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Trump Reverses Obama's Mortgage Fee Cuts on First Day

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Soon after Donald Trump was sworn in as president, his administration undid one of Barack Obama's last-minute economic-policy actions: a mortgage-fee cut under a government program that's popular with first-time home buyers and low-income borrowers.

The new administration on Friday said it's canceling a reduction in the Federal Housing Administration's annual fee for most borrowers. The cut would have reduced the annual premium for someone borrowing \$200,000 by \$500 in the first year.

The reversal comes after Trump's team criticized the Obama administration for adopting new policies as it prepared to leave office. In the waning days of the administration, the White House announced new Russia sanctions, a ban on drilling in parts of the Arctic and many other regulations.

No Consultation

Last week, Obama's Housing and Urban Development secretary, Julian Castro, said the FHA would cut its fees. The administration didn't consult Trump's team before the announcement.

Republicans have argued in the past that reductions put taxpayers at risk by lowering the funds the FHA has to deal with mortgage defaults.

Shares of private mortgage insurance companies, including MGIC Investment Corp. and Radian Group Inc., erased earlier losses, trading up about one percent as of mid-afternoon. They closed little changed from the day before. Private insurers, which back loans guaranteed by mortgage-finance companies Fannie Mae and Freddie Mac, compete with the FHA for market share and have been critics of fee cuts in the past.

A letter Friday from HUD to lenders and others in the real-estate industry said, "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."

Senate Democratic leader Chuck Schumer of New York took to the chamber's floor to denounce the reversal.

"It took only an hour after his positive words on the inaugural platform for his actions to ring hollow," Schumer said. "One hour after talking about helping working people and ending the

cabal in Washington that hurts people, he signs a regulation that makes it more expensive for new homeowners to buy mortgages.”

Mark Calabria, director of financial regulation studies for the libertarian Cato Institute, said it was appropriate for the administration to examine last-minute decisions by its predecessor, “especially when those decisions appear to be purely motivated by politics.”

Ben Carson, Trump’s nominee to lead HUD, FHA’s parent agency, said at his confirmation hearing last week that he was disappointed the cut was announced in Obama’s final days in office.

FHA Role

The FHA sells insurance to protect against defaults and doesn’t issue mortgages. It is a popular program among first-time home buyers because it allows borrowers to make a down payment of as low as 3.5 percent with a credit score of 580, on a scale of 300 to 850.

The Obama administration announced last week it would cut the insurance premium by a quarter of a percentage point to 0.60 percent, effective on Jan. 27.

Some housing industry groups lauded the change, saying it could increase home buying by offsetting recent rises in mortgage rates. Supporters of the reduction were disappointed that the Trump administration reversed course.

‘Average People’

“This action is completely out of alignment with President Trump’s words about having the government work for the people,” said John Taylor, president of the National Community Reinvestment Coalition, through a spokesman. “Exactly how does raising the cost of buying a home help average people?”

Sarah Edelman, director of housing policy for the left-leaning Center for American Progress, in an e-mail wrote, “On Day 1, the president has turned his back on middle-class families -- this decision effectively takes \$500 out of the pocketbooks of families that were planning to buy a home in 2017. This is not the way to build a strong economy.”

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The FHA came under severe stress after the financial crisis. In 2013, it needed \$1.7 billion from the U.S. Treasury, its first bailout in 79 years, due to a wave of defaults. To replenish the FHA’s coffers, the Obama administration several times increased the fees the agency charges. The law requires the FHA’s capital reserve ratio to stay above 2 percent, and the agency hit that level in 2015 for the first time since the bailout.

“It is important to ensure that the FHA fund remains strong to support homeownership in the future while minimizing taxpayer risk,” Teresa Bryce Bazemore, president of Radian Group, said in a statement.

