



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 60% to below 10% 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.