January 7, 2015

The Honorable Julian Castro
Secretary
U.S. Department of Housing and Urban Development
451 Seventh Street, S.W.
Washington, DC 20410

Dear Secretary Castro:

The undersigned organizations urge FHA to reduce the cost of its single-family mortgage insurance premiums to expand access to safer and more affordable mortgages to more creditworthy households.

As you know, FHA has twin missions to provide access to mortgage credit and to protect the integrity of the Fund. These missions are best accomplished using a dynamic evaluation of the FHA book of business, performance over time, and market fundamentals.

In recent years, a combination of strong management, significant premium increases, and improvement in the economy has put the agency well on track to meet its capital reserve requirement by 2016, while policy changes to reduce risk layering have helped decrease risk.

However, considering FHA's significant drop in volume and market share in recent years, it appears that the premium increases have kept many potential borrowers on the sidelines. Indeed, the premium increases may be *hurting* the financial condition of the fund, not helping it. Since 2011, annual insurance premiums have increased by nearly 150 percent, while its upfront fees have risen by 75 percent.[1] The increases in the annual insurance premium have had the most significant impact on loan affordability.

According to your agency's latest actuarial report, the number of families purchasing homes with FHA-insured mortgages has declined in recent years and remains 44 percent below the historic norm.[2] Although the recent Actuarial Review notes that FHA collected $11 billion in premiums above expected losses in FY2014, the reduced volume of FHA originations directly translates into a *slower rate of recapitalization* for the MMI Fund[3]. According to a new analysis released by the Urban Institute, it is possible for the FHA to price new business more appropriately for the risk while still continuing to build its reserves.[4]

A recent Mortgage Bankers Association analysis estimates that the April 2013 premium increase resulted in a 5 percentage point reduction in FHA's share of purchase originations, which equates to a $2.9 billion decrease in MMIF economic value. [5] What's more, now that Fannie Mae and Freddie Mac will begin purchasing loans

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[1] John Griffith, "As the FHA's Finances Continue to Improve, It's Time to Focus on Access," *Housing Horizon*, November 18, 2014, available at http://blog.enterprisecommunity.com/2014/11/finances-continue-improve.
[2] U.S. Department of Housing and Urban Development, "Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund Fiscal Year 2014," available at http://portal.hud.gov/hudportal/documents/huddoc?id=FY2014FHAAnnRep11_17_14.pdf.
[3] Integrated Financial Engineering Inc., "Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund Forward Loans for Fiscal Year 2014," available at http://portal.hud.gov/hudportal/documents/huddoc?id=AR2014MMIFwdRpt.pdf.
[4] Laurie Goodman, Bing Bai, and Jun Zhu, "FHA: Time to stop overcharging today's borrowers for yesterday's mistakes," Urban Institute , Jan. 6, 2015, available at http://blog.metrotrends.org/2015/01/fha-time-stop-overcharging-todays-borrowers-yesterdays-mistakes/.
[5] Mortgage Bankers Association Letter to Julian Castro, December 18, 2014, available at http://static.ow.ly/docs/MBA%20Letter%20to%20Julian%20Castro_12%2018%202014%20%282%29_2PaU.pdf.

with down payments of as little as three percent, FHA could find itself losing additional market share, which could put additional downward pressure on the fund. On the other hand, the GSEs' re-entry into the very low down payment segment of the market also could cause FHA to be adversely selected, which suggests that fee reductions should leave a buffer for these types of dynamic drivers.

It is important to note that many lower-wealth borrowers and borrowers of color who historically have relied on FHA loans cannot access the conventional credit market today. In 2013, 70 percent of home purchase loans made to African Americans and 63 percent of these loans made to Hispanics were backed by government agencies rather than by the GSEs or the private market.[6] Consequently high FHA premiums may be keeping many borrowers out of the market entirely, not just shifting from one credit channel to another, especially borrowers of color. According to analysis from the National Association of Realtors, 234,000 to 255,000 creditworthy borrowers were priced out of the housing market in 2014 because of high FHA premiums.

The combination of higher pricing for lower-wealth borrowers along with other constraints on credit, such as lender overlays, poses a continuing serious challenge to the mortgage market as a whole. For example, the Urban Institute estimates that the combination of these factors has locked out of the market as many as 1.2 million borrowers who would be able to access mortgages during normal market conditions.[7]

FHA played a crucial role in keeping the mortgage market afloat and supporting our economic recovery, preventing even more catastrophic home price declines and staving off a double-dip recession.[8] That support came at a steep cost to the agency's capital reserve, and we commend FHA for all it has done to keep mortgage credit available throughout the Great Recession while improving the financial health of the Mutual Mortgage Insurance Fund. However, we believe it is now time for FHA to enable more households to access homeownership by reducing mortgage insurance premiums while still maintaining fiscal prudence and continuing the trajectory toward full replenishment of the fund.

We look forward to FHA's continued health and robust participation in the market as the economy continues to improve.

Sincerely,

American Escrow Association

American Land Title Association

Americans for Financial Reform

Asian Real Estate Association of America

Center for American Progress

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[6] Neil Bhutta and Daniel R. Ringo, "The 2013 Home Mortgage Disclosure Act Data," (Washington: Federal Reserve, 2014), available at http://www.federalreserve.gov/pubs/bulletin/2014/pdf/2013_HMDA.pdf.
[7] Laurie Goodman, Jun Zhu, and Taz George, "Where Have All the Loans Gone? The Impact of Credit Availability on Mortgage Volume," Urban Institute, March 13, 2014, available at http://www.urban.org/publications/413052.html.
[8] Mark Zandi, "FHA role may be bloated, but we'd be much worse off without it," *Washington Post*, December 15, 2011, http://www.washingtonpost.com/realestate/fha-role-may-be-bloated-but-wed-be-much-worse-off-without-it/2011/12/09/gIQAIed3vO_story.html.

Center for New York City Neighborhoods

Center for Responsible Lending

Community Associations Institute

Community Home Lenders Association

Community Mortgage Lenders of America

Connecticut Fair Housing Center

Consumer Action

Consumer Federation of America

Consumer Mortgage Coalition

Credit Union National Association

Empire Justice Center

Enterprise Community Partners, Inc.

The Greenlining Institute

Habitat for Humanity International

Leading Builders of America

League of United Latin American Citizens

Manufactured Housing Institute

Mortgage Bankers Association

NAACP

National Association of Federal Credit Unions

National Association of Hispanic Real Estate Professionals

National Association of Home Builders

National Association of Neighborhoods

National Association of Realtors

National Coalition for Asian Pacific American Community Development

National Community Reinvestment Coalition

National Community Stabilization Trust

National Consumer Law Center (on behalf of its low-income clients)

National Council of La Raza

National Council of State Housing Agencies

National Fair Housing Alliance

National Housing Conference

National Housing Resource Center

National People's Action

National Puerto Rican Coalition

National Urban League

Real Estate Services Providers Council, Inc

Real Estate Valuation Advocacy Association

The Realty Alliance

Cc: Mr. Biniam Gebre
Acting Commissioner
Federal Housing Administration