



FHA premium cut may not be that big of a deal

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Many in the industry have praised the move by the Obama Administration to lower FHA mortgage insurance premiums as a godsend, noting how the action could boost home buying. However, some remain skeptic about how much of an impact the cut will actually have on the housing market.

U.S. President [Barack Obama announced Wednesday he will direct the FHA](#) to reduce premiums by 50 basis points to 0.85%. The action is in an effort to help millions of families save billions of dollars in mortgage payments in the coming years, helping to support the housing market recovery, according to a White House statement.

Analyst Jay McCanless of Sterne Agee told *MarketWatch* the savings equate to a mere \$25 a month per \$100,000 in a 30-year mortgage, which he added is probably not enough to significantly boost home sales or spur builders to ramp up construction. "Such a change would be marginally beneficial for the average borrower," he said.

Republicans have said premium cuts should be off the table because the [agency's insurance fund remains below the legally required level of 2%](#). House Financial Services Committee Chairman Jeb Hensarling said last month that "a broke FHA is a broken FHA."

"If President Obama follows through on today's pledge, he will be increasing the likelihood that taxpayers will have to foot the bill for yet another bailout," Hensarling said in a statement Wednesday.

After the housing bust, the FHA's finances took a hit and in 2013, the agency was forced to draw on \$1.7 billion in taxpayer funds for the first time in its history. Since then, FHA has returned in the black, in part because of the higher premiums.

“This sounds like a move in the wrong direction,” said Mark Calabria, director of financial regulation studies at the Cato Institute, told [Businessweek](#). “FHA has a portfolio of poor quality loans. This will end up costing the taxpayer considerably.”

Marc Savitt, president of the National Association of Independent Housing Professionals, said while the cut is welcomed news it is not enough. “HUD also needs to allow borrowers to drop the monthly insurance premium once the loan reaches 80% LTV, he said. “Lowering the costs associated with FHA financing, will allow more borrowers to qualify and afford the program.”

Mortgage industry celebrates premium cut news

Many in the industry celebrated the news, including Mortgage Bankers Association (MBA) CEO David Stevens. “It couldn't come at a better time,” he said. “February is the beginning of the spring market. I think it will have a definitive impact particularly in the first-time homebuyer market.”

For the typical FHA applicant, the reduction in premiums means a savings of about \$80 on their monthly payment, according to CoreLogic's chief economist, Sam Khater.

“So it's positive news from a consumer welfare perspective, especially for first-time homebuyers, which account for the majority of FHA's business,” he told CNBC. “However, I think the marginal impact on sales will be small because potential buyers make the decision to purchase based on trigger events, such as a new job, marriage, kids, etc. Changes in affordability only impact how much home they can buy.”

HUD Secretary Julián Castro is optimistic about the impact the cut will make on the housing market.

“This action will make home ownership more affordable for over two million Americans in the next three years,” said Castro. “Since 2009, the Obama administration has taken bold steps to reduce risks in the mortgage market and to protect consumers. These efforts have made it possible to take this prudent measure while also ensuring FHA remains on a positive financial trajectory.”

The FHA estimates that 250,000 first-time homebuyers will enter the market after the premium reductions.