Premium Pricing Doesn't Mix with Community Seconds®

Fannie Mae supports sustainable homeownership. Premium pricing to reduce or fund a borrower's down payment is not in the best interest of the borrower or long-term sustainable homeownership. Although it may reduce the initial financial barriers to buying a home, it increases the monthly mortgage payment for the life of the loan and can add risk by eliminating or minimizing the borrower's equity in their home.

When is premium pricing NOT acceptable? When a borrower is charged a higher interest rate on a mortgage loan in exchange for a lender credit in excess of actual closing costs, a second mortgage loan or other borrower benefit (such as a gift card, furniture, or appliances, etc.). In response to lender feedback, this fact sheet reiterates existing Fannie Mae policy that premium pricing must not be used to fund any portion of the borrower's down payment, including funding a Community Seconds* or other second mortgage loan.

Premium Pricing Example

The following are examples of acceptable and unacceptable uses of premium pricing.

Item	Acceptable	Unacceptable
Purchase price	$200,000.00	$200,000.00
First mortgage loan	$194,000.00	$194,000.00
Second mortgage loan (3%)	$6,000.00	$6,000.00
Current market interest rate	4.625%	4.625%
HomeReady® market interest rate	4.875%	4.875%
First mortgage interest rate offered	5.250%	5.875%
Borrower monthly P&I amount	($1,071.28)	($1,147.59)
Interest rate difference to HomeReady	0.375%	1.000%
Present value of the interest rate difference (5 to 1 multiple)	$3,637.50	$9,700.00
Additional interest paid by the borrower over the life of the loan compared to HomeReady	$16,060.35	$43,529.46
Lender credit for closing costs	$3,637.50	$3,637.50
Estimated closing costs for the transaction	$3,637.50	$3,637.50
Difference to originator (calculated as the difference of the present value of the interest rate difference minus lender credit for closing costs)	$0.00	$6,062.50

> **NOTE:** *In the unacceptable example, the lender is using the higher interest rate on the first mortgage loan to fund the second mortgage loan.*

More Info about Premium Pricing

Premium pricing is permitted to cover a borrower's closing costs. See these *Selling Guide* topics for details on lender credits derived from premium pricing: B3-4.1-01, Minimum Reserve Requirements; B3-4.1-02, Interested Party Contributions (IPCs); B3-4.3-06, Grants and Lender Contributions; and B5-5.1-02, Community Seconds Loan Eligibility.

*HFA Preferred™

Although not all housing finance agency (HFA) loans include premium pricing, the only circumstance in which premium pricing is permitted to fund a Community Seconds is through an eligible provider of HFA Preferred products. The gift or grant funds or Community Seconds must meet all other *Selling Guide* requirements.

For additional information on HFA Preferred, view the HFA Preferred fact sheet.

