



CHLA Recommendations for FHA Policies **[May 2019]**

ELIMINATING LIFE OF LOAN PREMIUMS

FHA should end its Life of Loan premium policy that was put in place in 2013. This policy

- (1) Overcharges borrowers, who have paid 10% in premiums by the time they hit the 78% LTV mark,*
- (2) Hurts FHA finances by reducing its refinance retention rate from over 50% to below 15% today, and*
- (3) Contributes to Ginnie Mae prepayment speeds.*

OTHER POLICIES AND ACTIONS

- **Fund Modernization of FHA Technology Upgrades.** *Congress should reauthorize lapsed authority under Section 2126 of HERA for FHA to use \$25 million from its \$7 billion in annual net profits to fund needed IT and other technology upgrades. This approach should be pursued instead of imposing a \$25/loan fee, which will be passed along to borrowers.*
- **Modify Premium Structure.** *FHA should reduce its annual premium to .55% and increase the upfront premium to offset the revenue loss. This upfront increase should then be eliminated when the FHA forward program Net Worth Ratio exceeds 4% and the overall ratio exceeds 3%.*
- **Reduce Disproportionate Penalties for Missing Servicing Action Dates.** *FHA financial penalties for failure to meet specific dates for taking action on non-performing loans are disproportionately high relative to the impact of failure to meet those dates and should be adjusted appropriately.*
- **Modernize Underwriting Guidelines.** *FHA should modernize its underwriting guidelines to more accurately reflect sources of economy which merit consideration, such as work performed in the gig economy and small business income.*
- **Increase Maximum Loan Assumption Fee.** *FHA should raise the maximum FHA lender loan assumption fee from \$900 to \$3,000 per loan, to keep pace with inflation.*
- **Finalize Pending FHA Condo Rules.** *FHA should finalize pending proposals to increase flexibility for FHA condo loans, including eliminating owner occupied percentages in condo developments and streamlining certification process.*
- **Back-end Reforms for FHA Reverse Mortgage HECM Program.** *FHA should extend the Cash for Keys authority to make it available for all HECM loans and should allow existing servicers to retain servicing after the 98% LTV HUD assignment date instead of transferring servicing responsibilities for all HECM loans to a HUD contract sub-servicer.*