 

**Legislative Policy Advisory**

**Loan Level Pricing Adjustments (LLPAs) Need to be Lowered or Eliminated**

**Issue**

Efforts are needed to reduce or eliminate LLPAs charged by Fannie Mae and Freddie Mac so that homebuyers, particularly first-time homebuyers who do not have high down payments, can afford to buy homes. LLPAs change both the cost and the accessibility of mortgage loans for the buyers; drive up the cost of homeownership; and create another hurdle for underserved borrowers.

**Why NAREB is Concerned**

Homeownership in the country continues to slip. Overall, the homeownership rate in the US is currently 63.7 percent (U.S. Census, Third Quarter Report on Homeownership, October, 2015). The rate among whites is 71.9 percent; blacks, 42.4 percent; Hispanic, 46.1 percent and other races including Asian, 53.7 percent. According to Harvard University’s Report on The State of the Nation’s Housing 2014, one of the factors for the drag on the mortgage market recover is the high cost of credit. Since 2009, guarantee fees have increased significantly, and in 2008 Fannie Mae and Freddie Mac instituted LLPAs, another cost to the consumer, that have a disproportionate impact upon minority communities. The Harvard report also notes that people of color will account for three-quarters of household growth over the coming decade. GSEs must be proactive in ensuring that current and emerging policies do not cause unintended consequences, or otherwise adversely affect populations that soon will comprise a collective majority in the US.

**Background**

In 2008, Fannie Mae and Freddie Mac introduced LLPAs. LLPAs are upfront fees paid by lenders based on loan-to-value ratios (LTV), credit scores and other risk factors, which are in turn, passed on to the borrower. In 2013, the GSEs announced that they were raising these and other fees to encourage the private capital to reenter the mortgage market. Now, anyone borrowing more than 60% of their home’s worth takes an extra hit and in some cases these hikes are quite severe. With the increase, a home buyer with a 720-739 score who borrows $200,000 and puts down 10% faces a 1.25% increase ($2,500), and that’s just in the up-front fees, not including the increase in the ongoing fees (Mortgage News Daily, “Mortgage Rates to Take Big Hit from Fee Hikes”, December 17, 2013). Less than one-third of Americans have credit scores above 766, and one third have scores below 660. The average credit score for all Americans is 700.

These policies restrict access and potentially have a disparate impact on the communities Fannie Mae and Freddie Mac were authorized to serve.

**Recommendation**

We recommend that appropriate policies be adopted that eliminate LLPAs and make access to homeownership more affordable and equitable for all Americans, particularly underserved communities.