The Making FHA More Affordable Act of 2017

– Ranking Member Maxine Waters –

This bill is supported by: The National Association of Realtors (NAR), the National Association of Real Estate Brokers (NAREB), the Community Home Lenders Association (CHLA), the National Consumer Law Center (NCLC) (on behalf of its low-income clients), the National Housing Conference (NHC), the National Community Reinvestment Coalition (NCRC); the California Reinvestment Coalition (CRC), the National Association of Hispanic Real Estate Professionals (NAHREP)

Bill Summary: This bill would repeal the requirement that Federal Housing Administration (FHA) borrowers pay mortgage insurance premiums for the life of the loan, and reinstate the FHA's previous policy of only requiring borrowers to pay premiums until the outstanding principal balance reaches 78 percent of the original home value.

Background: Under current law, private mortgage insurers are required to cancel premiums once the outstanding principal balance reaches 78 percent of the original home value. In contrast, the FHA requires its borrowers to pay mortgage insurance premiums ***for the life of the loan***. This means that FHA borrowers can pay far more in premiums over time than non-FHA borrowers. Moreover, the FHA disproportionately serves low and moderate income borrowers, first-time homebuyers, and minority borrowers, meaning that the FHA's policy of charging premiums for the life of the loan is disproportionately harming these same households.

While FHA borrowers still technically have the option to refinance their loans once they reach the 78 percent threshold to avoid unnecessarily paying annual premiums, refinancing involves substantial transaction costs that not all families can afford. Further, whether or not refinancing makes sense for a borrower depends heavily on interest rates, and may or may not end up being financially advantageous for the borrower.

The FHA has required borrowers to pay the annual premiums for the life of the loan since June 3, 2013. Prior to that, the FHA was aligned with the private mortgage insurance industry in charging premiums only until the outstanding principal balance reached 78 percent of the original home value. The FHA's justification for the change in its policy was that it was consistent with its efforts to strengthen the Mutual Mortgage Insurance Fund (MMIF), which had dipped below the statutorily mandated capital ratio of 2 percent in the wake of the housing crisis. But FHA borrowers did not cause the housing crisis, and they should not be required to pay for the wrongs of the private companies that did.

Moreover, the FHA has since reached and exceeded the capital ratio requirement, and the most recent independent actuarial study showed that the FHA is in strong financial health, has been improving for the past few years, and is on a strong trajectory moving forward. For example, the FHA showed that it had experienced four straight years of improved economic health, with a gain of $44 billion in value since 2012. It is time that we reverse the FHA's policy of charging premiums for the life of the loan so that borrowers are not unnecessarily burdened with premium costs.