

National Mortgage News

FHA Price Cut Officially Halted Moments After Trump Sworn In

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The Department of Housing and Urban Development has suspended the 25-basis-point reduction in Federal Housing Administration premiums that was previously announced by the outgoing Obama administration.

The decision, which had been widely expected, was announced in a HUD mortgagee letter shortly after Donald Trump was sworn in as president Friday. HUD said the reduction "has been suspended indefinitely." The move was effective immediately.

"FHA will issue a subsequent Mortgagee Letter at a later date should this policy change," HUD said.

The reduction in annual premiums had been slated to go into effect Jan. 27 under a policy approved by outgoing HUD Secretary Julian Castro, yet the incoming Trump administration seemed opposed to the idea of the price cut as soon as it had been announced.

A published report earlier this week quoted a Trump spokesperson as calling the premium reduction a "last-minute policy change by Secretary Castro that could detrimentally impact FHA's reserves."

"The incoming policy team has not seen the model the outgoing administration used, nor their analysis, and nothing was communicated to the incoming team before the announcement was made," the spokesperson said, according to the report attributed to Politico.

The mortgagee letter Friday said, "FHA is committed to ensuring its mortgage insurance programs [remain] viable and effective in the long term for all parties involved, especially our taxpayers."

"As such, more analysis and research are deemed necessary to assess future adjustments while also considering potential market conditions in an ever-changing global economy that could impact our efforts," the letter said.

With Castro having planned to step down Friday, Craig Clemmensen, director of HUD's Departmental Enforcement Center, will serve as acting HUD secretary. The Senate Banking Committee is slated to vote Jan. 24 on Ben Carson's nomination to succeed Castro.

Some in the mortgage industry have read the delay as a sign there is still hope for the premium reduction, while others see a delay as meaning the premium cut will ultimately be abandoned.

A suspension "leaves the door open to implement the cut in the near future," National Association of Realtors President William Brown said Thursday, before the news was made official.

NAR estimates that roughly 750,000 to 850,000 homebuyers would face higher costs and 30,000 to 40,000 new homebuyers will be left on the sidelines in 2017 without the premium reduction.

"For now, we believe that the benefits of the mortgage insurance premium cut will shine through during this review period so it can be quickly put back into place," Brown said.

Scott Olson, executive director of the Community Home Lenders Association, agreed. "Based on the prior administration's lack of communication on the FHA premium reduction, we believe the decision to review such action prior to implementation is prudent," he said. "We are confident the review will support a premium cut."

But others saw it as more likely that the new administration will not adopt the Castro policy.

"If a delay does materialize, we would likely increase our published odds of a full reversal from 40% to 70%," said Compass Point analysts Isaac Boltansky and Fred Small in a Jan. 19 note.

FBR Capital Markets policy analyst Edward Mills said he expects the new administration will reverse the FHA mortgage insurance premium cut.

"This is consistent with the skepticism that Dr. Carson expressed related to the cut during his confirmation hearing and the strong opposition to the cut by Congressional Republicans," Mills said in a note Thursday.

A reversal of the cut will be "positive for the private mortgage insurers, as there was concern the FHA MIP cut would make the FHA product less expensive/more attractive," he added.

Senate Democratic leader Charles Schumer, D-N.Y., denounced the Trump administration's decision to halt the reduction.

"What a terrible thing to do to American homeowners. President Trump, with the flick of a pen, ended that new policy, making it harder for Americans of modest means to obtain their piece of the rock, the American dream — homeownership," Schumer said.

He noted the 25-basis-point premium reduction would save new homeowners on average \$500 a year.

"We urge President Trump to reverse this decision and give new homeowners across America their \$500 back," Schumer said.

Meanwhile, four candidates have been mentioned for the FHA commissioner post. The selection of the new FHA commissioner "could give us more clarity on the future direction of the FHA and housing policy," Mills says in his report.

Shawn Krause, executive vice president at Quicken Loans, and Edward Brady, an Illinois homebuilder and former chairman of the National Association of Home Builders, are potential candidates for the FHA commissioner post. Krause and Brady would "likely push to expand FHA's role in the market," Mills said in his Jan. 19 report.

Meanwhile, other candidates — including Mark Calabria of the Cato Institute and House Financial Services Committee staffer Clinton Jones — would "likely push the FHA to return to its original mission," Mills said.