



FHA Raises Insurance Premiums to Shore Up Mortgage Fund

By: Ryan Schuette

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The [Federal Housing Administration](#) (FHA) announced Monday that it would increase premiums for lenders of single-family mortgages in line with the short-term payroll tax cut extended by Congress late last year.

Acting FHA Commissioner [Carol Galante](#) said the agency would raise the annual mortgage insurance premium by 0.10 percent for mortgage loans under \$625,000, as the bill requires.

The FHA will also lift premiums for mortgages above the threshold by 0.25 percent, upfront premiums by 0.75 percent, and annual premiums by 0.10 percent.

Taken together, the agency estimates, the premiums will contribute \$1 billion to the sagging Mutual Mortgage Insurance Fund (MMIF) through next year.

The projected cost for borrowers: \$5 more per month.

“After careful analysis of the market and the health of the MMI

fund, we have determined that it is appropriate to increase mortgage insurance premiums in order to help protect our capital reserves and to continue encouraging the return of private capital to the housing market,” Galante said in a statement.

The crucial MMIF recently fell under scrutiny from policy makers and academes alike for falling below the 2-percent capital ratio buffer required by federal law.

[Joseph Gyourko](#), a real estate and finance professor at the University of Pennsylvania, published a report last fall that shed critical light on the FHA’s \$2.6 billion in capital against about \$1 trillion in insurance-in-force for fiscal year 2011.

He said that the FHA would need a draw of anywhere from \$50 billion to \$100 billion from the Treasury to stay afloat if trends went forward, making it the first bailout for the nearly 80-year-old agency.

Analysts say the FHA currently occupies more than 30 percent of mortgage market share, a consequence of steep declines for home prices and efforts by lawmakers to expand the agency’s capacity to undertake more government-backed mortgages during the financial crisis.

The new annual premium raises will take place after April this year, according to the FHA. Mortgages above \$625,500 will see their premiums lift in June.

Scott Sheldon, a loan officer with California-based [Sonoma County Mortgages](#), says he anticipated the premium increases.

“It’s not surprising that HUD is doing this,” he says. “The capital reserve ratio continues to erode and new borrowers will have to bear the brunt of higher premiums.”

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