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May 4, 2021

Hon. Marcia Fudge
Secretary
Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Secretary Fudge:

We write to reiterate our longstanding request that FHA eliminate the policy instituted in 2013 of charging premiums for the life of an FHA loan.

The need for such action takes on greater urgency in light of January changes to the PSPA that cap the percentage of so-called "higher risk" Fannie Mae or Freddie Mac loans at 3% of total refinances. This arbitrary cap will foreclose the traditional vehicle that many FHA borrowers utilize to escape from the overcharging of FHA premiums under FHA's Life of Loan policy.

As a result, many minorities and other underserved borrowers will be unable to take advantage of both the current lower mortgage rate environment and the exit from Life of Loan FHA premiums, in order to reduce their mortgage payments and improve their underlying personal finances.

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## ***Eliminate FHA's Life of Loan Premium Policy***

In 2013, HUD issued Mortgage Letter 2013-04, which ended FHA's longstanding policy of eliminating the charging of annual premiums on FHA loans when a loan reaches 78% Loan-to-Value (LTV) – replacing it with a policy of charging annual premiums for the full life of the loan. This action put FHA out of step with all other high LTV loans – which under federal law are required to eliminate private mortgage insurance premiums (PMI) once a loan balances falls to 78% LTV.

This was one of numerous steps (including premium hikes) taken on a temporary basis to address the significant depletion of FHA reserves in the aftermath of the 2008 Housing Crisis. However, with the continued growing strength of FHAs finances – reaching a net worth level of over 6%, more than 3 times the statutory minimum – these temporary actions are now longer necessary.

**It is far past time to end FHA's Life of Loan policy. Eliminating FHA Life of Loan:**
**(1) is good policy,**
**(2) would strengthen FHA finances, and**
**(3) is fairer to borrowers, particularly minority, underserved, and low-income borrowers.**

The argument to keep Life of Loan is that some risk of FHA loan loss still exists after 78% LTV is reached. Yet, the same argument would apply to PMI – yet Congress mandated that PMI premiums end after 78% LTV is reach, in recognition that premiums charged after that point are excessive.

Ending FHA Life of loan is a sound policy, since by the time a borrower pays an FHA loan down to 78% LTV, they have paid total premiums of around 10% of the original loan amount – which is many times the actuarial risk of an FHA loan. Charging premiums after this point is excessive.

CHLA believes that ending Life of Loan would also strengthen FHA finances. The loss of Life of Loan revenues does not take place for around 10 years after a loan is made, which translates into a relatively limited actuarial loss, particularly since many homes are sold before 78% LTV is reached.

However, this loss is offset by retention of annual premiums that would otherwise be lost before the 78% point - by discouraging borrowers from refinancing early out of FHA loans to avoid FHA premiums that never end. Recent FHA Actuarial Reports cited runoff from refinances as an important factor in reducing FHA revenues. Our members' experience is that Life of Loan significantly contributes to that runoff. The facts bear that out. Since the 2013 action requiring Life of Loan premiums, FHA retention of refinanced loans has fallen from 50% to around 15%.

Finally, ending Life of Loan premiums is fairer to the borrower. FHA's Life of Loan policy adds another 8% in premiums – on top of the 10% in total premiums paid up to the point where a loan hits 78% LTV. Thus, Life of Loan can reduce home equity by some $16,000 on a $200,000 home.

## ***<u>January PSPA Refinance Cap Exacerbates Negative Impact of Life of Loan</u>***

The customary way that FHA borrowers avoid paying FHA premiums for the life of the loan is to refinance into a Fannie Mae or Freddie Mac loan. This is possible not just because Fannie/Freddie loans generally have lower costs and rates than FHA – but also because by statute private mortgage insurance payments are prohibited from being charged after a loan pays down to 78% loan to value (LTV) – a prohibition that does not apply to FHA loans. Notably, such refinancing savings are further enhanced during the current period of historically low mortgage rates.

Our experience is that underserved borrowers already have a more difficult time than higher credit quality borrowers in qualifying for such a Fannie Mae or Freddie Mac refinance loan. We are extremely concerned that this discrepancy will be magnified because of the 3% "higher risk" volume cap on Fannie or Freddie refinance loans. The result is an increase in the number of families that will end up paying FHA premiums for the life of their FHA loan.

We acknowledge that last week FHFA announced that it would waive the 50-basis-point "adverse market" refinance fee hike imposed last year for a limited subset of lower income borrowers. However, this initiative is limited in scope and impact – and our preliminary analysis is that will have a relatively minor impact compared to the reductions in the number of borrowers that could otherwise obtain a GSE refinance loan because of the PSPA "higher risk" volume caps.

Therefore, we reiterate our request that FHA end its Life of Loan premium policy. Thank you for consideration of this letter.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION