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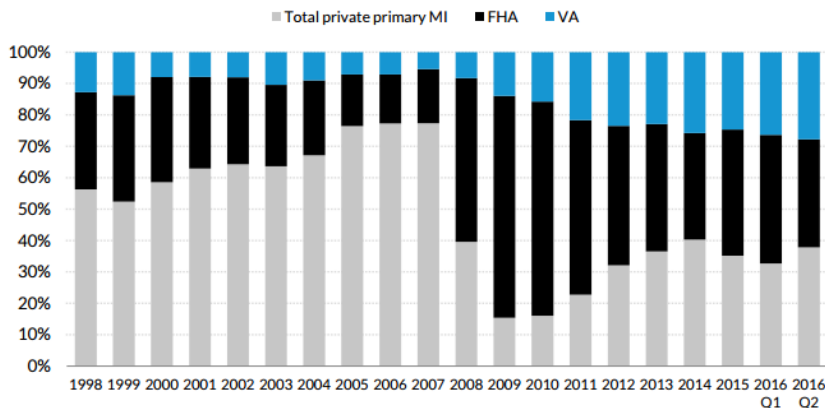
## Resurgence of PMI Could Force FHA to Cut Premiums

In last month's *Housing Finance Chartbook* the Urban Institute showed how a recent surge in issuance of private mortgage insurance (PMI) had come **at the expense** of the Federal Housing Administration's (FHA's) Mortgage Insurance Fund (MIF). PMI grew from a 33 percent share of the market in Quarter 1 of 2016 to 38 percent while FHA's share declined from 41 to 34 percent. This reversed a move toward FHA loans that occurred in early 2015 when FHA reduced its insurance premium by 50 basis points.

The second quarter move back to PMI **appears to be a reaction** to the industry's April adjustment of its premiums, reducing them for lower-risk borrowers (credit scores above 700) and increasing them for borrowers with scores below the level. Further, the higher the credit score the greater the cut and the higher the increases as credit scores decline.

PMI's volume of origination increased in the second quarter **by 56 percent** to \$72 billion, the **highest quarterly volume** since the first quarter of 2008. When it reported this, the Urban Institute noted that, "if the shift back to PMI takes away a significant part of FHA's lower credit risk business it could put pressure on FHA's balance sheet, possibly pushing the agency to lure higher quality business back with another premium cut."

### MI Market Share



Sources: Inside Mortgage Finance and Urban Institute.

URBAN INSTITUTE

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.02%	-0.05	0.65
15 Yr. Fixed	6.60%	-0.15	0.55
30 Yr. FHA	6.87%	0.00	0.92
30 Yr. Jumbo	7.18%	-0.03	0.54
5/1 ARM	6.45%	+0.08	0.81

Rates as of: 6/28

## Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

In an analysis released on Thursday Institute Research Associate Karan Kaul says the return of PMI as the number one player is "big news: in an era when government is backing most mortgage originations, any increase in the role of private capital is welcome." But will the FHA be forced to drop its prices to avoid overexposure to higher-risk borrowers? "Probably not anytime soon," he says, "given the pristine quality of today's mortgages."

	Value	Change
Builder Confidence	Mar 51	+6.25%

Mortgage insurance makes it possible for lenders to write low downpayment loans by guaranteeing the recovery of some of their money should borrowers default. PMI writes insurance for conventional mortgages while FHA (and VA, although its market is limited) guarantee loans for their lenders

Kaul says that in 2016 there has also been an increase in originations by large lenders of low-downpayment mortgages outside the FHA due to **new programs from the GSEs** (Fannie Mae and Freddie Mac.) These products allow for down payments as low as 3 percent along with reduced mortgage insurance. While these loans were introduced nearly 20 months ago there was no big move toward them because FHA still had a price advantage. The April restructuring of PMI premiums changed this, giving lenders an alternative. This, he says, was especially appealing to those "already wary of the FHA's heavy enforcement."

Kaul says if the pricing for PMI continues to appeal more to high credit borrowers it will, over time, **pull the best customers out of the government into conventional mortgages**, leaving FHA with a riskier mix of borrowers. If the mix becomes too risky them FHA might have to consider another rate cut. However, he concludes that given the high-quality of originations at this time and the very low delinquencies, "It will be a while before these risks rise to a level that causes the FHA to lose sleep."

## Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

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