

Date of Hearing: March 8, 2017

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

David Chiu, Chair

AJR 4 (Cervantes) – As Introduced February 13, 2017

SUBJECT: Home Ownership

SUMMARY: Calls upon the President of the United States to reinstate the mortgage fee reduction promulgated by the Department of Housing and Urban Development under the Obama Administration. Specifically, **this Resolution**, makes the following legislative findings:

- 1) Home ownership is fundamental to the financial prosperity and economic security of America's middle class.
- 2) A home is often a family's primary source of growing wealth, as homeowners have, on average a net worth 36 times greater than renters; Home ownership has additional social benefits, as the children of homeowners tend to do better in school, have lower rates of committing crime, and lower rates of drug use.
- 3) It should be the policy of both the federal government and the State of California to enable more and more Californians to buy and keep their own homes.
- 4) American home ownership rates are at a 50-year low, down to 63.1% of all households being homeowners.
- 5) As his first act upon taking office, the President of the United States canceled a rule promulgated by the United States Department of Housing and Urban Development under the previous administration that would have cut mortgage fees for certain low-income homeowners.
- 6) Implementation of the rule would have saved eligible California homeowners an average of \$860 per year.
- 7) The mortgage fee reduction program was popular with new homeowners, and was used by about 40% of millennial buyers; and
- 8) The cancellation of the rule has made it more expensive, and even possibly cost prohibitive, for many Californians to purchase their first homes and to make an investment in their financial future than if the rule has been preserved.

FISCAL EFFECT: None.

COMMENTS:

The Federal Housing Administration (FHA) provides mortgage insurance to loans made to first time low and moderate income homebuyers with lower credit scores. Since its inception in 1934 the FHA has insured over 34 million properties, making it the largest insurer of mortgages in the world. The FHA is also one of the few government agencies that operates entirely from self-generated income.

The FHA programs have a long history of benefitting veterans, seniors, handicapped, and low income families. The FHA helped finance military housing and homes for returning veterans in the 1940's. In the 1950's through the 1970's the FHA helped with the production of millions of units for elderly, handicapped, and lower income Americans. The FHA has also helped to stabilize homes and apartment buildings during times of recession or soaring inflation. The FHA is under HUD's jurisdiction and therefore under the affirmatively furthering fair housing mandate of the Fair Housing Act.

The Department of Housing and Urban Development ordered a drop in the mortgage premium from 0.85% to 0.6% in response to the improving health of the FHA's Mutual Mortgage Insurance Fund, which has gained \$44 billion in value since 2012. Last year, an independent actuarial analysis found the fund's capital ratio grew by \$3.8 billion and now stands at 2.32 percent of all insurance in force — the second consecutive year since 2008 that FHA's reserve ratio exceeded the statutorily required 2 percent threshold.

Among his first act as president, Trump reversed the impending rate cut to mortgage insurance on mortgages insured by the FHA. According to the National Association of Realtors as a result of this action, 30,000 to 40,000 Americans will not be able to afford to buy a home now and 750,000 to 850,000 Americans will face higher housing costs. The drop in premium rates were projected to save homeowners nationwide an average \$500 dollars a year, And Californians with FHA insured mortgages would have saved an average of \$860 a year. AJR 4 calls upon the President to reinstate the reduction in FHA mortgage premiums.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

Analysis Prepared by: Lisa Engel/ H. & C.D. /916-319-2085