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A Message from Ted Rood:

"It's the question that comes up (at least once) on every loan: "why is my rate higher/lower than someone else's?" Hopefully this explanation helps clear that up!"

Why was Jerry's Rate so Much Lower?

A primer to the misunderstood factors that determine Jerry's (and Shawn's, and your) interest rates...

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:21PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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The excitement in Shawn's voice was palpable. He called me based on his friend Jerry's recommendation. Rates hit a multi-month low during January 2015, and I had just closed Jerry's home purchase at an appealing 30 year fixed rate. The transaction closed as planned, with no surprises, and Jerry was pleased enough to pass my info along to Shawn, who was considering refinancing his rental condo.

As Shawn and I continued our conversation, he shared more details: he owed $194,900, the condo's approximate value was $245,000, and his mid credit score was 691. He paid his own taxes and insurance, rather than escrowing them with his payment. He also had a small 2nd mortgage which he wanted to keep in place. Shawn asked if he could get the same rate Jerry did. My answer was "**not after your loan level pricing adjustments**", which prefaced a detailed discussion.

Explaining loan level pricing adjustments (LLPAs) is a critical component of every originator's duties. LLPAs are cost variations applied to all Fannie Mae/Freddie Mac mortgages, ostensibly to set loan pricing by various risk factors. The criteria include equity, property type, credit scores, loan purpose, loan term, loan size, loan type, PMI type, occupancy, subordinate financing, whether taxes/insurance are escrowed, number of units, and possibly the moon's current phase. If that seems like a lot of moving parts, it is! Fannie Mae explains LLPAs in a concise 6 page release.

In Jerry's transaction, the **LLPAs were minimal**. His high scores (761), substantial down payment (30%), loan purpose (purchase), property type (single family home), and occupancy (owner occupied) combined to influence his pricing by a mere .25% of the loan size. Since his loan was $300,000, the total impact of his LLPAs was $750 added to the pricing on his loan, a fairly insignificant amount.

Shawn, however, was facing an entirely **different scenario**. His 691 score, combined with an investment condo refinance on a property with less than 25% equity, not escrowing, and subordinating a second mortgage resulted in a **remarkable total price adjustment of 7.125% of his loan size**. Based on borrowing $194,900, the impact of his adjustments would have totaled $13,886! Once Shawn regained consciousness after I explained his pricing, we both concluded his best option was remaining in his current loan.

We also discussed how Shawn could lessen his LLPAs' cost if he decided to refinance in the future. Raising his credit scores, shortening his loan term, escrowing his taxes/insurance, and borrowing a smaller % of his condo's value were all factors that could make his loan far more affordable down the road.

When I speak with potential clients who ask the invariable "**what would my rate be today**" question, my answer is "it **depends**, let's talk about your scenario". A rate quote provided without addressing all Fannie's pricing factors is virtually guaranteed to be incorrect; the only real question is by how much!

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood

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