

Changes to Second-Home & Jumbo Loans, Self-Employed Borrowers and Appraisal Fees

I received a call this week from **Jaxzann Riggs**, owner of **The Mortgage Network** informing me of several changes occurring at FNMA and FHLMC that may “level” the playing field for some purchasers.

Roughly 17% of the homes sold in the last 12 months in the Denver metro area have been sold to investors, according to an article in the Denver Post. Demand for second homes has also skyrocketed, as newly remote workers seek more space and better surroundings. Until now, those purchasers were able to obtain loans with interest rates that were comparable to those being offered to purchasers who would be occupying their new home as their primary residence.

On Jan. 5th Fannie Mae and Freddie Mac (FNMA and FHLMC) jointly announced new “loan-level price adjustments” (or LLPAs) for **high-balance, investment and second home loans**. An LPA is a risk-based fee assessed to mortgage borrowers using a conventional mortgage. Loan pricing adjustments vary by borrower, based on loan traits such as loan-to-value (LTV), credit score, occupancy type, and the number of units in a home. Borrowers often pay LLPAs in the form of higher mortgage rates.

Let's Talk
Home Financing



By Jim Smith
Realtor®

Increasing the LLPAs on high-balance, investment and second homes makes interest rates less attractive for the buyers and allows FNMA and FHLMC to offer new programs to help first-time or lower-income homebuyers.

Other recent changes by FNMA and FHLMC help **self-employed borrowers**. They have rescinded rules imposed in June 2020 requiring self-employed borrowers to supply a year-to-date P&L as well as their most recent 2 or 3 months of bank statements. This reduction in paperwork should make it much easier for self-employed borrowers to obtain financing.

Another benefit may be found in the potential for **lower appraisal fees**. With the current red hot housing market, demand for appraisers is outstripping the supply, pushing up fees and extending appraisal completion times. Enter technology. Fannie Mae will allow desktop appraisals for certain loans submitted after March 19. This technology may help alleviate the appraiser shortage in the long term and lower appraisal costs in the current market. Jaxzann reminded me that she pays for her clients' appraisals so they can be ordered immediately upon acceptance of a purchaser's offer. With the ability to obtain desktop

appraisals, Jaxzann expects that loan approvals can consistently be obtained in two weeks.

Though median home prices have shot up in the last two years (by 25%, according to HUD), what hasn't changed is that people still need their homes to serve as an anchor for their life.

If you are in the market for a **jumbo loan**, things have gotten easier. A jumbo loan is a mortgage that exceeds the conforming loan limit set by the federal government. Jumbo loans — meant to finance expensive properties — cannot be purchased or securitized by FNMA and FHLMC. Loan amounts above \$684,250 are considered “jumbo” and often have higher standards for approval.

While people typically assume you need 10% down for a jumbo loan, there are currently products that allow as little as 3.5% down. This can free up some of your savings for being more competitive in this market, using funds for escalation causes, appraisal gaps, updates if the house isn't in dream home condition.

Yes, today's market can make buying a home stressful, but working with an experienced professional like **Jaxzann Riggs** will allow you to navigate its challenges. Call her at **303-990-2992** with your lending questions.



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