VIEWPOINTS

By Bill Giambrone

Life of loan premium policy hurts borrowers and FHA

Life of Loan has outlived its usefulness

For 85 years, American families of modest means looked to the Federal Housing Adminstration for affordable mortgage loans to attain the dream of homeownership. But these homeowners, many of whom are minority and first-time homebuyers, now face a rude awakening. They will be saddled with years of excessive premium payments amounting to tens of thousands of dollars.

The culprit is FHA's Life of Loan premium policy, reinstituted in 2013 as part of a series of steps to bolster the FHA's Mutual Mortgage Insurance Fund. Only instead of helping to grow the Fund, this premium policy is harming it as more-fortunate borrowers flee FHA to avoid nearly 20 additional years of insurance payments that aren't assessed on conventional or

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Veterans Administration loans.

Simply put, Life of Loan has outlived its usefulness. The insurance fund is replenished since the housing crash and the net worth on FHA's forward loan program is approaching 4%, nearly twice that required by statute.

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The Community Home Lenders Association, which exclusively represents independent mortgage bankers, who originate most FHA loans, opposed the reimplementation of the policy from the outset.

FHA stands alone among mortgage providers requiring that insurance premiums be paid over the 30-year life of the loan. The Homeowner Protection Act of 1998 required private mortgage insurance to be cancelled once the loan-to-value ratio reaches 78%.

Life of Loan unquestionably overcharges borrowers for FHA loans. On a $200,000 mortgage, an FHA borrower would pay around $19,000 in premiums over the roughly 11 years it takes to reach 78% LTV. But Life of Loan requires borrowers to pay an additional $15,000 in premiums over the remaining loan term. The combined total premiums are almost 20% of the original home purchase price, many times the actuarial risk of an FHA loan.

As a result, FHA borrowers are increasingly refinancing into conventional loans to eliminate the lifetime mortgage insurance fees. Refinancing often occurs before a borrower hits 78% LTV, resulting in FHA losing seasoned loans and several more years of premiums associated with them.

In fact, CoreLogic 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."

Recent FHA actuarial reports cite declines in the insurance fund value from the unexpected loss of revenue from loans that were refinanced sooner than anticipated.

CHLA believes ending the Life of Loan policy will be largely revenue neutral to the Fund's balance. Any lost premiums after reaching the 78% LTV threshold would likely be offset by premiums generated by loans that would no longer be refinanced early in their term. The Congressional Budget Office disagrees and projects a significant revenue loss.

In practice, it is difficult to calculate with any accuracy what will happen because the policy was reinstituted just six years ago. What we do know is that when FHA cut annual premiums 50 basis points four years ago, doomsayers predicted financial calamity. Instead, FHA loan volumes exceeded expectations, the net revenue impact was limited and the change was an unqualified success. CHLA expects the same if Life of Loan is eliminated.

Life of Loan also harms Ginnie Mae. The extended premium policy contributes to increasing prepayment speeds and falling security prices, which could create problems for Ginnie Mae. In April, Black Knight reported that prior to 2013 FHA prepayment speeds were consistently and measurably below other loan types. Since Life of Loans was reinstituted, FHA prepayment rates are equal to or higher than other loan types.

Influential organizations spanning the political spectrum – including the National Association of Realtors, National Association of Real Estate Brokers, National Association of Hispanic Real Estate Professionals, National Community Reinvestment Coalition, National Housing Conference and National Consumer Law Center – are also calling for an end to Life of Loan.

The effort gained momentum when the House Financial Services Committee recently approved H.R. 3141, a bill by freshman Congressman Dean Phillips, D-Minn., to end Life of Loan premiums.

Still, given a fractured Congress, it will be a difficult task to enact the bill into law. On the other hand, FHA created the Life of Loan Premium policy and has the power to end it. FHA ought to do so as soon as possible. ■

New bill slashes FHA mortgage insurance for first-time homebuyers

By: Jessica Guerin

The House of Representatives passed a bill that slashes the cost of upfront mortgage insurance for first-time homebuyers using mortgages backed by the Federal Housing Administration.

The Housing Financial Literacy Act of 2019, or H.R. 2162, stipulates that first-time homebuyers who complete a housing counseling program to learn about sustaining homeownership can **get a 25-basis-point discount (0.25%)** on their upfront mortgage insurance for an FHA loan.

Rep. Joyce Beatty, D-OH, who presented the bill alongside Rep. Steve Stivers, R-OH, said enhanced financial literacy has proven to be effective.

"Whether you are managing your credit, creating a budget, saving for retirement, or purchasing a home, understanding the basic principles of planning, saving, and investing for the future is vitally important," Beatty said. "Studies show that pre-purchase housing counseling equips first-time homebuyers with the much-needed financial skills and tools to make informed financial decisions that ultimately benefit not only their families, but also the surrounding neighborhood and our entire economy."