Published May 18, 2023, in the Denver Post's YourHub section

Yes, I Know This Is Confusing, But There Are Some Changes in Loan Rates

Let's Talk Home Financing

By JIM SMITH Realtor®

Social media has been abuzz lately with rumors about a new "tax" that is targeting high-credit score borrowers. Before you decide to stop paying your bills on time, I asked **Jaxzann Riggs**, owner of **The Mortgage Network** to explain as best she can what these changes are about.

She reminded me that we wrote about the shifts that had already begun in home loan pricing several months ago, when FHFA, the federal agency that supervises Fannie Mae (FNMA) and Freddie Mac (FHLMC), announced that changes were on the horizon.

FNMA and FHLMC are charged with providing liquidity, stability, and affordability to mortgage markets. Affordability is the key word here, especially for those borrowers within "underserved communities." To support this priority, FNMA and FHLMC began changing Loan Level Price Adjustments, also referred to as LLPAs. These are adjustments made to the interest rates offered to borrowers based upon such criteria as credit score, loan-to-value (LTV) ratio, occupancy, property type, and debt-to-income (DTI) ratios.

In recent months, FHFA has announced many targeted changes to FNMA and FHLMC pricing. One example would be that first-time homebuyers who are at or below 100% of area median income (AMI) in most of the United States and below 120% of AMI in high-cost areas such as Denver ***may be offered rates that are lower than in the past.*** These changes signal a significant shift in lending philosophy with emphasis placed on those who may be "underserved."

As an example, 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 rate differential between an owner occupied home and an investment property or second home is over a full percentage point, making real estate investing much more expensive than during COVID.

Purchase Loans - Change vs Previous LLPAs

	Loan-To-Value								
FICO	0-30	30.01-60	60.01-70	70.01-75	75.01-80	80.01-85	85.01-90	90.01-95	>95
780+	0	0	-0.25	-0.25	-0.125	0.125	0	0	-0.625
760-779	0	0	-0.25	0	0.125	0.375	0.25	0.25	-0.5
740-759	0	0	-0.125	0.125	0.375	0.75	0.5	0.375	-0.25
720-739	0	0	0	0.25	0.5	0.75	0.5	0.375	-0.25
700-719	0	0	-0.125	-0.125	0.125	0.5	0.25	0.125	-0.625
680-699	0	0	0.125	-0.125	0	0.375	0.25	0.125	-0.375
660-679	0	0	-0.25	-0.875	-0.875	-0.625	-0.5	-0.625	-1
640-659	-0.5	-0.5	-0.125	-1.25	-0.75	-0.75	-0.75	-0.875	-1.25
620-639	-0.5	-0.375	0	-0.875	-0.25	-0.375	-0.625	-1	-1.75
<620	-0.5	-0.375	0	-0.875	-0.25	-0.125	-0.625	-1	-2

The current change to LLPAs will, in some cases, reduce costs for those with lower credit scores and raise costs for those with higher credit scores, but, as shown in the graphic above right from *The Mortgage News Daily*, the rumors are conflating the ***changes*** for the ***actual cost***. Let's take a minute to look at that graphic.

The chart shows the changes to the previous LLPAs. The green represents the falling costs; the red represents rising costs. As you can see, there is clearly ***no scenario where someone with lower credit will have a lower interest rate after adjustments are made***.

While the change in LLPAs does result in a tweak of an existing fee structure in favor of those with lower credit scores, you can also see that there are instances where costs have lowered (green) for those with a high credit score. A low credit score borrower isn't paying less than a high credit score buyer, but the gap between what they pay is simply smaller than it was previously.

According to the Federal Housing Finance Agency, while some fees are being eliminated for lower-income buyers and lower credit score buyers, and fees are being increased for some buyers with higher credit scores, the two are not cause-and effect.

"Higher-credit-score borrowers are not being penalized or charged more so that lower-credit-score borrowers can pay less," they said in a statement. "Some updated fees are higher, and some are lower, in differing amounts. They do not represent pure decreases for high-risk borrowers or pure increases for low-risk borrowers."

I know that these topics can be confusing, and rumors can be overwhelming to debunk. If you are shopping for a home loan, Jaxzann would be happy to provide an interest rate quote for you.

You can reach her anytime on her cell phone at **303-990-2992.** Tell her you saw this column..