GSE Activity Report

Tuesday, October 25, 2022

The Great Unbundling

Summary

As we noted yesterday, FHFA has decided not only to unbundle second and high-dollar loans from its flat-fee paradigm, but now to do the same for about one in five conventional conforming purchase loans outside these categories. Together with new cash-out refi fees, the agency is recrafting Fannie and Freddie into an express risk- and mission-pricing construct that alters the essence of the GSEs and thus of the market as a whole.

Impact

Deserving borrowers (e.g., lower-income first-timers) and affordable-mortgage products are about to get a big price break with the end of delivery fees (i.e., LLPAs). Offsetting these will be a "modest" hike for "most" cash-outs, although Director Thompson said yesterday that some refis – we would get to minority borrowers – will see a reduction of some sort.

The whole delivery-fee construct was designed to ensure that higher-risk borrowers bore the brunt of GSE losses so that a wide array of other GSE customers got the full benefit of agency pricing without impeding recapitalization. This protected the agencies as business ventures rather than the agencies as mission enablers. The more delivery fees cost higher-risk borrowers, the more they went to FHA or stayed in their rentals, a result that worked for GSE earnings and reconstruction if not also for the under-housed.

In her efforts to rewrite the cross-subsidy model, Thompson is on the same tack as Mark Calabria in an effort to confine GSE benefits to borrowers or products which the private markets do not or could not serve once subsidized GSE pricing is out of the competitive landscape. FHFA's release on these new fees describes FHFA's goals as "fostering capital accumulation, achieving commercially viable returns, and ensuring a level playing field for all sellers." Easier said than done, but it gets at least a bit less problematic if fees for lower-risk borrowers stay high enough to subsidize some higher-risk loans and commercial viability is defined in a far less ambitious, earnings-driven construct.

Outlook

The cash-out refi fees will kick in next February. The price cuts are to come ASAP, with FHFA clearly working all this out to clear the pipeline yet cut fees as fast as possible to give lower-income borrowers the biggest edge they can as fast-rising interest rates push home ownership out of reach for so many of them.

Federal Financial Analytics, Inc.
2101 L Street, N.W., Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail : info@fedfin.com www.fedfin.com