NATIONAL ASSOCIATION of REALTORS®
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March 16, 2011

The Honorable Ben Cardin
United States Senate
502 Hart Senate Office Building
Washington, DC 20515

Dear Senator Cardin:

On behalf of the 1.1 million members of the National Association of REALTORS®, I thank you for introducing S.488, the "Reduce Excessive Interest Payments Act (REIP)". This legislation will protect FHA borrowers from unfair interest charges.

The FHA single-family mortgage program plays an important and vital role in the mortgage marketplace. Under current policy, FHA borrowers who prepay their mortgage, as the result of the sale of a home, a mortgage refinance or some other means, are only able to do so on the last day of the month in which the prepayment is made. Prepayments made at any other time require the borrower to continue to pay interest on the FHA loan for each of the remaining days in the month. The conventional marketplace does not have any such restrictions or penalties.

Given the variety of factors that contribute to the closing date on a loan, with many of these beyond the control of the borrower, such a requirement is an unreasonable and often unexpected burden. In 2003, for example, FHA's data indicates that FHA borrowers paid a total of $587,425,543 in excess interest fees as a result of this onerous requirement in that year alone.

S. 488 would eliminate these pre-payment interest penalties, saving consumers hundreds of dollars when they pay off their FHA loan. The National Association of REALTORS® strongly supports this legislation and we look forward to working with you to secure its passage.

Sincerely,

Ron Phipps, ABR, CRS, GRI, GREEN, e-PRO, SFR
2011 President, National Association of REALTORS®

EQUAL HOUSING OPPORTUNITY

FHA PREPAYMENT PENALTY

The Federal Housing Administration (FHA) single-family mortgage insurance program allows borrowers to prepay their loans, but requires that it be done on the last day of the month. In the event that the mortgage is paid on a day other than the last day of the month, the borrower must pay interest for the complete month in which they prepay their loan. This interest is a requirement of Ginnie Mae (GNMA), the securitizer of FHA, VA and rural housing loans, as payment to investors. Neither VA, RHS, nor conventional loans require a full month's payment of interest when prepaying. For all these loan products interest is prorated to the date of prepayment.

The only way to avoid paying this penalty on FHA loans is to payoff the loan on the last day of the month. Given that home settlements are at record highs, it has become increasingly difficult for homeowners and homebuyers to schedule their closings on a specific I date, if they are even aware of this requirement. Additionally, last-minute problems that are out of the control of the borrower can force a settlement date from the last day of the month to the start of the following month. In such a situation, an FHA borrower will incur substantial additional costs just to pay off the loan. For example:

- In 2003, 55% of FHA borrowers paid an average of $528 in excess interest fees.
- In 2003, over 425,000 FHA borrowers paid an average of $622 in excess interest fees.
- In 2003, only 16% of loans were prepaid on the last 5 days of the month.
- Every year for the last three years, approximately 25% of FHA loans were prepaid on the first 5 days of the month.
- In 2003, FHA borrowers paid a cumulative $587,425,543 in excess interest fees.
- Since January of 2000, FHA borrowers have paid over $1.375 BILLION in excess interest payments.

At a time when homeowners are facing unprecedented housing costs, this penalty places an unreasonable and often unexpected burden on FHA consumers. The goal of the FHA program is to assist low- to moderate-income families. Imposing interest penalties on FHA borrowers contradicts this goal.