CFA Consumer Federation of America

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CONSUMER FEDERATION OF AMERICA APPLAUDS FHA MOVE TO LOWER INSURANCE PREMIUMS

Washington, D.C. — The Consumer Federation of America applauded today's announcement by President Barack H. Obama to reduce FHA insurance premiums by one-half of one percent.

"FHA historically has served lower wealth consumers," said Barry Zigas, CFA's Director of Housing Policy. "Today's announced roll-back of insurance premiums to lower but still financially sound levels will be welcome news to hundreds of thousands of consumers for whom the price of responsible homeownership has been too high."

The White House estimated in its announcement that 250,000 new homeowners would benefit from the rate changes over the next three years.

FHA does not make mortgages, but insures lenders who do make then against losses from loan defaults. Consumers pay an ongoing fee to cover this, in addition to a one-time fee when the mortgage loan is closed. Today's announcement lowers that ongoing fee from 1.35 percent to 0.85 percent. This is still higher than the pre-Great Recession fee of 0.55 percent. The announcement left unchanged the upfront fee, and the requirement that borrowers pay the ongoing fee for the life of their loan.

Like other, private mortgage insurers, FHA suffered significant losses in the Great Recession. Beginning in 2009, adopted a series of aggressive credit management initiatives, and raised both the upfront and monthly insurance fees to add new revenue to offset these higher losses. While it never failed to pay a valid claim, its main insurance fund fell below a required 2 percent reserve level. Last year the agency needed an infusion from the U.S. Treasury to make up a capital shortfall. This was the first time since FHA's founding in 1934 that it required any support from US taxpayers.

Today's announcement follows a new actuarial report from late last year that found that FHA was once again in the black, although still somewhat below the 2 percent required capital reserve. This financial recovery is a major reason for the rollback in higher fees.

"Since the beginning of the financial crisis, FHA has stepped up to the plate and provided critical countercyclical support to the housing market by helping millions of Americans purchase and refinance their homes when private capital either fled the market or raised its prices beyond many consumers' reach," Zigas pointed out.

Since the financial crisis, FHA's market share has soared from single digits on the eve of the Great Recession. While this has moderated somewhat as other mortgage financing has recovered, FHA remains a critical source of financing, especially for families who need sustainable, long term loans with smaller down payments. Its increased market share also has significantly strengthened the credit profile of its recent insurance portfolio. As the health of its fund has increased, the higher levels of insurance charges became significantly greater than projected credit performance warranted. A recent analysis by the Urban Institute found that the

> "…Federal Housing Administration (FHA) can significantly lower its premiums—charging current borrowers more appropriately for their risks—while continuing to build the necessary reserves against future losses. Today's high premiums penalize current borrowers for the pricing and performance of the earlier vintages and the deficit in the reverse mortgage program—the two main causes of the fund's continuing inability to meet its 2 percent congressionally mandated reserve ratio."[1]

"FHA has a dual obligation to ensure access to affordable credit on fair terms and to sustain the financial health of the FHA insurance fund," noted Zigas. "The FHA's recent performance in the worst housing crisis in generations proves their ability to meet both needs, and today's announcement is an important step in their continuing dynamic management of these important missions."

The Consumer Federation of America is an association of more than 250 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.

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[1] http://blog.metrotrends.org/2015/01/fha-time-stop-overcharging-todays-borrowers-yesterdays-mistakes/