

## **New Mortgage Rules To Accommodate Lower Credit Scores - Lending Overview**

New mortgage rules are attempting to make homes more accessible to homebuyers with low credit scores by lowering the fees for low-credit buyers while, in some cases, raising the fees for high-credit buyers. This new fee restructuring revolves around what Fannie Mae calls “loan level price adjustment costs” and what Freddie Mac refers to as “credit fees.”

Having become effective on May 1, these two agencies increased their risk-based fees, which are intended to protect the agencies from borrowers deemed as more likely to default on their payments. However, in an attempt to make homes more affordable for individuals without large savings, their adjustments instead lowered fees for purchasers with smaller down payments. On a conventional mortgage, borrowers who now put down payments between 5% and 25%, which are considered larger down payments, will pay more in fees than those who put down less than 5% of the home’s value. Thus, the higher fees are impacting those who are considered less risky.

While purchasers with high credit scores will still be charged lower fees than purchasers with low credit scores, the disparity between fees will be reduced. This is intended to offset the risks of supporting purchasers with riskier credit, whom Fannie Mae claims may not have large savings or help from family or friends like their peers with higher credit scores.

Sources: Freddie Mac, Fannie Mae

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