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Fannie, Freddie to Lower Fees for Some Borrowers

Modest changes likely to disappoint affordable-housing advocates

By Joe Light
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The regulator of Fannie Mae and Freddie Mac will direct the housing-finance firms to slightly cut mortgage fees for riskier borrowers, a decision that falls short of what housing advocates wanted and yet is likely to anger conservative politicians who wanted higher charges.

For most people taking out a loan, the change will be negligible. Some riskier borrowers, who make lower down payments and have lower credit scores, will see slight savings that could translate to hundredths of a percentage point on a mortgage rate—an amount that would have little effect on the housing market—according to people familiar with the Federal Housing Finance Agency's plan.

To cover the cost of the reductions, Fannie and Freddie will raise fees on some other borrowers, such as those borrowing for an investment property and some of those who have safer borrowing characteristics, with the intent of the changes to be revenue-neutral for Fannie and Freddie, the people said.

The fee changes will put an end to more than a year of speculation as to what the FHFA would do under Melvin Watt, a former Democratic congressman from North Carolina who was sworn in as director in January 2014 and some advocates had hoped would prove more amenable to lessening borrowing costs than his predecessor.

As one of this first moves after taking office, Mr. Watt halted a planned fee increase by the former acting director, Edward DeMarco, a move that Mr. DeMarco had said was necessary to encourage private investors, who require a higher rate of return, to compete for business. That increase would have been the latest in a string of fee increases over the past several years.

After Mr. Watt halted the increase, some had speculated that he could move significantly in the other direction, sharply reducing fees for riskier borrowers in an effort to broaden credit access. However, the FHFA's ultimate direction, in which costs will remain little changed, signals that Mr. Watt has chosen a middle route.

"What we've seen so far from Director Watt is he is an incrementalist," said Julia Gordon, senior director of housing and consumer finance at the left-leaning Center for American Progress, who has pushed for Fannie and Freddie to step back from charging higher prices to riskier borrowers. "It's important that this not be the last word" on fees, she said.

Nevertheless, the changes that are being made—which include the termination of a borrowing surcharge imposed by Fannie and Freddie during the crisis—are likely to draw the ire of some conservatives on Capitol Hill, who believe that the government is generally encouraging riskier lending practices.

But ultimately for most borrowers and the economy, the changes will have little impact except on the margins, said Mark Zandi, chief economist at Moody's Analytics. "It sounds like they're maintaining the status quo, roughly speaking, and that feels right to me. It's exactly what they should be doing," said Mr. Zandi.

Fannie and Freddie don't make mortgages. They buy them from lenders, wrap them into securities and provide guarantees to make investors whole if the loans default. In exchange for those guarantees, Fannie and Freddie charge lenders fees that are typically passed through to borrowers as a component of mortgage rates.

The government put Fannie and Freddie in a so-called conservatorship in 2008 after the companies suffered significant crisis-era losses. The companies ended up receiving $187.5 billion in aid from the U.S. Treasury, but then became highly profitable, sending the U.S. Treasury more than $228 billion in dividends.

"This decision is a step in the wrong direction, and it increases the liability of American taxpayers who are already on the hook for countless billions of dollars in guaranteed loans," said Rep. Scott Garrett (R., N.J.). "It's just another example of the worst kind of cronyism that punishes qualified borrowers while promoting many of the same policies that played a major role in our most recent financial crisis."

In the past year, some conservatives have criticized Mr. Watt's decision to allow Fannie and Freddie to back loans made to borrowers with down payments of as little as 3%, down from the previous 5% minimum.

Separately, the Federal Housing Administration—which insures loans to borrowers who make down payments of as little as 3.5%—in January said it would cut fees by 0.5 percentage point for most borrowers.

The FHFA's latest decision to lower fees for some borrowers is "just starting to look like part of a larger trend, that's my real concern. What's next?" said Mark Calabria, director of financial regulation studies at the libertarian Cato Institute. "There was not some single moment or event that got us into the last mess, but the accumulation of lots of errors."

In making the decision not to significantly change fees, the FHFA likely weighed the potential risks of Fannie and Freddie needing a taxpayer bailout if their revenues were reduced significantly, said Isaac Boltansky, an analyst with Compass Point Research & Trading LLC in Washington.

"The potential for a draw, even though it would largely be symbolic, had to weigh on the FHFA when they were making their pricing decision," Mr. Boltansky said.