



The Daily Dish

Should Have Seen This One Coming

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On Monday, incoming oversight subcommittee chairman on the House Ways and Means Committee, Vern Buchanan (R-FL), stated that his panel will focus on Medicare fraud and accountability within the Internal Revenue Service (IRS) in the new Congress. Buchanan said that he, and his committee, will not tolerate waste, abuse, or fraud among the U.S.'s largest federal agencies and programs. Buchanan said that he intends "to make sure these programs are accountable and working for the people."

Yesterday it was announced that New York's Indian Point nuclear plant will close by 2021. The 42-year-old plant was already scheduled to close but the 2021 date that was announced on Monday is years earlier than originally planned. Entergy, the company who manages the facility, cited economic reasons for closing the plant due in part to expected operating and licensing cost increases.

Eakinomics: Should Have Seen This One Coming

Of course Secretary of Housing and Urban Development Julian Castro announced a 25 basis point reduction in the fees charged by the Federal Housing Administration (FHA) to guarantee mortgages. (Shout out to AAF's Meghan Milloy who [anticipated](#) the development.) And of course the Administration spun this in the [press](#) as a way to save low-income borrowers \$500 and as "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."

And, of course, it is none of those things. Instead, it is a dangerous initiative that will undercut the financing of the FHA Mutual Mortgage Insurance Fund (MMIF) and expose taxpayers to

greater fiscal risk. It will expand the federal government footprint in the mortgage business and make genuine reform harder yet. Indeed, it represents a return to the “put everyone in a home at all costs” mentality that exposed the housing market to a titanic boom and bust just a few years ago.

First, the MMIF. The [FHA MMIF annual report](#) shows the program with \$13.2 billion in incoming cash flow, so the reduction amounts to a loss of \$33 million annually. This makes the “Castro Cut” the 113th most expensive of the [425 so-called midnight regulations totaling \\$21.7 billion](#) since election day.

Second, the structure of the mortgage market. The outsized role the government plays in housing finance continues to be a primary, bipartisan concern. The effort will expand FHA’s market share by making its mortgage insurance cheaper for borrowers than what is offered by private insurers. This attracts exactly the wrong book of business — the low-downpayment mortgages for borrowers with lower credit scores. So, riskiness is up, but financial backing is down.

Finally, the premium cut incentivizes homeowners to refinance, leaving FHA with exactly the same risks backed by fewer dollars.

Of course the Castro Cut is a bad idea. With any luck it will be the last of its kind.