The Honorable Marcia Fudge
Secretary Designate
U.S. Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

January 27, 2021

Dear Honorable Fudge,

U.S. Mortgage Insurers ("USMI") and its member companies congratulate you on your nomination to serve as the Secretary of the U.S. Department of Housing and Urban Development (HUD). Your many years of public service, including as mayor of Warrensville Heights, Ohio and the U.S. Representative for Ohio's 11th Congressional District, demonstrates your commitment to community, and will serve you well as Secretary of HUD, as you have no doubt seen in your own district the homeownership challenges facing hardworking American families.

For more than 60 years, the private mortgage insurance (MI) industry has enabled more than 33 million low- and-moderate income Americans to attain affordable and sustainable homeownership in the conventional market. Working with the government-sponsored enterprises (GSEs) —Fannie Mae and Freddie Mac— and lenders of all sizes and business models, private MIs help borrowers qualify for mortgage finance credit with down payments as low as three percent. In the past year alone, more than 1.5 million people were able to purchase or refinance their mortgage due to private MI. Nearly 60 percent of borrowers who purchased their home using private MI were first-time homebuyers and more than 40 percent had incomes of $75,000 or less. Importantly, because USMI members provide private capital in front of the GSEs and taxpayers, the industry also provides significant loss protection to the mortgage finance system, having covered well over $50 billion in claims through the 2008 financial crisis—losses that would have otherwise been borne by taxpayers.

Through the last year, despite the unprecedented challenges presented by COVID-19 pandemic, mortgage credit has been largely affordable due to historically low interest rates and 2020 had the largest mortgage origination volume since 2006—both for the conventional and Federal Housing Administration (FHA) markets. Despite this record mortgage volume and historically low interest rates, there remain significant housing affordability challenges for many borrowers across the country, including that nationwide home price appreciation (HPA) has skyrocketed to 7.3 percent year-over-year, the highest increase since 2014.[1] Moreover, for the past seven years, the segment of the market that has experienced the largest and fastest HPA has been the lower end of the market, which over the last year saw an increase of nearly 11 percent.[2] A driving force behind the high HPA is the fact that consumer demand continues to outpace new home construction, thereby exacerbating housing affordability by driving up home prices and putting homeownership further out of reach for many prospective homebuyers, most notably for minority and first time borrowers.

[1] U.S. Home Price Appreciation in October Fastest Since April 2014. Molly Boesel. CoreLogic Insights Blog.
[2] *Id.*

Policy recommendations such as lowering FHA premiums too quickly and aggressively may significantly impact FHA's ability to address the challenges that will arise as COVID forbearances end, and coupled with the high delinquencies for FHA loans, could ultimately lead to higher claims, potentially undermining FHA's ability to help future borrowers. Further, reducing premiums would only add fuel to the fire in terms of artificially lowering what is already relatively affordable mortgage finance credit. Such actions would inject more "demand" into the market without addressing the "supply" side—which will only drive-up home prices further, hurting affordability at the lower end of the market most. Additionally, other policy recommendations such as ending FHA's "life-of-loan" policy, which would require FHA to continue to insure loans (because FHA insurance does not in fact cancel) without coverage being paid for, could similarly weaken FHA and its ability to meet the housing needs of future borrowers, while also exposing taxpayers to undue risk. FHA's insurance stays on the loan for the "life of the loan," therefore those who suggest ending the "life of loan" premiums are essentially advocating for providing free government-backed insurance.

There are other areas that may represent barriers to homeownership that policymakers should also choose to explore, including the targeted use of down payment assistance (DPA) programs for the borrowers who are unable to attain even a 3 percent or 3.5 percent down payment, who truly need the support. It is important that DPA programs are structured and operated in a sustainable manner so as to not create excessive leverage and risk within the mortgage finance system, or pose undue risk to taxpayers and the economy, which will ultimately hurt vulnerable homeowners most. As federal policy makers look to increase homeownership, it is essential that it is done in a manner that promotes sustainable homeownership for borrowers, as it does more harm to a family to get into a home that they can then not afford. There are meaningful ways to enhance borrower sustainability, such as by using part of a DPA to establish a reserve account for certain borrowers. Reserve accounts have been proven to be predictive of a borrower's ability-to-repay their loan, and by focusing on reserve accounts, HUD not only prioritizes getting people into homes, but also helping them be successful homeowners.[3] There are other important considerations to promote sustainable homeownership, such as housing counseling, for borrowers where HUD or FHA aim to expand access to mortgage finance credit.

Finally, USMI's members intimately understand the importance of ensuring access to affordable, prudent low down payment mortgages in the marketplace. Understanding that more than 80 percent of first-time homebuyers over the last several years have depended on access to low down payment lending, it is more important than ever that the government-backed FHA program and the conventional market backed by private MI operate in a consistent and coordinated manner. Each plays an important, and distinct, role in the housing finance system and they should not be competing for market share—a situation which ultimately does a disservice to the borrowers we serve and to taxpayers.

[3] Trading Equity for Liquidity. Bank Data on the Relationship Between Liquidity and Mortgage Default. June 2019. J.P. Mortgage Chase Institute.

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FHA has long been a vital resource for many borrowers who may not have the ability to attain mortgage finance credit through the conventional market. Our industry looks forward to working with you and welcomes the opportunity to further engage with HUD and FHA to identify and address risks in the system and barriers to homeownership for borrowers, as well as find ways to further enhance a coordinated and consistent housing market that provides for the greatest access to sustainable mortgage finance credit.

We wish you the best in your transition to HUD Secretary and look forward to working with you once you are confirmed.

Sincerely,

Lindsey D. Johnson
President

cc: Matt Ammon, Acting Secretary, HUD
Jenn Jones, Chief of Staff, HUD