



What the Mortgage Market Reads



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FHA Share of Home-Purchase Financing Falls to Five-Year Low, Borrowers Shift to GSEs and VA

High fees on FHA mortgages have helped push FHA's market of financing for home purchases to the lowest level since the financial crisis, according to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

FHA mortgages were used to finance 18.2 percent of home purchases in September, based on a three-month moving average. That was down from a 21.9 percent share in September 2013 and 36.6 percent in May 2010, the highest level for FHA financing in the five-year history of *HousingPulse*.

From 2008 through 2013, the Department of Housing and Urban Development increased the FHA's annual mortgage insurance premium five times. The annual MIP for an FHA 30-year fixed-rate mortgage increased from 0.50 percent to 1.35 percent in that time, increasing the annual fees on a \$100,000 mortgage by more than \$600 per year, according to the Mortgage Bankers Association.

And beginning in June 2013, HUD started requiring MIP payments to be made for the life of the loan. The previous policy allowed FHA premiums to be cancelled after the loan-to-value ratio fell to 78.0 percent.

Homebuyers who can qualify for other sources of financing have moved away from the FHA in recent years. Private mortgage insurance on mortgages backed by Fannie Mae and Freddie Mac has gotten more competitive with certain FHA mortgages, and mortgages backed by the Veterans Administration can have lower fees than FHA mortgages along with no downpayment requirements.

Mortgages backed by the government-sponsored enterprises provided financing on 18.7 percent of home purchases in September, up from a 12.4 percent share in May 2010. And mortgages backed by the VA accounted for 8.1 percent of home purchases in September, up from 3.9 percent in May 2010.

FHA is losing market share among first-time homebuyers as well as move-up buyers. First-time homebuyers used FHA financing for 34.1 percent of home purchases in September, down from 40.3 percent in September 2013. For move-up buyers, FHA financing share fell in that time from 15.3 percent to 12.1 percent. ♦

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