NATIONAL ASSOCIATION OF REALTORS®

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August 16, 2010

The Honorable David H. Stevens
Assistant Secretary for Housing - Federal Housing Commissioner
US Department of Housing and Urban Development
Washington, DC 20410

Title: Federal Housing Administration Risk Management Initiatives: Reduction of Seller Concessions and New Loan-to-Value and Credit Score Requirements

Docket No: FR-5404-N-01

Dear Commissioner Stevens:

I am writing on behalf of the 1.1 million members of the National Association of REALTORS® (NAR) to provide comments on Federal Register Notice Docket Number FR-5404-N-01, Federal Housing Administration Risk Management Initiatives: Reduction of Seller Concessions and New Loan-to-Value and Credit Score Requirements. We have three principal comments. First, a reduction in permitted seller concessions to 3 percent will have a detrimental effect on the recovery of the real estate industry and make it more difficult for buyers to purchase a home. Second, the Federal Housing Administration (FHA) should expand the proposed exemption for borrowers seeking to refinance to include borrowers with credit scores below 500. Finally, NAR reminds the FHA to ensure that borrowers with nontraditional credit scores are not unduly burdened by the implementation of a credit floor.

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

Seller Concessions

NAR believes that reducing permitted seller concessions will be detrimental for the recovery of the real estate market. FHA currently permits seller concessions up to 6 percent of the purchase price of the home. In the notice, FHA proposes to reduce the closing costs a seller may pay on behalf of the borrower to 3 percent. There is a distinction between seller concessions for existing homes and seller concessions offered with new construction homes. In existing home transactions the seller is more often offering concessions to ensure the sale occurs. In newly constructed homes, the concessions are often offered to offset higher home prices.

Reducing permitted seller concessions will increase the cost of homeownership for many borrowers. Closing costs differ greatly from state to state, irrespective of housing costs. Texas is the state with the highest closing costs, followed by New York and Florida. In states where closing costs are high our

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members report that seller concessions are often higher than 3 percent and are critical to allowing the borrowers to purchase the home without depleting all of their savings.

Claim rates for FHA have dropped precipitously since 2003 for transaction involving seller concessions. In 2003, 10 percent of transactions involving seller concessions above 3 percent resulted in claims to FHA. However, by 2008 only 1.7 percent of these transactions resulted in claims. While some of this reduction is due to loan seasoning, it is also because of stricter underwriting standards implemented by lenders across the industry.

Minimum Credit Score – Refinance Exemption

FHA's mission is to serve those underserved by the private market. NAR does not condone making loans to borrowers who are unable to repay the loan, or are at significant risk to not repay the loan. However, we do not believe that credit scores are a perfect indicator of risk and may have unintended, detrimental effect. For example, credit scores have a disparate impact on minorities compared to other borrowers.

A Federal Reserve study completed in 2007 found that different demographic groups have substantially different credit scores. For example, on average, blacks and Hispanics have lower credit scores than non-Hispanic whites and Asians, and individuals younger than age 30 have lower credit scores than individuals 30 or older. Also, for given credit scores, credit outcomes (including measures of loan performance, availability, and affordability) differ for different demographic groups.[1] A Federal Trade Commission report in the same year found that non-Hispanic whites and Asians are distributed relatively evenly over the range of scores, while African Americans and Hispanics are substantially overrepresented among consumers with the lowest scores (the scores associated with the highest predicted risk) and substantially under-represented among those with the highest scores.[2]

NAR recommends that FHA consider borrowers with credit scores below 500 for the refinance exemption. In the Federal Register Notice, FHA proposes to implement a minimum credit score for eligibility. FHA is also proposing a temporary exemption for refinances that involve a reduction of existing mortgage indebtedness but this excludes borrowers with a credit score below 500. FHA recognizes that homeowners who have been able to make their monthly payments may have had their credit scores hurt by the downturn in the economy. Many borrowers have had credit scores above 500 when they purchased their homes but, because of the economy, now have lower credit scores. These borrowers may still be good candidates for a refinance under this program.

Manual Underwriting - Nontraditional Credit

FHA qualifies borrowers on a number of factors; not just credit score. The proposed rule would require that borrowers with nontraditional credit histories be underwritten manually. The Technology Open to Approved Lenders (TOTAL) scorecard was created by FHA to consider unique factors and should be sufficient even for nontraditional credit histories. Borrowers with insufficient trade lines to generate credit bureau scores do not necessarily present a higher level of risk and will be unfairly burdened if the rule is implemented as written. For these reasons, we strongly urge FHA to reconsider this proposed regulation and better tailor it to address the unique needs and credit scenarios of first time and low to moderate income homebuyers in America's diverse communities.

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[1] *Report to the Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit,* Board of Governors of the Federal Reserve System, August 2007.

[2] *Credit-Based Insurance Scores: Impacts On Consumers Of Automobile Insurance,* A Report to Congress by the Federal Trade Commission, July 2007.

Thank you for your time and consideration of this matter. If you have any questions or concerns, or if I may be of service to you, please do not hesitate to contact me or our Senior Regulatory Policy Representative, Jerry Nagy, at 202.383.1233 or jnagy@realtors.org.

Sincerely,

Vicki Cox Golder

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