HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Some BIG Changes to Mortgage Costs Were Just Announced

In a single moment, the fees for a vast majority of new mortgages in the US have changed. In some cases, the changes are drastic, both for better and worse. Let's break it down.

What do you mean by "fees/costs?"

This refers to Loan Level Price Adjustments (LLPAs) imposed by Fannie Mae and Freddie Mac (the "agencies"), the two entities that guaranty a vast majority of new mortgages. LLPAs are based on loan features such as your credit score, the loan-to-value ratio, occupancy (owner vs non-owner occupied homes), and most recently, your debt-to-income ratio

What lenders/loans does this apply to?

Any loan guaranteed by one of the agencies regardless of the lender. This is MOST loans in the US. Examples of loans that wouldn't be affected would be FHA/VA as well as certain jumbo and specialty products. "Non-conforming" loans are not impacted by this as they are not guaranteed by the agencies. A common example of a non-conforming loan would be a jumbo loan from a retail bank or credit union.

When does this take effect?

This applies to loans that are guaranteed by the agencies starting May 1st, 2023. That means many lenders will begin to implement the changes in March/April.

What changed, in a nutshell?

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The effective penalty for having a credit score under 680 is now smaller than it was. It still costs more to have a lower score. For instance, if you have a score of 659 and are borrowing 75% of the home's value, you'll pay a fee equal to 1.5% of the loan balance whereas you'd pay no fee if you had a 780+ credit score. But before these changes, you would have paid a whopping 2.75% fee. On a hypothetical $300k loan, that's a difference of $3750 in closing costs.

Elsewhere in the spectrum, things got worse. Borrowers with higher credit scores will generally be paying a bit more than they were under the previous structure. The following chart shows the differences. Green and yellow cells show where things have become more affordable than they were. Orange and red cells = more expensive. All values refer to a percentage of the loan balance charged as an upfront fee. This doesn't necessarily come out of your pocket upfront as lenders can offer higher interest rates in some cases and pay these costs for you (but the costs are still there, and still technically being paid by you over time in the form of higher interest rates).

New vs Old for Purchases

higher LLPAs — lower LLPAs

	< 30.00%	30.01 – 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	>95.00%	>97.00%
≥ = 780	0.000%	0.000%	0.250%	0.250%	0.125%	-0.125%	0.000%	0.000%	0.625%	0.625%
760 – 779	0.000%	0.000%	0.250%	0.000%	-0.125%	-0.375%	-0.250%	-0.250%	0.500%	0.500%
740 – 759	0.000%	0.000%	0.125%	-0.125%	-0.375%	-0.750%	-0.500%	-0.375%	0.250%	0.250%
720 – 739	0.000%	0.000%	0.000%	-0.250%	-0.500%	-0.750%	-0.500%	-0.375%	0.250%	0.250%
700 – 719	0.000%	0.000%	0.125%	0.125%	-0.125%	-0.500%	-0.250%	-0.125%	0.625%	0.625%
680 – 699	0.000%	0.000%	-0.125%	0.125%	0.000%	-0.375%	-0.250%	-0.125%	0.375%	0.375%
660 – 679	0.000%	0.000%	0.250%	0.875%	0.875%	0.625%	0.500%	0.625%	1.000%	1.000%
640 - 659	0.500%	0.500%	0.125%	1.250%	0.750%	0.750%	0.750%	0.875%	1.250%	1.250%
≤ 639	0.500%	0.375%	0.000%	0.875%	0.250%	0.375%	0.625%	1.000%	1.750%	1.750%

There are many other changes that aren't so easily translated to a heat-map table. The most notable is a new charge for DEBT-TO-INCOME (DTI) ratio. This will be controversial in many scenarios as income calculations can be somewhat subjective and debt calculations can be legitimately "tweaked" with some advanced planning and/or debt consolidation. Nonetheless, every loan guaranteed by the agencies has a DTI attached to it. If yours is over 40% and you're borrowing more than 60% of your home's value, you'll be paying more.

A few other examples of changes:

- There are new credit score bands at 760+ and 780+.
- There is more differentiation in high-balance vs non-high-balance ARM loans (uncommon... most ARMs are not done through the agencies)
- Several changes to 2-4 unit property LLPAs
- There's a new generic LLPA for "subordinate financing" (a 2nd loan or HELOC) whereas the previous LLPAs were more granular depending on the LTV of first loans vs subordinate loans
- BIG increases in fees for many "Cash-Out" loans

Where can I see the actual, specific changes?

If you have a loan in process or soon will, these changes likely won't apply to you. Again, most lenders won't implement them right away. Ask your lender for clarification. If you're asking them on January 19th, 2023, they may not be aware of the changes yet!

The official changes are here:

https://singlefamily.fanniemae.com/media/9391/display

NOTE: at the top of that page, there is a link to the PREVIOUS/EXISTING version of the LLPAs (or you can click here). Just be sure to note the text at the top of whichever page you're viewing, so you know if it applies to loans before or after 5/1/2023 (and keep in mind that "after 5/1/2023" will refer to most loans originated in March/April).

Who decided that these changes should happen?!

The FHFA. Here's their statement: https://www.fhfa.gov//Media/PublicAffairs/Pages/FHFA-Announces-Updates-to-Enterprises-SF-Pricing-Framework.aspx