

May 18, 2022

Ms. Julia Gordon
Commissioner, Federal Housing Administration (FHA)
Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

Dear Commissioner Gordon:

Congratulations on your confirmation as Federal Housing Administration (FHA) Commissioner.

We write as small to mid-sized independent mortgage banks (IMBs) to ask the FHA to take two actions that are critical to make mortgage loans more affordable and to carry out the Administration's objectives of improving racial equity and increasing homeownership. They are:

- (1) Eliminate FHA's Life of Loan Policy, and**
- (2) Reduce FHA annual premiums by 30 basis points, to .55%.**

IMBs originate 91% of FHA loans, according to the 2021 FHA Annual Report. Therefore, we can confirm the accuracy of the comments included in the Administration's Fiscal Year 2023 HUD budget that state that: *"FHA mortgage insurance is designed to encourage lenders to make credit available to borrowers whom the conventional market does not adequately serve, including first-time homebuyers, minorities, lower-income families and residents of underserved areas (central cities and rural areas)."* In fact, of FHA purchasers who provided racial data in the latest monthly report, 45% of such purchasers were minority homebuyers.

Unfortunately, two FHA pricing policies significantly undermine FHA's ability to fully carry out this function.

The first is FHA's Life of Loan premium policy, which FHA should end immediately because it significantly overcharges FHA borrowers on an actuarial basis. FHA borrowers already pay roughly 10% in premiums by the time a \$200,000 loan hits 78% loan-to-value (LTV) – many times the expected loss on a new loan. FHA's Life of Loan premium policy adds an estimated 8% more in premiums over the life of a 30-year FHA loan. Thus, Life of Loan deprives homeowners of \$16,000 in equity on a \$200,000 home purchase held to loan maturity.

Life of Loan is also costing FHA billions of dollars in premiums, as borrowers refinance into conventional loans, which by statute are not permitted to charge private mortgage insurance premiums after a loan reaches 78% LTV. Since February 2020, FHA's portfolio has declined 10% (850,000 fewer loans), while Fannie Mae's portfolio has increased 14%. Longer term, since Life of Loan went into effect in 2013, FHA's retention rate of refinanced loans has dropped precipitously, from over 50% when Life of Loan began to below 14% now.

The second policy is the overcharging of FHA annual premiums. The most recent HUD budget estimates FHA will make an average net profit of 3.05% on every new FHA loan it insures next year. Moreover, FHA's net worth is at record levels of over 8% - more than 4 times its statutory requirement. Yet, FHA annual premiums are 30 basis point higher than 2008 levels. We understand that increased premiums were necessary to re-build the FHA fund in the aftermath of the 2008 Housing Crisis – but that mission has long since been accomplished.

FHA's last premium reduction, in 2015, was a huge success. FHA's 2015 Management Report concluded that the volume of FY 2015 FHA home purchase loans grew by 27% in the year after premiums were cut, noting that the premium cut saved new homeowners an average of \$900 a year and made it possible for over 75,000 new creditworthy borrowers to purchase homes in the first eight months after the reduction.

Similarly, a 2015 Federal Reserve report concluded: *"The volume of FHA home purchase loans is apparently quite sensitive to MIP changes"* and that *"Lowering the annual MIP in 2015 substantially increased the number of loans to lower credit score, high LTV borrowers -- who as a group rely heavily on FHA insurance."*

We understand market competitors to FHA have historically opposed actions that increase FHA market share. However, many underserved borrowers are not served by these same market competitors, and we believe their access to mortgage credit should be the top priority. We thank you for consideration of our recommendations.

Sincerely yours,

Absolute Home Mortgage Corporation

American Financial Network, Inc.

American Mortgage Service Co.

Amerifirst Home Mortgage

AnnieMac Home Mortgage

Atlantic Bay Mortgage Group

Bond Street Mortgage, LLC

Bridegeview Mortgage Corp.

Central Bank

Certainty Home Loans

Cherry Creek Mortgage, LLC

Churchill Mortgage

Developer's Mortgage Company

Diamond Residential Mortgage

Draper and Kramer Mortgage Corp.

eWise Home Lending LLC

Family First Funding LLC

First Option Mortgage

Golden Empire Mortgage

Hallmark Home Mortgage

Homestar Financial Corporation

Kellum Mortgage, LLC

LLG Loans

Kwik Mortgage

Millenium Home Mortgage LLC

MLB Residential Lending, LLC

Mountain West Financial, Inc.

Movement Mortgage

NewFed Mortgage

NJ Lenders Corp.

Oceanside Mortgage Company

Platinum Home Mortgage

Princeton Mortgage

Paramount Residential Mortgage Group, Inc.

Stockton Mortgage Corporation

Thrive Mortgage

Tidewater Home Funding, LLC

Towne Mortgage Company

Trinity Oaks Mortgage

Union Home Mortgage Corp.

Universal Lending Corp.