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Fannie Mae and Freddie Mac Pricing Changes

In a reaction to the mortgage credit cruch, as of January, 2008, Fannie Mae and Freddie Mac are changing their pricing models for high LTV (loan to value) loans. Any loan with a loan to value over 70% will be impacted by these changes. The amount of the price increase is dependent upon the borrower's credit score:

No credit score - add 2.00 discount points
Less than 620 - add 2.00 discount points
620-639 - add 1.75 discount points
640-659 - add 1.25 discount points
660-679 - add 0.75 discount point

This applies to all loans with terms greater than 15 years. In other words, lenders won't be able to quote a rate until they have an application with a credit report.

Another big change, all of the private mortgage insurance companies have announced that they will no longer insure loans above 95% loan to value if the credit score is below 620. This means that a large segment of the borrower population that has previously been able to obtain 100% finance loans will now be ineligible. Anyone with a credit score between 585 and 620 will now have to pay a minimum of 5% down payment. Keep in mind that for most conventional programs, the first 5% down must come from the borrower's own funds (no gifts). The My Community and Home Possible loans will still allow for gift funds.

Also, all PMI rates for LTVs over 95% have gone up, increasing the borrower's monthly payment. This is another disincentive to put less than 5% down.

FHA has not yet implemented these changes but Keep in mind that FHA also has big changes coming right around the corner. The proposed rule is due to go into effect January 1st. With it we will have credit scoring and tiered mortgage insurance premiums that are tied to the credit score.

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