HOMEWISE Real Estate Tips and Advice

Mortgage Insurance Down

By ANNA CHANG-YEN | Green Shoot Media

In a move greeted by the housing industry as a way to help more people afford the American dream, the Federal Housing Administration has announced that it is again reducing private mortgage insurance rates.

As interest rates appear poised for an upward trend, the U.S. Department of Housing and Urban Development's recent announcement that PMI rates will fall by a quarter of a point is good news for buyers and sellers alike. The new premium rates are projected to save new FHA-insured homeowners an average of $500 this year.

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>
> — National Association of Realtors President William E. Brown

THE TREND

The reduction, which applies to loans that close on or after Jan. 27, is just one in a years-long trend that has left more money in homeowners' pockets. It's the fourth year in a row that the FHA's mortgage insurance fund has gained value, with $44 billion in gains since 2012, according to the FHA.

"After four straight years of growth and with sufficient reserves on hand to meet future claims, it's time for FHA to pass along some modest savings to working families," said HUD Secretary Julian Castro. "This is a fiscally responsible measure to price our mortgage insurance in a way that protects our insurance fund while preserving the dream of homeownership for credit-qualified borrowers."

Ed Golding, principal deputy assistant secretary for HUD's Office of Housing added, "Homeownership is the way most middle class Americans build wealth and achieve financial security for themselves and their families. This conservative reduction in our premium rates is an appropriate measure to support them on their path to the American dream."

INTEREST RATES UP

In mid-December, the Federal Reserve raised interest rates by a quarter percent, one of only two interest rate hikes by the Fed during the past 10 years, and signaled more rate increases in the coming year.

In early January, the average rate on a 30-year, fixed-rate mortgage was 4.32 percent, the highest level since April 2014 and well above the year's average of 3.65 percent, according to USA Today.

THE PARTICULARS

The reduction will return rates to levels not seen since before the housing crisis. Beginning in 2010, FHA raised rates to build up capital reserves, with premiums soaring 150 percent.

FHA also will stop its practice of basing the rates on the mortgage amount. The new rate on a mortgage with a loan-to-value ratio of 95 percent or less will be 55, while mortgages with a loan-to-value ratio over 95 percent will be 60. Before the change, rates on some mortgages were as high as 105.

The change means more people will be able to qualify for loans, said National Association of Realtors President William E. Brown. "This is a question of simple math," Brown said in a news release on the day the premium reductions were announced. "Every time we cut the cost of mortgage insurance, it means more borrowers meet the debt-to-income ratio required to purchase a home. It follows that dropping mortgage insurance premiums today will mean a whole lot more responsible borrowers are suddenly eligible to purchase a home through FHA. That puts more money in the fund to protect taxpayers, and it puts more families in homes so they can live out the American dream."

REAL ESTATE 101

Stay in the Know

Keep up with news and information from the U.S. Department of Housing and Urban Development on social media. Visit **http://bit.ly/2jCe1TH** to follow HUD Secretary Julian Castro on Twitter and Facebook.

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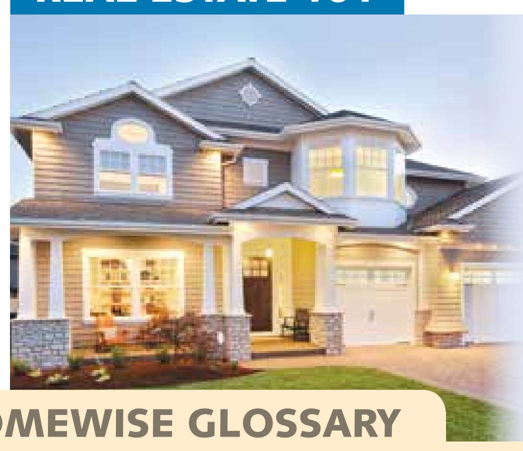

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HOMEWISE GLOSSARY

Mortgage insurance premium (MIP): The amount paid by a borrower for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (PMI) company.

SOURCE: Federal Trade Commission