

Suspension of Scheduled Fee Decrease for FHA-Insured Mortgages

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In the final weeks of the Obama Administration, the Federal Housing Administration (FHA) [announced](#) that it planned to reduce fees charged to households who obtained new [FHA-insured mortgages](#). However, on January 20, the first day of the Trump Administration, FHA [announced](#) that it was suspending the planned fee decrease before it went into effect. This Insight describes FHA mortgage insurance fees and common arguments for and against decreasing them.

Background

Most mortgage lenders require homebuyers with down payments below 20% to purchase some kind of mortgage insurance that protects the lender against the possibility of the borrower defaulting. Mortgage insurance can be obtained from a private company ([private mortgage insurance](#)) or from a government agency. FHA, part of the Department of Housing and Urban Development (HUD), is the largest provider of government mortgage insurance.

FHA is intended to expand access to affordable mortgages to some households that otherwise might have difficulty obtaining mortgages in the private market. FHA-insured mortgages, which cannot exceed a maximum mortgage amount, require lower down payments and have somewhat less stringent eligibility criteria than most other types of mortgages. Many FHA-insured mortgages are obtained by [first-time homebuyers, low- and moderate-income homebuyers, and minority homebuyers](#).

Borrowers pay fees, or [premiums](#), to FHA in exchange for the insurance. These fees are intended to cover the costs of insurance claims paid by FHA to lenders when mortgages default. [By statute](#), FHA's insurance fund is required to maintain a [capital ratio](#) of 2%. In the years following the housing market downturn that began around 2007, FHA experienced an increase in mortgage defaults, and the capital ratio fell below 2% [for several years](#). At the end of FY2013, FHA needed [a mandatory appropriation of \\$1.7 billion](#) to ensure that it had enough funding to cover all of its expected future losses. Since then, FHA's finances have improved, and its insurance fund exceeded the 2% threshold [in both FY2015 and FY2016](#).

FHA Annual Mortgage Insurance Premiums

Borrowers who obtain FHA-insured mortgages pay an *upfront premium* and an *annual premium*. For most FHA-insured

mortgages, the annual premium is paid for the life of the loan. In recent years, FHA has made [several changes](#) to its premiums. These [included](#) multiple premium increases intended to help improve FHA's financial position, followed by a decrease in January 2015 as its finances improved.

Since January 2015, the [annual premium that FHA charges](#) for most mortgages has been the following (different premiums apply in certain cases):

- 0.85% of the outstanding mortgage amount for mortgages with an initial loan-to-value ratio over 95%, or
- 0.80% of the outstanding mortgage amount for mortgages with an initial loan-to-value ratio of 95% or below.

On January 9, 2017, FHA released [administrative guidance](#) announcing that it would decrease the annual mortgage insurance premiums charged to borrowers who took out new FHA-insured mortgages with closing dates on or after January 27, 2017. (The upfront premium would remain unchanged.) For most mortgages, the new premiums would be 0.60% or 0.55% of the outstanding mortgage amount, respectively, depending on the initial loan-to-value ratio of the mortgage.

This would have meant that a borrower who obtained a mortgage with a principal balance of \$195,000 (the [average loan amount](#) for an FHA-insured mortgage in FY2016) would have paid nearly \$500 less in the first year of the mortgage as a result of the lower premium.

On January 20, 2017, the first day of President Trump's administration, FHA released [new administrative guidance](#) announcing a suspension of the previously announced reduction in the annual mortgage insurance premium. The new guidance indicated a need to further study the potential impact of a fee decrease on the FHA insurance fund and how it could affect the long-term viability of the FHA insurance program. As a result of the suspension, borrowers who obtain FHA-insured mortgages will continue to pay the existing annual premium rates.

Considerations Related to FHA Premiums

Debate over the appropriate level for FHA premiums largely revolves around balancing FHA's mission of providing access to affordable mortgage credit with maintaining its financial soundness. While lowering fees reduces the amount of money coming into the FHA insurance fund, all else equal, the overall effect of lower premiums on the health of the FHA insurance fund depends in part on how the fees affect FHA insurance volume and the credit quality of the mortgages that FHA insures.

Some [lawmakers](#), [industry groups](#), and [policy organizations](#) favor a reduction in the FHA annual premiums primarily because it would decrease the costs of mortgages for some homebuyers. They argue that, given improvements in FHA's finances in recent years, FHA can reduce its fees to amounts closer to what the fees were prior to the increases of recent years without unduly harming the FHA insurance fund. They note that lower fees could help offset other market pressures that may be increasing costs for home buyers, such as rising home prices and interest rates.

Other [lawmakers](#), [industry groups](#), and [policy organizations](#) support maintaining premiums at current levels. Many are concerned about the effect of lower premiums on FHA's finances, particularly since the insurance fund has only recently come back into compliance with the 2% capital ratio requirement. Some argue that reducing FHA fees could make private mortgage insurance less competitive with FHA, increasing the government's role in the mortgage market—and risk to the taxpayer—at the expense of private capital. Still others suggest that efforts to increase access to FHA-insured mortgages should focus on other potential barriers to access (such as [addressing lender uncertainty](#) surrounding FHA enforcement actions).

Another consideration for policymakers is that FHA premiums [can impact HUD appropriations](#). FHA generates *offsetting receipts* for the HUD budget when fees are anticipated to exceed claim expenses on mortgages insured in a given year. Higher offsetting receipts reduce the amount of budget authority needed to support a given level of appropriations. Therefore, maintaining higher FHA fees may help mitigate pressures on the HUD budget.