

**MORTGAGE FEES MOVE HIGHER BUT LENDERS POST RECORD VOLUMES--****SORTING IT ALL OUT--**

Fannie Mae, one of the largest sources of mortgages for homebuyers in the United States, continues to impose higher fees associated with conforming residential mortgages through its most recent lender announcement of 12/29/08. It is anticipated that Freddie Mac will follow suit as has been customary in the past.

Although the new fee structure for loans purchased or delivered does not take effect until April, most residential lenders are scrambling to implement the changes as soon as possible to ensure future loan sales have accurate pricing. Most of the new pricing structure continues to add higher fees associated with loans due to credit scores, loan to values, occupancy and property types. Many residential lenders say these higher costs will continue to hamper home buying activity and negatively impact those borrowers looking to refinance. The agencies contend that these surcharges are being driven by “risk based pricing” and are necessary to offset the elevated risks due to certain individual credit characteristics.

THE BAD:

Residential credit continues to get tighter. Those borrowers with lower credit scores and higher loan to values continue to pay higher surcharge fees. For example, a borrower with a credit score of 675 and a 20% down payment will pay an additional 0.75 points under the new pricing structure. On a 30 year fixed rate conforming product with a \$250,000 loan amount, this represents an increased cost of \$1,875 per loan. Many mortgage bankers are complaining that the complicated pricing schedules and credit guidelines are making it extremely difficult to accurately quote mortgage rates in today’s increasingly complex market.

THE GOOD:

Although tighter underwriting and pricing guidelines continue to be implemented, the residential credit markets are open for business and have witnessed a record number of mortgage applications since early December 2008. This increase in production has been a

result of a significant decline in mortgage interest rates combined with fewer competitors on both the national and regional levels.

For lenders selling into the Secondary Market and for those lenders with balance sheet capabilities, there hasn't been a safer time to offer mortgage products from a credit risk perspective. With increasingly conservative underwriting guidelines and the implementation of stricter quality control measurements, the mortgage banking industry has gone back to the basics from which it was originally founded.

WHAT 'S NEXT?

A very interesting dichotomy is starting to occur in the industry today. Based on the mortgage applicant's credit characteristics, some borrowers are finding it difficult to obtain mortgage financing while others have seen very little impact at all. Clearly, the name of the game today is to maintain good credit, have a significant down payment and provide verifiable income to the lending institution. Those lenders who have maintained a presence in the market are beginning to reap the rewards of increased production as a result of decreased competition and a return to historically low interest rates. Additionally, the increased fee structures should provide greater revenue to both banks and mortgage lenders going forward. Many expect 2009 to be a significant refinance year and may just provide the shot in the arm the industry has been looking for to stem the tide until the U.S. housing market rebounds.

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