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Refresher on The New Refi Fee and Its Effect on Mortgage Rates

Matt Graham
Founder and CEO, MBS Live

Fannie Mae and Freddie Mac are the two government sponsored agencies that **guarantee** timely payment of principal and interest to the investors who front the money that finances the American mortgage market. This guarantee means that more investors are willing to participate and at more advantageous rates for homeowners. Naturally, not every mortgage is repaid perfectly. Sometimes, payments are missed. In more serious situations, loans can end in foreclosure, short sales, etc. In those cases, the housing agencies are there to act as a backstop ensuring investors are made whole.

In order to foot that bill, Fannie and Freddie collect fees on loans that they guarantee. Shockingly, these are called **guarantee fees** (or guaranty fees" with a "Y" in the case of Fannie Mae). The mortgage industry and the rest of this article will typically refer to them as **G-fees**.

There are g-fees you see and those you don't. If you are quoted a higher rate because you have a lower credit score, higher loan to value, or are buying an investment property, your loan is mathematically **riskier**. The agencies will require more money from your lender to guarantee your loan so your lender either charges you more upfront or simply a higher rate. Either way, this is the most obvious way that the g-fee comes into play. But even if you're a **perfect** borrower with an 800 credit score putting 40% down on an owner occupied home, the agencies are still going to collect a g-fee. You just won't see it because it will come off the top of every interest payment each month.

G-fees have risen and fallen over the years (mostly risen), and that's been especially true after the financial crisis. The average g-fee on Fannie/Freddie's entire portfolio comes out to just under 50 basis points (or 0.5% of the loan amount). It was a rather **jarring revelation**, then, when the agencies announced **ANOTHER** 50 basis point g-fee to be imposed on all refinances back on August 12th. The fee was to apply to any loan delivered to the agencies on or after September 1st. "Delivery" is a fancy term for the agencies giving a loan their stamp of approval--aka "guaranteeing it."

It can take **several weeks** for that to happen **AFTER the loan is closed**. As such, that 50 basis points was going to come out of lenders' pockets effective immediately. That's why rates spiked so quickly in early August and why they recovered several weeks later when the fee date was delayed until December 1st. A lot of people felt like that was a date that was far enough in the future to forget about the fee indefinitely. But again, it takes time for loans to be delivered to agencies after closing.

In fact, quite a few lenders have already re-implemented the fee. They figure, depending on the lender, it will take 30-60 days for a loan to close and another 15-45 to get the loan guaranteed by the agencies. That gives us a total time range of **45-105 days**, and December 1st is now **70 days** away.

For some lenders, rates recently spiked significantly in a single day as they reimplemented the fee. For other lenders, it's only a matter of time. In terms of nuts and bolts, the fee raises rates by 0.125-0.25%. Alternatively, it can be paid upfront as 0.5% of the loan amount. On a qualitative note, many loan originators have noted less generous pricing from lenders recently. There's some suspicion that lenders have been keeping rates slightly higher than they otherwise would have been in order to create a more gradual ramp up in costs. Either way, the important point is that the fee will soon be back for every lender (if it isn't already), and in a bond market that has been exceptionally flat, it's the **single biggest consideration** for mortgage rate movement right now.


8%
6%
4%
2%
0%
2016
2018
2020
2022
2024
30 Yr. Fixed
15 Yr. Fixed
30 Yr. FHA
30 Yr. Jumbo
5/1 Yr. ARM