

Tax Cut Extension Now Officially Raising Mortgage Rates

By: Matthew Graham | Wed, Jan 4 2012, 10:27 AM

As part of the temporary resolution to the recent **battle over the Tax Cut Extension** that took place in the last weeks of December, Congress decided that mortgage borrowers should foot part of the bill. Technically, Congress increased the "Guaranty Fees" that Fannie Mae and Freddie Mac charge to lenders that securitize **MBS (Mortgage-Backed-Securities)** with the Agencies, but ultimately, this cost must either be absorbed by lenders, passed on to consumers, or some combination of the two.

From the official release on 12/29/11:

"On Dec. 23, 2011, President Obama signed into law the Temporary Payroll Tax Cut Continuation Act of 2011. Among its provisions, this new law directs the Federal Housing Finance Agency (FHFA) to increase guarantee fees charged by Fannie Mae and Freddie Mac (the Enterprises) by no less than 10 basis points from the average guarantee fees charged by these companies in 2011 on single-family mortgage-backed securities. This requirement is effective immediately, meaning that the average guarantee fees charged in 2012 need be at least 10 basis points greater than the average guarantee fees charged in 2011."

The first official effects of these measures were seen today when BB&T distributed information to its brokers and correspondents regarding the impacts of the fee increase. In the announcement, BB&T explains that the 10 basis point increase in the Guaranty Fee or "G-Fee" as it's called, equates to a pricing difference of 30-40 basis points in terms of cost/rebate or roughly 0.125% in rate.

The announcement tacitly warns that other lenders will soon follow suit by saying that BB&T is executing this change now "a few days before all their competitors do the same." While similar announcements are indeed, to be expected, some originators in MND's **MBS Live Community** have noted **recent erratic behavior in lender pricing** above and beyond what they'd expect for the usual holiday fluctuations. The implication is that some lenders may already be in the process of pricing these increased costs into rate sheets and could forego formal announcements and simply spread the increased costs out over a longer period.

MBS Live! community member, Victor Burek stated in live chat: "I think some other lenders have added it already. One of my most frequently used lenders is about 30bps off in price despite unchanged MBS prices. Granted, there are other factors that could be driving this, but they could also be pricing in some of the expected costs of the Tax-Cut Extension."

Either way, mortgage borrowers end up footing the bill for the Tax Cut Extension. Despite the April 1st implementation, the letter of the new law states that the average G-Fees in 2012 must be 10 basis points higher than those in 2011. The **bottom line** is that rates must move higher on average and if lenders aren't building the fee increase into their rates now, they'll have to do so to a greater extent in the future to meet the "on average" guideline set forth by Congress.

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