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It Pays for Homebuyers to Be Aware of Recent FHFA Changes to Interest Rules & Rates

Let's Talk Home Financing

By JIM SMITH
Realtor®

We are barely six weeks into 2023 and already, we are feeling the effects of "pent up demand" for housing. Denver's real estate market is rebounding and the advantages that buyers had in the last few months are declining as the "Spring Selling Season" unfolds. Consumer confidence, unemployment numbers and inflation have been in the news recently, and while those factors certainly impact the cost of residential home loans, there are other upcoming changes in the industry that aren't as well known.

I asked **Jaxzann Riggs**, owner of **The Mortgage Network**, to elaborate.

The Federal Housing Finance Agency (FHFA) has announced changes that will affect the cost of home ownership for many borrowers starting in March.

Established in 2008, FHFA was created to restore confidence in the mortgage market and to provide supervision and regulation over Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. FHFA has made it their mission to prevent a repeat of the housing collapse and promote stability so that Americans can buy homes with confidence, especially those within underserved communities.

FHFA has announced targeted changes to Fannie Mae (FNMA) and Freddie Mac (FHLMC) pricing by eliminating added interest rate adjustments called **Loan Level Price Adjustments** (LLPAs) for certain borrowers and affordable mortgage products. There are requirements to qualify, but one example would be first-time homebuyers who are at or below 100 percent of the area median income (AMI) in most of the United States and below 120 percent of the AMI in high-cost areas such as Denver.

Traditionally, LLPAs have been added to interest rates to account for higher risks such as lower credit scores, low down payments, and property types, such as condominiums. Eliminating these LLPAs can lower the offered interest rate by up to 1.75%, which makes a substantial difference in a monthly mortgage payment. These changes will help to make home ownership easier for underserved and first-time buyers.

To support FHFA's priorities, lenders will offer new mortgage programs that allow individuals to make down payments of only 3% and, in an effort to help first-time and lower-income buyers enter the housing market, a portion of the 3% down payment can actually be borrowed.

While Fannie Mae, Freddie Mac, and FHA are reducing the interest rates being offered to first-time and lower-income buyers, they are increasing the interest rates being charged to other home buyers. We have already seen a dramatic increase in the cost of loans for individuals purchasing a second home or investment property, and additional increases are expected in the next couple of months. These changes signal a significant shift in lending philosophy. At the height of the COVID crisis, the cost of mortgages for second homes and investment properties was identical to that for primary residences.

Currently the price differential between an owner-occupied home and an investment property is over a full percentage point, making real estate investing much more expensive than in recent years.

While credit scores have influenced the cost of money for over a decade, Fannie Mae and Freddie Mac will now increase interest rates for those with mid-level FICO scores. In the past, the percentage of income (debt to income ratio or DTI) that a borrower used for housing had no impact on the cost of the loan. Soon a borrower's DTI ratio will be factored into the cost of loan — the higher the DTI, the higher the rate.

You may have questions about the changes. Do you qualify? What is the best loan option for your personal circumstances? Reach out to **Jaxzann Riggs** of **The Mortgage Network** (**303-990-2992**) for answers.