Treasury Department and FHFA Amend Terms of Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac

New restrictions were put in place in 2021 on Fannie Mae (FNMA) and Freddie Mac (FHLMC), the two largest lenders and buyers of mortgages in the US.

- **Provide Small Lender Protections:**

  FNMA and FHLMC cash purchases of mortgages will benefit of community lenders. FNMA and FHLMC will each loans purchased through the cash window to $1.5 billion per lender during any period comprising four calendar quarters.

Given that many mortgage brokers and originators routinely make more loans than this, many lenders will need to find alternate, likely higher interest rate sources for loan borrowers!

- **Limit Risk to the FNMA and FHLMC on Higher-Risk Mortgages:**

  To safeguard Treasury's funding commitment and to ensure the GSEs' business activities are consistent with their mission and Treasury's capital support, the GSEs will restrict the acquisition of higher-risk single-family mortgage loans.

  - FNMA/FHLMC will each limit the acquisition of single-family mortgage loans with multiple higher risk characteristics. A maximum of 6% of purchase money mortgages and maximum of 3% of refinancing mortgages over the trailing 52-week period can have two or more higher risk characteristics at origination: combined loan-to-value (LTV) greater than 90%; debt-to-income ratio greater than 45%; and FICO (or equivalent credit score) less than 680.
  - FNMA and FHLMC will each limit the acquisition of single-family mortgage loans secured by second homes and investment properties to 7% of single-family acquisitions — aligned with their current levels — over the preceding 52-week period.
  - The GSEs will limit the acquisition of single-family mortgage loans to (i) qualified mortgages (QM quality), (ii) loans exempt from the CFPB's ability-to-repay requirement (ATR quality), (iii) loans for investment property subject to the restrictions above, (iv) refinancing loans with streamlined underwriting for high loan-to-value ratios, (v) loans originated with temporary underwriting flexibilities

Note the limit of loans with less than 10% down and credit scores under 680! The DTI limit also kicks in, but is usually much more limited in use. A lender now may have a normally approved loan rejected for purchase by FNMA/FHLMC which may create a rejection for a qualified borrower unless the lender has alternate source of funds for lending through no fault of the borrower!