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Probable Delay, Possible Reversal for FHA Premium Cut

Secretary of Housing and Urban Development (HUD) nominee Ben Carson said at his confirmation hearing, "Certainly, if confirmed, I am going to work with the FHA administrator and other financial experts to really examine that policy." He was talking about an earlier announcement from the current HUD head that FHA insurance rates were going to be cut. On January 12, when Carson made that remark, most everyone viewed it as a **throw-away line**.

Now not so much.

As background, on January 9, current HUD Secretary Julian Castro announced a **25-basis point cut** in the annual premium charged for FHA insurance. The reduction, scheduled to go into effect on **January 27**, would return FHA annual premiums almost back to where they were before a crisis in the FHA insurance fund caused substantial hikes in both the annual and the upfront premiums. Castro said the cut should save homeowners an average of $500 the first year.

A press release today from the Mortgage Bankers Association says, "Based on recent testimony and political pushback, we believe there is a **strong chance** the most recent MIP reduction... may be one of the rollback actions taken soon after President Trump takes office."

MBA says it expects this change will be **effective immediately** and "could create significant operational challenges for lenders and their customers." The association urged its members to prepare to unwind any changes they have already made to adjust for the new rates if the delay, in fact, occurs.

InsideMortgageFinance (IMF) said yesterday that it had learned from an industry source that, immediately following his inauguration on January 20, President Donald Trump "will be issuing an executive order that freezes all past actions over a certain period of time. The FHA **premium reduction gets swept into this**." Further, IMF says that officials working for the incoming HUD Secretary are preparing a mortgagee letter that will officially scuttle the cut.

Another viewpoint, this one from Compass Point Research and Training, says its conversations lead it to expect a delay in the cut though not necessarily a reversal. However, if a delay does materialize, it increases the earlier odds it had put on a reversal from 40 percent to 70 percent.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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An announcement from the Trump Administration to the press said, "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 new team looks forward to seeing the financials to ensure there is the **right balance** between encouraging sustainable home ownership at an individual level and protecting taxpayers against future losses to the entire program...No determination has been made on this last-minute policy change by Secretary Castro that could detrimentally impact FHA's reserves." Compass Point said, while the statement is ambiguous, it does indicate an inclination to reverse.

Compass Point says it views any impact from the previously announced cut as **modest**; not producing a significant shift in volume from the GSEs and their private mortgage insurers to FHA. Carson's other comments at his confirmation hearing also suggest that additional pricing changes at the FHA will be less likely as he prefers seeing more private capital in the mortgage market.

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