DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

24 CFR Part 203

[Docket No. FR–4284–P–01]

RIN 2502–AH07

Authority To Reduce FHA Mortgage Insurance Premium for Mortgages on Single Family Properties in Central Cities

AGENCY: Office of the Assistant Secretary for Housing—Federal Housing Commissioner, HUD.

ACTION: Proposed rule.

SUMMARY: This proposed rule provides express authority for a reduced FHA single family mortgage insurance premium (MIP) for properties located in central cities. The purpose of this rule is to help increase the homeownership rate in areas of the country where the homeownership rate is low.

DATES: Comment due date: July 6, 1998.

ADDRESSES: Interested persons are invited to submit comments regarding this proposed rule to the Regulations Division, Office of the General Counsel, Room 10276, Department of Housing and Urban Development, 451 Seventh Street, SW, Washington, DC 20410. Communications should refer to the above docket number and title. Facsimile (FAX) comments are not acceptable. A copy of each comment submitted will be available for public inspection and copying during regular business hours (7:30 a.m. to 5:30 p.m.) eastern time at the above address.

FOR FURTHER INFORMATION CONTACT: John J. Coonts, Director, Office of Insured Single Family Housing, Room 9266, Department of Housing and Urban Development, 451 Seventh Street, SW, Washington, DC 20410, telephone (voice) (202) 708–3046. (This is not a toll-free number.) Hearing-impaired or speech-impaired individuals may access the voice telephone listed by calling the Federal Information Relay Service during working hours at 1–800–877–8339.

SUPPLEMENTARY INFORMATION: Three times during President Clinton's administration, FHA has reduced the up-front mortgage insurance premium (MIP) for single family mortgages below the level permitted by statute. In 1994 (through Mortgagee Letter 94–14), FHA reduced the MIP from the then-applicable statutory maximum of 3.0% to 2.25%. FHA further reduced the up-front MIP for first-time homebuyers who have received homeownership counseling to 2.00 (Mortgagee Letter 96–48) and from 2.00 to 1.75% (Mortgagee Letter 97–37). These measures were designed to boost the Nation's homeownership rate, particularly among those who are most likely to have difficulty paying closing costs, without adversely affecting the actuarial soundness of the Mutual Mortgage Insurance Fund. The homeownership rate for 1997 was 65.7 percent, the highest annual rate in American history, due in part to these and other measures adopted as part of the National Homeownership Strategy of the National Partners in Homeownership initiated by HUD.

The homeownership rate in cities, however, continues to lag far behind the rate in suburbs—49.8 % compared to 72.1% as of June 1997. President Clinton addressed this problem in his June 23, 1997 remarks to the United States Conference of Mayors in which he announced an Urban Homestead initiative to help Americans become homeowners in cities. In announcing one part of the initiative, President Clinton stated:

> But you and I know not enough homes are in our cities. In the last 4 years, we've reduced FHA mortgage premiums three times, to lower the average closing cost on a new home by $1,200. That's made a lot of difference to a lot of young people, and I'm proud of that. Today, we're going to cut the premium another $200 for people if they buy homes in our central cities. This will bring the total reduction, since we took office, of closing costs to those families to $1,400.[1]

In this rule, FHA proposes to carry out the President's pledge of an additional $200 estimated savings for a typical central city homebuyer by authorizing a reduced premium—for those who would otherwise qualify for the 1.75% premium—of 1.50% for homeowners in a central city. The rule would not establish a specific MIP level for central cities, but would generally permit FHA to establish an MIP level for a central city property that would be up to 25 basis points lower than the MIP that would otherwise be due. The rule would define a central city as any city or county that meets the definition of "metropolitan city" or "urban county" for purposes of HUD's Community Development Block Grant (CDBG) program; i.e., any CDBG entitlement grantee.

This definition is deliberately broad to ensure that all areas that may experience a lower homeownership rate due to urban location will benefit from a reduction in MIP level. Because the definition is based on well-established boundaries for existing governmental jurisdictions that are already used for a major HUD program, the definition will avoid the confusion that might arise if new lines were drawn solely for MIP purposes. The definition proposed in the rule is clear and concise and—unlike some other possible approaches that were considered—lends itself to effective computer tracking that will enable FHA to study and evaluate the effect of the MIP reduction.

