

Uncertainty Due to Short-Notice FHFA Directive Amplifies Harm to Borrowers

SAN DIEGO, Calif., Aug. 14, 2020 (SEND2PRESS NEWSWIRE) – Mortgage Capital Trading, Inc. (MCT), a leading mortgage hedge advisory firm, analyzed the potential effect of Wednesday's fifty basis points worsening in prices paid by Fannie Mae and Freddie Mac for most mortgage refinances. According to data from the MCTlive! secondary marketing software platform, MCT estimates increases in borrower rates of up to 0.375%, leading to the average borrower paying as much as an additional \$21,000 over the typical thirty-year loan term.



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“These FHFA-directed price adjustments do more than work against the hopeful economic rebound and the original agency charters, they undermine trust and spur uncertainty at a crucial time. Who knows where the next no-warning directive will strike? Non-owner-occupied loans? High loan-to-value?” commented Phil Rasori, COO of MCT. “The only way lenders can protect themselves from these risks is to increase margins across the board, according to our analysis on the order of seventy-five to one hundred basis points in total.”

The result of these margin increases, exacerbated by the twenty-day notice

driven by the Federal Housing Finance Administration (FHFA), will be higher housing costs to borrowers at a time where many are in need, and a drag on the economy overall. The short notice amounts to effectively no time for lenders and borrowers to react, as the typical thirty-day rate lock and the practice of “floating” a rate hurt both respectively in this case. Beyond the issue of timing, these actions are perpendicular to the efforts of the Federal Reserve and the administration to assist consumers and stimulate the economy in the face of the COVID-19 pandemic.

MCT’s analysis indicates the average \$280,000 American mortgage will cost an additional \$58 per month, \$2,800 in the first four years, and \$21,000 over a thirty-year term. For comparison, the average California mortgage of just under \$400,000 would cost an additional \$82 per month, \$3,900 in the first four years, and almost \$30,000 over the full term. Due to the current near-record low-rate environment, the typical lifespan of a mortgage can be expected to increase significantly, lengthening the borrower impact of the agency price changes and associated uncertainty. MCT calculates that these cost increases will be 34% higher than they would have been if the new Fannie Mae and Freddie Mac fees were simply passed-through to borrowers, indicating the significant effect of lender uncertainty due to the way the changes were communicated.

“Whether or not economic headwinds justify these ‘adverse market’ fees, their needlessly short-notice implementation introduced ongoing risks and increased negative impacts to borrowers,” said Curtis Richins, President at MCT. “A more traditional 90-day notice would have minimized uncertainty and borrower cost increases with a negligible difference in the long-term capitalization of Fannie Mae and Freddie Mac.”

MCT serves over three hundred lenders and manages over twenty percent of the US secondary market for mortgages. Based on this data, MCT will continue to monitor and analyze ongoing developments stemming from these FHFA-directed price changes. Further analysis and [mortgage market volatility guidance](#) is available.

About MCT:

Founded in 2001, Mortgage Capital Trading, Inc. (MCT) has grown from a boutique mortgage pipeline hedging firm into the industry’s leading provider of fully integrated capital markets services and technology. MCT offers an array of best-in-class services and software covering mortgage pipeline hedging, best execution loan sales, outsourced lock desk solutions, MSR portfolio valuations, business intelligence analytics, mark to market services, and an award-winning comprehensive capital markets software platform called MCTlive! MCT supports independent mortgage bankers, depositories, credit unions, warehouse lenders, and correspondent investors of all sizes.

Headquartered in San Diego, California, MCT also has offices in Philadelphia, Santa Rosa, Los Angeles and Dallas. MCT is well known for its team of capital markets experts and senior traders who continue to provide the boutique-style hands-on engagement clients love.

For more information, visit <https://mct-trading.com/> or call (619) 543-5111.

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