

Mortgage pain hits prudent borrowers

McLEAN, Va. – Dec. 12, 2007 – Some of the costs of cleaning up the nation's mortgage crisis are beginning to hit innocent bystanders: people who pay their bills on time and avoid excessive debt.

Fannie Mae, the giant government-sponsored mortgage investor, last week raised costs for many borrowers by quietly adding a 0.25 percent up-front charge on all new mortgages that it buys or guarantees. On a \$400,000 mortgage, that would mean an extra \$1,000 in fees, almost certain to be passed on to the consumer. Freddie Mac, the other big government-sponsored mortgage investor, is expected to impose a similar fee soon, according to a person familiar with the situation.

The new charge from Fannie Mae adds to the general gloom over the housing market. It comes as mortgage interest rates are heading up again after a recent dip - as well as increases in mortgage-insurance costs, tougher requirements on down payments and other moves by lenders to ration credit. And last month, Fannie and Freddie imposed surcharges for mortgage borrowers with lower credit scores.

Loan applications have been so slow lately, says Lou Barnes, a mortgage banker in Boulder, Colo., that it feels like "our client base today is limited to people who don't read the newspaper or watch television."

Still, mortgage loans remain available for many people at rates that are attractive by historical standards. People with good credit scores and enough savings to pay a substantial down payment can still get 30-year fixed-rate mortgages of as much as \$417,000 for 6.14 percent on average, according to HSH Associates, a financial-publishing firm in Pompton Plains, N.J.

But so-called jumbo loans – those above \$417,000, the ceiling on mortgages that can be bought or guaranteed by Fannie and Freddie – have become much more expensive in relation to smaller mortgages.

The average rate for a fixed-rate jumbo loan is 7.13 percent, according to HSH. That is down from a recent high of 7.46 percent but remains lofty in comparison with "conforming" loans, those that can be sold to Fannie or Freddie. The premium paid for jumbo loans ballooned in August, when many loan investors began shunning mortgages lacking a guarantee from Fannie or Freddie.

Fannie said its new 0.25 percent fee will apply to loans sold by lenders to Fannie or placed into pools of guaranteed loans backing mortgage securities as of March 1, 2008. Lenders are likely to start adding that fee over the next few weeks because there is often a delay of several months between loan terms being offered to consumers and the sale of a completed loan to Fannie.

In a statement, Fannie said the new fee is needed "to ensure that what we charge aligns with the risk we bear." The National Association of Home Builders labeled the fee "a broad tax on homeownership." More than 40 percent of all mortgages outstanding are owned or guaranteed by Fannie or Freddie.

The fee is the latest in a series of moves by Fannie and Freddie that raise the cost of credit for some borrowers. Late last month, they imposed surcharges that affect mortgage borrowers who have credit scores below 680, on a standard scale of 300 to 850, and who are borrowing more than 70 percent of a property's value. For example, someone with a credit score of 650 would pay a surcharge of 1.25 percent of the loan amount for a mortgage to be sold to Fannie. On a \$300,000 loan, that would mean extra fees of \$3,750. The fee could be paid in cash or in the form of a higher interest rate than would normally apply.

Fannie also is raising down-payment requirements for loans it purchases or guarantees in places where house prices are falling, which by some measures is most of the country. In these declining markets, lenders will need to cut by five percentage points the maximum percentage of the home's estimated value that can be financed. For instance, for types of loans that Fannie normally would allow to cover up to 100 percent of the estimated value, the ceiling now is 95 percent in declining markets.

Standards continue to tighten in other areas. Lenders that make the largest loans and offer the best rates to borrowers seeking jumbo mortgages want borrowers to show not only a good credit score but also enough reserves to cover as much as three years of mortgage payments and carrying costs, says Melissa Cohn, a mortgage broker in New York. Borrowers taking out interest-only loans are being qualified based on their ability to make the full payment once the interest-only period ends and not just the lower initial payment, she says.

Lenders in recent months have sharply scaled back on loans that don't require the borrower to make a down payment or provide proof of income and savings. The bar for credit scores is rising, too. "Historically, lenders would consider top-tier credit (a score of) 680," says David Soleymani, a mortgage broker in Los Angeles. "Now, many of those lenders want to see a 720," but are rewarding such borrowers with better rates, he says.

Mortgage insurers are also raising their prices and tightening their standards. Mortgage insurance is typically required when a borrower finances more than 80 percent of a home's value. During the peak of the housing boom, many borrowers got around this requirement by taking out a so-called piggyback mortgage, which combined a mortgage with a home-equity loan or line of credit. But demand for mortgage insurance has climbed as most lenders have stopped promoting piggyback loans.

Triad Guaranty Insurance Corp., Winston-Salem, N.C., this month stopped providing mortgage insurance on option adjustable-rate mortgages, which carry low introductory rates but can lead to a rising loan balance. Triad also said it would no longer provide mortgage insurance for loans that exceed 97 percent of a home's value. It set a 90 percent threshold for loans in four states where home prices have been dropping fast: Arizona, California, Florida and Nevada. "We want to look for people who have more equity rather than less equity" in their homes, says Triad Vice President Jerry Schwartz.

PMI Group Inc., a Walnut Creek, Calif., mortgage insurer, this fall stopped writing mortgage insurance for borrowers with credit scores below 620 who are financing more than 95 percent of their home's value. PMI also has boosted prices for most borrowers who have credit scores of 620 and higher with loan-to-value ratios above 95 percent. Borrowers with credit scores between 620 and 659 who are financing more than 97 percent of their home's value face the biggest increase. The monthly premium for a \$200,000 mortgage will increase by \$123 to \$283.

Starting next month, MGIC Investment Corp. will no longer insure loans when income and assets aren't fully documented unless borrowers can show they are self-employed and are either buying a home they intend to live in or are refinancing the mortgage on their home without pulling cash out. MGIC also will no longer insure loans in California and Florida where the borrower has less than 5 percent equity and is raising premiums for certain borrowers. "This is the first significant price change since the mid-1980s," says Michael Zimmerman, MGIC's vice president of investor relations.

With standards tightening, some borrowers who might previously have looked for a subprime mortgage or 100 percent financing are turning to loans guaranteed by the Federal Housing Administration, which for a fee insures mortgages as much as \$362,790. Peter Lansing, a mortgage banker in Denver, says that FHA loans accounted for more than half of his business last month, compared with less than 10 percent a year ago.



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