FHA has concluded that the proposed definition of central cities will permit FHA to reduce the upfront MIP to 1.50% for a first-time homebuyer who has received pre-purchase counseling, while also permitting FHA to maintain the Mutual Mortgage Insurance Fund on an actuarially sound basis and in excess of the statutory capital requirement.

Findings and Certifications

Regulatory Flexibility Act

The Secretary, in accordance with the Regulatory Flexibility Act (5 U.S.C. 605(b)), has reviewed and approved this proposed rule, and in so doing certifies that this rule will not have a significant economic impact on a substantial number of small entities. In this rule, FHA proposes to carry out the President's pledge of an additional $200 estimated savings for a typical central city homebuyer by authorizing a reduced premium—for those who would otherwise qualify for the 1.75% premium—of 1.50% for homeowners in a central city. The rule will have no adverse or disproportionate economic impact on small entities. Small entities are specifically invited, however, to comment on whether this rule will significantly affect them, and persons are invited to submit comments according to the instructions in the **DATE** and **ADDRESSES** sections in the preamble of this proposed rule.

Environmental Impact

This proposed rule is exempt from environmental review requirements under 24 CFR 50.19(c)(6). That exemption applies to various rate and cost determinations and related administrative or fiscal requirements or procedures which do not constitute a development decision that affects the physical condition of specific project areas or building sites. The sole impact of the proposed rule would be to permit a reduced MIP level for homes in central cities.

Executive Order 12612, Federalism

The General Counsel, as the Designated Official under section 6(a) of Executive Order 12612, Federalism, has determined that this rule will not have

[1] Weekly Compilation of Presidential Documents, Vol. 33, No. 26, page 938, at page 944.

substantial direct effects on States or their political subdivisions, or the relationship between the Federal Government and the States, or on the distribution of power and responsibilities among the various levels of government. No programmatic or policy changes will result from this rule that would affect the relationship between the Federal Government and State and local governments.

Unfunded Mandates Reform Act

Title II of the Unfunded Mandates Reform Act of 1995 (Pub. L. 104–4; approved March 22, 1995) (UMRA) establishes requirements for Federal agencies to assess the effects of their regulatory actions on State, local, and tribal governments, and on the private sector. This rule does not impose any Federal mandates on any State, local, or tribal governments, or on the private sector, within the meaning of the UMRA.

Catalog

The Catalog of Federal Domestic Assistance number for the basic FHA single family mortgage insurance program is 14.117.

List of Subjects in 24 CFR Part 203

Hawaiian Natives, Home improvement, Indians—lands, Loan programs—housing and community development, Mortgage insurance, Reporting and recordkeeping requirements, Solar energy.

Accordingly, the Department proposes to amend 24 CFR part 203 as follows:

PART 203—SINGLE FAMILY MORTGAGE INSURANCE

1. The authority citation for 24 CFR part 203 continues to read as follows:

Authority: 12 U.S.C. 1709, 1710, 1715b and 1715u; 42 U.S.C. 3535(d).

2. Section 203.284 is amended by adding a new paragraph (i) to read as follows:

§ 203.284 Calculation of up-front and annual MIP on or after July 1, 1991.

* * * * *

(i) *Central cities.* If the mortgage is on property in a central city, the Secretary may establish the percentage used to calculate up-front MIP level at a rate that is up to 25 basis points lower than the rate used to calculate MIP for a comparable mortgage on property that is not in a central city. For purposes of this section, ''central city'' means any city or county that is included in the definitions of ''metropolitan city'' or ''urban county'' in sections 102(4) and 102(6) of the Housing and Community Development Act of 1974, 42 U.S.C. 5302(4) and 5302(6).

3. Section 203.285(c) is revised to read as follows:

§ 203.285 Fifteen-year mortgages: Calculation of up-front and annual MIP on or after December 26, 1992.

* * * * *

(c) *Applicability of certain provisions.* The provisions of §§ 203.261. 203.262, 203.264, 203.265, 203.266, 203.267, 203.268, 203.269, 203.280, 203.282, 203.284(c), 203.284(g) and 203.284(i) are applicable to mortgages subject to premiums under this section.

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Dated: March 27, 1998.

Art Agnos,

Acting General Deputy Assistant Secretary for Housing-Deputy Federal Housing Commissioner.

[FR Doc. 98–11792 Filed 5–1–98; 8:45 am]

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