

Big Hit to Second Home and Investment Mortgages

By: Ted Rood | Fri, Mar 12 2021, 3:07 PM

Fannie Mae announced March 10 that they are limiting new loans secured by second homes or investment properties to 7% of the overall loans they purchase (roughly HALF their historic levels!), effective April 1. What does this mean to borrowers seeking investment/2nd home mortgages? Turns out, it means ALOT.

While Fannie did not add any new "loan level pricing adjustments" (the fees borrowers pay for various perceived risk factors) in the announcement, **many mortgage lenders** added (or will soon add) substantial costs to these loans. For example, PennyMac (who buys large numbers of Fannie/Freddie loans from originating lenders), immediately added a 2.25% cost to new 2nd home mortgages, regardless of equity. The pricing adjustment for a new investment property loan with less than 25% equity rose to a staggering 5% of the loan size (\$10,000 on a \$200k loan!).

While not every investor raised their pricing adjustments immediately after Fannie's announcement, **most eventually will**, as they seek to avoid closing second home/investment loans they can't be certain Fannie/Freddie will purchase (due to the 7% cap mentioned above)

Note, these are just the NEW investor pricing adjustments based on [Fannie's announcement](#) and substantial others still apply based on credit scores, loan purpose, property type, equity, etc. As a reminder, Fannie/Freddie also added a .5% cost to all refinances over \$125K last fall as the pandemic increased defaults and forbearances.

The impact for certain housing markets (such as FL condos, which historically have large %'s of second homes/investment ownership) **can't be overstated**. If you've been considering buying a second home, it's critical you contact your lender immediately to discuss how this announcement will affect your loan's rates and costs.

Fortunately, loans in process that are already locked will **not** be subject to the new adjustments, but floating loans almost certainly will be.

Bottom line, demand for second homes and investment properties will be greatly impacted by Fannie's policy. Expect to see far more cash buyers for these situations, and (more than likely) far fewer bidding wars as the new pricing adjustments raise rates and costs. Outside investors may eventually purchase more of these loans (which is FHFA's goal), but for the moment, prepare to pay substantially higher costs, or cash for that getaway condo or rental property!

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