

FHA to cut fees, lower rates for 1st-time buyers

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The Obama Administration cut mortgage-insurance premiums charged under a government program that's popular with first-time home buyers with little money for a down payment, a move that may ease the burden of rising interest rates.

The annual fees the Federal Housing Administration charges to guarantee mortgages it backs are being cut by a quarter of a percentage point, the U.S. Department of Housing and Urban Development said in a statement on Monday. With the reduction, the annual cost for most borrowers will be 0.60 percent of the loan balance.

The change, which could be reversed after President-elect Donald Trump takes office, may hurt bond investors, as it speeds up repayment on some securities. Private insurers that compete with the FHA also could suffer.

The reduction, which lowers the cost of a home for those who use the FHA, is charged to mortgage borrowers. HUD on Monday said the fee cut would save new FHA-insured homeowners an average of \$500 this year. The cut would take effect Jan. 27.

The Obama administration's decision may cause tension with some Republicans who say a fee cut could put taxpayers at risk by reducing the amount of money the agency collects to buffer against mortgage defaults. The FHA is part of HUD, whose secretary sets the fees. The decision will put the spotlight on Ben Carson, nominated as HUD secretary of under Trump. Mr. Carson declined to comment on whether he would reverse the decision, according to a spokesman.

HUD Secretary Julian Castro said on a call with reporters that he had no reason to believe the cut would be altered by the Trump administration. Mr. Trump's transition team received notification of the premium cut shortly before its public announcement, he said.

Mark Calabria, director of financial regulation studies for the libertarian Cato Institute in Washington, described the cut as a "bad idea, and irresponsible for an administration on its way out the door."

The FHA doesn't make mortgages. It sells insurance, paid by borrowers, on loans protecting investors in case of default. The program allows borrowers to get a mortgage with a down payment of as little as 3.5 percent and a credit score of as low as 580. That makes it one of the most forgiving mortgage programs and popular among first-time home buyers.

Some in the real-estate industry have been calling for another fee cut and heralded Monday's move. "Dropping mortgage insurance premiums today will mean a whole lot more responsible borrowers are suddenly eligible to purchase a home through FHA," William Brown, president of the National Association of Realtors, said in a statement.

The FHA last cut premiums two years ago. That cut, which lowered the annual fee for most borrowers to 0.85 percent from 1.35 percent, led to a wave of refinances.