

Costs for home mortgages rise as Fannie and Freddie hike fees

The cost of getting a mortgage is rising as higher fees hit more borrowers, including those with stellar credit.

For the first time since 2009, Fannie Mae and Freddie Mac are raising risk fees they charge lenders on loans they buy for resale to investors. The mortgage giants are also adding risk fees to loans even to people with stellar credit. To avoid a fee or to get a discount, most borrowers will need FICO scores of 740 or better and down payments of 25% or more. Lenders could absorb the cost, but most are expected to add it to loan costs as soon as April 1.

For example, a buyer of a \$200,000 house who has a 700 FICO credit score and 20% down payment will pay \$1,600 for the Fannie risk fee vs. \$1,200 before. If the borrower's score is 680, the fee will be \$2,800. Borrowers can pay fees upfront, or lenders will price them into the loan by increasing interest rates.

While not huge, the new fees are notable in that they're being added to more loans to borrowers with higher credit scores.

FICOs generally range from 400 to 850; the median is 711. With few exceptions, risk fees haven't applied before to borrowers with FICO scores of 740 or above.

Now, they'll face the smallest fee, 0.25% of the loan amount, if they put down less than 25%. Now, for the first time, these fees apply to virtually everybody. For single-family home buyers and standard refinances, the fees will hit 88% of the borrower categories set by Fannie and Freddie, up from 70%.

Freddie and Fannie announced the changes last year. They're intended to more accurately reflect changing risks in the housing market. Before the change, loans to borrowers with 740-plus FICO scores paid risk fees only on some loans, such as cash-out refinances.

Freddie says the increases will have a "nominal effect" on affordability. A 0.25% fee would add less than \$10 to the monthly payment on a 5%, 30-year fixed-rate loan for \$200,000, it says.

Yet, higher fees will make it harder for some consumers to qualify. For those that do, the fees may not scare them off, at today's low interest rates, but as rates rise, as they are expected to do over the next few months and the coming years, it could have a major effect on peoples' ability to get financing and their enthusiasm to enter into the home-buying process.