July 11, 2022

The Honorable Marcia Fudge
Secretary
Department of Housing and Urban Development
451 7th Street NW
Washington, DC 20410

Dear Secretary Fudge:

The CMLA expresses its deep concern and disappointment that National Homeownership Month has come and gone, and FHA premiums remain too high relative to actual risk. Keeping insurance fees higher than needed prices out some creditworthy American families for no valid reason. This lack of action is especially bewildering given that the FHA's mission and customer profiles match the target audience the Biden Administration has identified as being unfairly left behind in America.

The CMLA has called for life of loan premiums to be dropped when the borrower's equity position reaches 22%, as was the policy until 2013. For borrowers with that amount of equity, the risk to the FHA is minimal; keeping this fee makes absolutely no sense.

The CMLA has called for a 25-basis point reduction in the upfront premium. Since the prior FHA annual report, when HUD reported that reserves were at 8 percent, the SDQ book has declined markedly; when one adds the house price appreciation that has occurred in the last three years, and FHA's much better credit quality in the portfolio compared to previous recessions, FHA is today in its best financial condition in 50 years. And while a prudent regulator must take into account recession risk, this is exactly why statutory reserves exist. The statute says the minimum requirement is 2 percent. Perhaps a higher number--though not the current number--makes sense in the current economic cycle. But we have never seen analysis that justifies a de facto new statutory floor of over eight percent.

For those who say that cutting FHA premiums will result only in increased demand, we say: the FHA is not chartered by law to deliberately prevent qualified families, many of them families of color, from having their chance to buy a home, and escape from the trap of ever-rising rents. Nowhere in the charter does it say that FHA should pursue this strategy. As you noted in May before Congress, "FHA is the place where communities of color go to get their mortgages."

For those who say that this is just the housing lobby's wish list, we say: the numbers are the numbers, and the numbers tell a clear tale of the FHA being over-reserved for no justifiable reason. It's of course interesting that no one in Washington refutes the basic numbers, instead of relying on questionable polemics to advance an unjustifiable agenda.

For those who say the needed changes cannot occur because the Administration is reserving the premium income for other budget priorities, we say: only this Administration can decide if its words are directive and meaningful, or merely empty vessels. Only it can decide if it wants to make a tangible difference for families escaping ever-escalating rents.

All the talk of combatting housing market unfairness, housing market divides, giving families a fair foot forward, must be set aside if in fact Washington fails to get homeownership pricing policy correct.

Once upon a time the Federal Housing Administration was a part of America's housing problem because it redlined overtly, refusing credit at any price to certain deserving families for reasons that had nothing to do with safety and soundness. Now--if the FHA fails to move here--it remains part of America's housing problem because it will be price-redlining, refusing credit to certain families for no actuarial reason. That many of these same families are the ones the Administration claims to want to help strikes us as sadly tragic.

The Community Mortgage Lenders of America