2 weeks ago meant that refinance loans had to charge an extra 50bps upfront (that's 1/2th a percent of the loan amount or $1500 on a $300k loan). Many borrowers would just opt for a slightly higher interest rate and allow the lender to pay the fee, but it's extra expense either way.

We've seen plenty of G-fee bumps and tweaks over the years, but this one was unprecedented due to its implementation. At 50bps, it's twice as big as the last adverse market fee. Given that the existing average G-fee from all sources is less than 50bps, it also means the agencies are now collecting more than TWICE AS MUCH.

It also applied to loans that were already locked due to the time it takes to get a loan from the closing table onto Fannie and Freddie's books (the fee applied to loans SOLD to the agencies after Sept 1). This created a huge, unexpected expense (think 10s of billions of dollars) for some of the biggest lenders and they adjusted their profit margins accordingly. In other words, they raised rates much more than they needed to in order to cover the fee. As such, what would have caused your rate quote to rise by 0.125% instead sent rates up by as much as 0.375% in many cases.

The backlash from the industry was understandable. Both lenders and borrowers were getting hurt due to the overzealous implementation. It turns out FHFA agrees. Today they directed the agencies to delay the implementation date from 9/1 to 12/1.

What does this all mean?

This DOES NOT mean your rate is going down by 0.50%. Again, the fee is 50bps in terms of PRICE and that equates to roughly 0.125% in terms of interest rate. EVEN THEN, you should also not expect your rate to improve by 0.125% overnight. Different lenders accounted for this in different ways. Some have the fee separated out into its own upfront cost. In those cases, you could see an adjustment in rates very soon. It will be up to individual lenders to determine what they will do with loans that were already locked after the fee was implemented, but there is a chance those loans will be adjusted accordingly (in your favor).

Other lenders will only gradually be offering improvements in their rate offerings, and the catch there is that those improvements will only be meaningful for you if the bond market doesn't push rates higher in the bigger picture.

Either way, it's important to remember that only loans that are able to be DELIVERED to the agencies before December 1st will avoid this fee. Unfortunately, a delivery date isn't as objective as a closing/funding/lock date. Delivery can be delayed due to backlogs and other bottlenecks. A loan that is closed and funded in mid-November STILL might not make it to Fannie and Freddie before December 1st (especially with Thanksgiving holiday absences).

Bottom line: this fee will be a fact of life for most rate quotes by early October in almost every case. So you have about a month to lock if you're going to try to beat it.