The Future of American Home Ownership under President Trump

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One of the Trump Administration’s first official actions was to reverse the Federal Housing Administration (FHA) mortgage insurance premium cut that was announced in the last days of President Obama’s term. This is a pretty obscure action for Trump to lead with in his first week in office, so it is worth understanding what is at stake with the FHA and what it may tell about the future of homeownership in the United States.

The FHA has roots that stretch back to the Great Depression. It was created to provide liquidity in a mortgage market that was frozen over and to encourage consumer-friendly practices in the Wild West mortgage and home construction markets of the early 20th century. It was a big success on both fronts.

After the Great Depression, the federal government deployed the FHA to achieve a variety of other social goals such as supporting civilian mobilization during World War II; helping veterans returning from the War; stabilizing urban housing markets during the 1960s; and expanding minority homeownership rates during the 1990s. It achieved success with some of these goals and had a terrible record with others, leading to high rates of default for some FHA programs.

In the last few years, there have been calls to significantly restrict the FHA’s activities because of some of its more recent failures. Trump’s policy decisions for the FHA will have a big impact on the nation’s homeownership rate, which is at its lowest in over 50 years. This is because the FHA is heavily relied upon by first-time homebuyers.

We do not yet have a good sense of how President Trump views the FHA because he had very little to say about housing policy during his campaign. And his choices to lead HUD, Dr. Ben Carson, and the Treasury, Steven Mnuchin, had little to add on this subject during their Senate confirmation hearings.

The 2016 Republican Party Platform does, however, offer a sense of where we might be headed: “The Federal Housing Administration, which provides taxpayer-backed guarantees in the mortgage market, should no longer support high-income individuals, and the public should not be financially exposed by risks taken by FHA officials.” This vague language refers to two concrete policies that have their roots in actions taken by the FHA during the Bush and Obama Administrations.

The reference to the support given to “high-income individuals” refers to the fact that Congress significantly raised FHA loan limits starting in 2008 so that the FHA could provide liquidity to a wider swath of the mortgage market. The GOP is right to question whether that the FHA still needs to provide insurance for half-million-dollar-and-more mortgages now that the mortgage market has stabilized.

The GOP’s statement that taxpayers “should not be financially exposed by risks taken by FHA officials” refers to the fact that the FHA had a lot of losses as a result of the financial crisis. These losses resulted in the FHA failing to meet its statutorily-required minimum capital ratio starting in 2009. In response to these losses, the FHA increased the mortgage insurance premiums it charged to borrowers. While the FHA has been meeting its minimum capital ratio for the last couple of years, premiums have remained high compared to their pre-crisis levels. Thus, the GOP’s position appears to back off from support for homeownership, which has been a bipartisan goal for nearly a hundred years.
The FHA should keep its premiums high enough to meet its capital requirements, but should otherwise promote homeownership with the lowest premiums it can responsibly charge. At the same time, FHA underwriting should be required to balance access to credit with households’ ability to make their mortgage payments over the long term. That way the FHA can extend credit responsibly to low- and moderate-income households while minimizing the likelihood of future bailouts by taxpayers. This is the most responsible way to rebuild sustainable homeownership for a large swath of Americans as we recover from the brutal and compounding effects of the subprime crisis, financial crisis and foreclosure crisis.

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