



Fannie/Freddie Creates Opportunity for Higher Risk Borrowers Who Missed Refi Boom

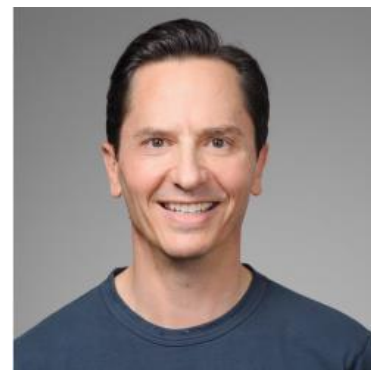
Earlier this month the Urban Institute pointed out that the unprecedented low interest rates of the pandemic era have not benefitted everyone. Their research showed that tightening credit access has meant that low income homeowners, **and those with high loan to value (LTV) ratios or low credit scores have largely been left out of the rush to refinance.** The Federal Housing Finance Agency (FHFA) has now announced a new refinancing option to address that situation.

FHFA says it has directed the GSEs Fannie Mae and Freddie Mac to implement an initiative to encourage eligible low-income borrowers to refinance and lower both their interest rates and their monthly mortgage payments. It estimates that borrowers who take advantage of this opportunity could save between \$100 and \$250 a month.

To qualify, for the loans, which will become available this summer, a borrower must have a GSE-backed mortgage on an owner occupied 1-unit single family home and has not missed a payment on that loan in the past six months or more than one payment in the past year. The loan's LTV cannot be higher than 97 percent. The borrower's income must be at or below 80 percent of the median for the local area and his/her debt to income (DTI) ratio cannot exceed 65 percent nor can the FICO score be below 620.

Under the new option, **a lender must provide a minimum reduction in the monthly mortgage payment of \$50 and a decrease in the borrower's interest rate of at least 50 basis points.** If the borrower is not eligible for an appraisal waiver, the GSE will provide the lender with a maximum credit of \$500 to cover the appraisal cost upon acquiring the loan. The 50 basis point up-front adverse market refinance fee will be waived for borrowers with loan balances at or below \$300,000.

"Last year saw a spike in refinances, but more than 2 million low-income families did not take advantage of the record low mortgage rates by refinancing," said FHFA Director Mark Calabria. "This new refinance option is designed to help eligible borrowers who have not already refinanced save between \$1,200 and \$3,000 a year on their mortgage payment."



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