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# Trump's swift mortgage move angers real estate industry

Kathleen Pender

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Donald Trump may have made his fortune in real estate, but one of his administration's first moves has upset the state and national Realtors associations.

Shortly after the inauguration on Friday, the U.S. Department of Housing and Urban Development "suspended indefinitely" a planned cut in the annual mortgage insurance premium on home loans insured by the Federal Housing Administration.

What's not clear is whether the Trump team is signaling that it wants less government involvement in housing and mortgage markets or whether it was simply reacting to a move the Obama administration made on its way out the door.

The Obama administration announced the cut Jan. 9, and it was supposed to take effect this Friday. It would have reduced the annual insurance premium on most new FHA mortgages to 0.6 percent from the current 0.85 percent. That quarter-point cut would have saved someone with a $500,000 mortgage $1,250 per year.

Realtor groups immediately urged Trump to review its decision and reinstate the cut. "According to our estimates, roughly 750,000 to 850,000 home buyers will face higher costs and 30,000 to 40,000 new home buyers will be left on the sidelines in 2017 without the cut," National Association of Realtors President William E. Brown said in a statement.

"Home buyers in California, who would have saved an average of $860 a year, will be negatively impacted more than any other state by the decision to not reduce the FHA premium," California of Realtors Association President Geoff McIntosh said in a statement.

On the other hand, Ed Pinto, a resident fellow with the American Enterprise Institute, said that halting the premium cut "is actually good news for first-time buyers." His research shows that when you cut the mortgage insurance premium in a seller's market where there's very little inventory, like we have in most parts of the country, it increases demand for FHA loans and increases home prices, making homes less affordable for FHA borrowers.

FHA loans are popular with first-time home buyers because they require lower down payments (as little as 3.5 percent) and lower credit scores (generally down to 580) than Fannie Mae and Freddie Mac. Fannie and Freddie require mortgage insurance on loans with less than 20 percent down, but it comes from private-sector companies.

The FHA accounted for 12.1 percent of loans in the San Francisco metro area in the 12 months ending in September. That compares with 24.4 percent in California and 22.3 percent nationwide, according to the AEI/First American National Housing Market Index.

FHA loans are somewhat less popular here because the maximum loan amount this year on a one-unit home is $636,150 in all Bay Area counties except Solano, where it's $431,250, and Sonoma, where it's $595,700. In November, the median home price across the nine-county region was $695,000 according to CoreLogic.

The FHA charges borrowers a one-time mortgage insurance premium, which can be rolled into the loan, and an annual premium that is added to the monthly payment. These premiums go into the FHA's Mutual Mortgage Insurance Fund, which absorbs losses on FHA loans.

Before the housing crisis, the annual premium on FHA loans with less than 5 percent down was 0.55 percent, but steep losses forced the FHA to raise this premium as high as 1.35 percent in April 2013. Since then, the fund has improved and the premium was cut.

In November, HUD announced that the fund had a capital ratio of 2.32 percent, marking the second consecutive year it had met its "statutory requirement to maintain at least a 2 percent capital ratio."

"In fairness to the Trump administration, had the Obama administration felt (a premium cut) was appropriate, they should have done it back in November," said Guy Cecala, publisher of trade publication Inside Mortgage Finance. He added, however, that the Obama administration could have been responding to the half-point jump in mortgage rates that took place after Trump won the election.

Edward Mills, an analyst with FBR & Co., said the move last week "was less about sending a message and more about meeting disclosure timelines required under federal mortgage regulations." These rules generally require final loan documents to be sent out seven days before closing. "If they had waited until Monday (to suspend the premium cut), loans set to close between the 27th and 30th probably would not be able to close. You would have had to re-disclose," he said.

Mills said we won't really know where Trump will stand on real estate "until we see who he chooses as FHA director."

He said that two potential nominees, Mark Calabria (a director at the libertarian Cato Institute) and House Financial Services Commission staffer Clinton Jones, come from the Republican Party's conservative wing and would likely back limited federal support for housing. Two other potential nominees, Shawn Krause (a top executive with Quicken Loans) and Edward Brady (an Illinois home builder) come from the mortgage/home building world "and would likely push to expand the FHA's role in the market," he said.