The analysis and conclusions set forth are those of the author and do not indicate concurrence by other members of the research staff or the Board of Governors.
Does current GSE pricing translate to low interest rates for borrowers relative to private sector?
Introduction

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- Explore rate spreads between Jumbo and Conforming loans, which capture:
  - Differences in appetite for credit risk between private sector and GSEs: are G-fees competitive?
  - Liquidity differences (eligibility to trade in the TBA market)
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- Explore rate spreads between Jumbo and Conforming loans, which capture:
  - Differences in appetite for credit risk between private sector and GSEs: are G-fees competitive?
  - Liquidity differences (eligibility to trade in the TBA market)
- Use new dataset on daily mortgage rate offers
  - Optimal Blue Insight allows mortgage banks to compare pricing with their peers
  - We observe rates that would actually be paid by borrowers
Total benefit to borrowers from GSE mortgages:
- ≈100bp for non-prime borrowers, ≈20bp for prime borrowers
Median Offer Rates for 30 Year Fixed, LTV=80, DTI=40, No Points/Fees

- Likely benefit due to TBA market liquidity $\approx 20$bp
- Credit risk subsidy:
  - $\approx 80$bp for non-prime borrowers, $\approx 0$bp for prime borrowers
Wide distribution in offer rates for conforming loans

Average rates mask large heterogeneity in offers for the same borrower in the same day in the same market.
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Merged daily data on rate locks with offer rates:

- On average conforming borrowers pay rates that are 17bp higher than the median offered rate.
Do borrowers pick low rates from the offer distribution?

Merged daily data on rate locks with offer rates:

- On average super-conforming borrowers pay rates that are 2bp lower than the median offered rate.
Merged daily data on rate locks with offer rates:
- on average Jumbo borrowers pay rates that are 24bp lower than the median offered rate.
Merged daily data on rate locks with offer rates:

- on average FHA borrowers pay rates that are 38bp higher than the median offered rate.
Relative to the private sector, GSE credit risk about fairly priced for prime borrowers but very subsidized for non-prime borrowers.
Conclusion

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- While GSEs make low rates possible, many borrowers don’t get these rates.
  - Lack of rate shopping washes out a good part of the subsidies for GSE and FHA market.
  - Better rate choices by jumbo borrowers likely explain the reported negative jumbo-conforming spread.
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- Policies that mitigate this problem would allow GSEs and FHA to increase g-fees further without affecting affordability:
  - Include info on current rates in the Lock agreement.
  - Don’t guarantee mortgages with too high of a spread etc.