COMMUNITY
Home Lenders Association, Inc.
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May 31, 2019

Re: Request for Input Regarding Potential Changes to the Parameters Governing Loan Eligibility for Pooling into Its Mortgage-Backed Securities (MBS)

Government National Mortgage Association
451 7th Street, Room B-133
Washington, DC 20410

The Community Home Lenders Association (CHLA) appreciates the opportunity to submit these comments in connection with the Request for Input issued by Ginnie Mae on May 3 regarding potential changes to the parameters governing loan eligibility for pooling into GNMA's mortgage-backed securities. CHLA writes on behalf of our community-based mortgage lender/servicers and also as the only national association exclusively representing Independent Mortgage Banks (IMBs), which issue the majority of new Ginnie Mae securities.

CHLA's primary comments focus on the beneficial impact on prepayment speeds that would result from the Federal Housing Administration eliminating its Life of Loan policy that it put in place in 2013. CHLA also writes to reiterate our support for actions Ginnie Mae has taken to address repetitive VA re-financings.

FHA Life of Loan Policy – Negative Impact on Prepayment Speeds

Prior to the policy change in 2013, FHA borrowers were required to make annual mortgage insurance premium payments up until the loan reached a loan-to-value ratio of 78%. Under the Life of Loan policy, instituted in 2013, borrowers now are required to continue making payments for the full loan term.

CHLA has for some time strongly opposed FHA's Life of Loan policy, on the basis that it is not fair to borrowers. By statute, mortgage insurers are not permitted to charge mortgage insurance premiums after a borrower pays a loan down to 78% LTV – while in contrast FHA borrowers now pay premiums for the life of the loan.

Calculations of an FHA loan on a $200,000 mortgage at today's rates show that an FHA borrower would pay around $19,000 in premiums by the time the loan pays down to 10%. This is almost 10% of the value of the home and many times the actuarial risk that loan poses to FHA. However, under the life of loan policy, the borrower would pay another $15,000 in premiums over the remaining life of the loan – a significant impediment to asset building. Combined, such premiums are wildly disproportionate to the risk a loan poses to FHA.

But it is the economics behind these numbers and the resulting behavioral impact that is hurting Ginnie Mae by accelerating prepayment speeds. CHLA members are finding that current FHA borrowers are choosing to refinance into a conventional loan after a number of years, driven to some degree by the goal of getting out of an FHA loan which carries burdensome life of loan premiums. This fact can tilt a borrower to a refinance out of FHA and into a convention loan, even when the savings are limited and the traditional wisdom about refinancing calculations argue against a deal. This behavioral impact is further exacerbated by the current low mortgage rate environment, in which borrowers may want to accomplish this before rates increase.

Our members' anecdotal experiences are backed up by hard data. A January Core Logic report found that FHA has lost over 500,000 quality loans when "*borrowers with good credit history and at least 20% home equity can eliminate their mortgage insurance premium.*" With these refinances come Ginnie Mae prepayments.

Similarly, a chart from Black Knight's April 2019 Mortgage data report shows that prior to the Life of Loan changes in 2013, FHA prepayment rates were consistently and measurably below those of other loan types. Since that time, however, FHA prepayment rates have generally been equal to or higher than other loan types.

Finally, in the four years before the 2013 Life of Loan change, FHA recapture rates ranged from 50% to 60 % - that is, more than half of refinances out of an FHA loan went back into a new FHA loan. However, since the Life of Loan policy was put in place, this percentage plummeted to a current rate of 10% to 15%. Of course, FHA to FHA refinances still result in a Ginnie Mae prepayment. However, the data is further evidence of the comparative disadvantages of FHA Life of Loan premiums against conventional loan alternatives that do not have life of loan premiums.

PREMIUM LEVELS

On a related subject, CHLA has consistently called for a reduction in FHA's annual premiums, from their current level of .85% to .55%. This change is justified by a combination of factors, including the fact that (1) FHA continues to make billions in profits on FHA loans each year according to Administration credit subsidy calculations, (2) the FHA Net Worth ratio for the forward loan program is now just shy of 4%, and (3) FHA default and foreclosure rates are at historically low levels.

Higher annual premiums translate into higher mortgage rates on FHA loans, which are a factor in borrowers' decision to refinance out of FHA - thereby causing higher Ginnie Mae prepayment levels. Therefore, reducing annual premiums would reduce Ginnie Mae prepayment speeds.

We would note that historically FHA has generally charged higher upfront premiums and lower annual premiums than are currently charged. At a minimum, FHA should immediately lower the annual premiums, and if it deems it necessary, offset the premium loss with a commensurate increase in upfront premiums, making them financeable. As the FHA fund continues to improve, FHA could then eliminate this temporary increase in upfront premiums.

Again, this approach would improve Ginnie Mae prepayment speeds.

Topic 3 – Analysis is sought on the impact of an increased propensity of high-LTV VA cash-out refinances to prepay on the pricing of the GII MIP, and on the residual GII MIP production

CHLA also would like to respond to Topic 3. As noted in our January 2019 report on Ginnie Mae, CHLA is supportive of actions Ginnie Mae has taken to curb abusive, repetitive VA re-financings. These actions should have a beneficial impact on Ginnie Mae prepayment speeds, and also importantly, in combination with actions taken by the Veterans Administration, consumers are being provided with additional protections against abusive transactions.

We appreciate consideration of these comments and suggestions.

Sincerely Yours,

COMMUNITY HOME LENDERS ASSOCIATION