

ISSUE: Reduce FHA's Mortgage Insurance Premium to Make Homeownership More Accessible

Following the financial crisis, the Federal Housing Administration (FHA) served as the key stabilizing force in the mortgage market that it is intended to be. As financial institutions restricted lending and made it extraordinarily difficult to obtain a home mortgage, FHA stepped in so that many responsible, hard-working, creditworthy Americans had a path to homeownership. Among homebuyers, FHA increased its market share from 4.5 percent of purchase loans in 2006 to 33 percent in 2009.¹⁰ This dramatic increase following the crisis, combined with an economic recession, placed extraordinary pressure on the FHA Mutual Mortgage Insurance Fund (MMI) Fund. In 2010, FHA made the first of several increases to FHA's Mortgage Insurance Premium (MIP) to shore up the program's reserves – raising premiums 145 percent (see Figure 1).¹¹

As the economy improved, foreclosures declined, and the health of the MMI Fund rebuilt capital reserves, FHA began to reduce their historically high premiums that were limiting affordability for borrowers and almost certainly discouraged some first-time homebuyers from entering the market. In early 2015, FHA reduced the premium that borrowers pay for mortgage insurance, providing an annual savings of \$900 for nearly two million FHA homeowners.¹² The National Association of Realtors (NAR) estimated that in 2014, between 234,000 and 255,000 creditworthy borrowers were priced out of the market because of high premiums.

On January 27, 2017, FHA was to reduce the premium that borrowers pay for mortgage insurance closer to historical norms, as the MMI Fund met the congressionally mandated capital reserves needed to pay claims on defaulted mortgages. Upon taking office, the Trump Administration halted the planned MIP reduction.

Homeownership remains the best vehicle for low- and moderate-income families and people of color to build wealth and enter the middle class. Not only is FHA essential for first-time homebuyers, but it is also central for minority borrowers – both of which are experiencing historic declines in homeownership. FHA has supported more than half of all first-time homebuyers and half of all African American and Latino homebuyers in recent years.¹³

Who Can Act:

The U.S. Department of Housing and Urban Development (HUD), the U.S. Congress

10 HUD Cabinet Exit Memo, *Housing as a Platform for Opportunity*, January 5, 2017.

11 National Association of Realtors (NAR), *FHA's Reduces Fee to Pre-Crisis Level* (January 9, 2017). Secretary Julian Castro's Address to NAHREP (March 15, 2016). See also Niedt, Christopher, *The Effects of the Suspended FHA Premium Cut on Long Island*, New York Working Paper 2017-01, Hofstra University (January 2017) accessed here: https://issuu.com/hofstra/docs/effects_210a?e=1304995/45041594

12 Secretary Julian Castro, Testimony before the House Financial Services Committee (February 11, 2015)

13 Secretary Julián Castro, Remarks to NYC Stern School of Business (November 16, 2015)

NCRC's Position:

NCRC urges HUD Secretary Ben Carson to reinstate FHA's MIP reduction so that homeownership will be within reach of more first-time and underserved borrowers. FHA's MMI Fund is well-funded and actuarially sound and can support a rate cut.

NCRC also urges Congress to resist efforts to change the accounting treatment or capital ratio of the FHA MMI Fund – either step would further restrict access to homeownership for the borrowers that rely on the program. Congress mandates that the MMI Fund capital reserves must be above two percent. The MMI Fund now stands at \$27.6 billion, an increase of \$3.8 billion in the last year.¹⁴ The improvement represents a 12 percent increase in the program's capital reserves, from 2.07 to 2.32 percent.¹⁵

Annual Insurance Rate for FHA Borrowers

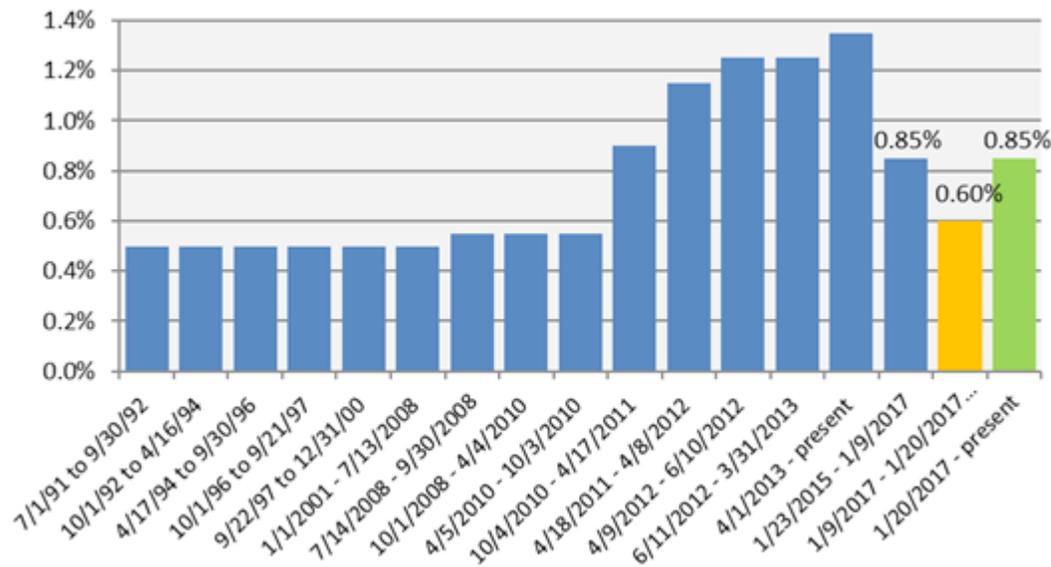


FIGURE 6. Source: FHA, NAR

¹⁴ HUD Cabinet Exit Memo, *Housing as a Platform for Opportunity* (January 5, 2017)

¹⁵ Ibid.