Rodney's Take

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Redistribution by Any Other Name

The federal government has a problem. People with lower credit scores (for example, a FICO score around 640) have a harder time paying the fees associated with getting a mortgage than people with higher credit scores (say, a FICO score over 740). One big reason for this is that those with lower scores have less money. I know, it sounds obvious, but apparently our elected officials didn't get the message. Plus, people with lower incomes and lower credit scores default on their loans at higher rates than those with higher incomes and higher credit scores, so they are charged higher fees. Again, a lack of cash makes this an obstacle. But don't worry, the head of the Federal Housing Finance Agency, Sandra L. Thompson, has a plan. Just don't call it redistribution.

To fight the demonic logic of making people who have less means to repay their debts pay higher fees to protect taxpayers when those people of lesser means default, Thompson updated the fees charged by the Federal National Mortgage Association (FNMA, or Fannie Mae) and the Federal Home Loan Mortgage Company (FHLMC, or Freddie Mac). Among other things, Thompson updated the Loan-Level Pricing Adjustment Matrix (LLPA), which adjusts a buyer's upfront fees based on criteria like credit score and size of down payment. Where a home buyer with a 740 FICO score purchasing a $400,000 home with a 20% downpayment would see LLPA jump from $2,000 to $3,500, a buyer with a 640 FICO score who put down 3% to buy the same home would see LLPA decrease from $11,000 to $6,000.

The update likely won't change the arc of defaults, but it moves more of the burden of paying for them from the people who are most likely to default to the people who are less likely to need to mail back the keys. Just don't tell Ms. Thompson that it's redistribution; she really doesn't like that. Last week she issued a statement to "clarify" the updates. She pointed out that the FHFA *"…announced the elimination of upfront fees for certain groups core to the Enterprises' mission, such as first-time home buyers with lower incomes who nonetheless have the financial capacity and creditworthiness to sustain a mortgage,"* and that in January the FHFA *"…announced a recalibration of the upfront fees for most purchase and rate-term refinance loans."*

So, the FHFA lowered or eliminated costs for low-income and lower-credit-score buyers because those moves are "on mission," while raising the costs for other buyers. If it sounds like redistribution, and works like redistribution…

This might not happen. Last Friday, a group of representatives led by Rep. Andy Biggs introduced a bill to block the updates. Biggs claims that increasing fees for good credit borrowers would be onerous and would endanger the housing market. Meh. That seems like hyperbole. Why not just be straight with people? Thompson wants to move money from higher-income home buyers to lower-income home buyers for social engineering reasons, and while the changes as laid out will make it a bit more expensive for those with higher incomes to buy, it won't break the bank for them.

But then again, on either side, these aren't people known for giving us clear answers. If they did, they might remind people that since the federal government took over Fannie Mae and Freddie Mac, Uncle Sam bailed them out to the tune of $191 billion, and then earned over $300 billion in fees on the two entities. The government liked the deal so much that it is counting exactly none of the $300 billion against the bailout and is requiring these organizations to send their excess profits to the Treasury. If Fannie Mae and Freddie Mac held onto their earnings, they might be able to work toward their social goals without tagging higher income and credit borrowers with more fees, but that would endanger yet another government aim: pulling in as much revenue as possible without calling it a tax. Just as with redistribution, a tax by any other name…

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