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April 7, 2014

The Honorable Carol Galante
Assistant Secretary for Housing – Federal Housing Commissioner
US Department of Housing and Urban Development
Washington, DC 20410

Dear Commissioner Galante:

I am writing on behalf of the one million members of the National Association of REALTORS® (NAR) with concerns about the Federal Housing Administration's (FHA) high annual mortgage insurance premiums and mortgage insurance that is required for the life of the loan. Home purchases are becoming increasingly out of reach for many qualified borrowers who rely on FHA financing.

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®.

As you know, NAR supports the critical role that the FHA plays in the nation's housing finance system. During times of economic stress, FHA has helped to provide access to safe, affordable mortgage financing for millions of American families. Unfortunately, during the most recent economic crisis, FHA's Mutual Mortgage Insurance Fund suffered significant losses. FHA has been under pressure to improve the health of the fund and reach a 2 percent capital reserve ratio. Increasing the FHA premium structure was one way the FHA sought to achieve this goal.

Now that the MMI Fund is on a path to recovery, NAR urges FHA to lower the annual mortgage insurance premiums and eliminate the requirement that mortgage insurance is held for the life of the loan. This will slow the rate of prepayments that are having a negative effect on the fund. According to HUD's data, full payoffs, with no subsequent refinance with FHA, were 81 percent of FHA's prepayments.[1] In 2012, only 50 percent of FHA prepayments were full payoffs. Prepayments in FY 2013 were at their highest level since the end of FY 2004. It is possible to increase the upfront premiums and lower the annual MIP and continue to replenish the MMI Fund.

Achieving homeownership has become more difficult with current FHA mortgage insurance premiums. In 2014, FHA fees make up nearly 20 percent of a monthly mortgage payment. On a $150,000 loan, at 4.5 percent interest, the mortgage payment is 13 percent higher today than it was in 2008 (See Table 1).

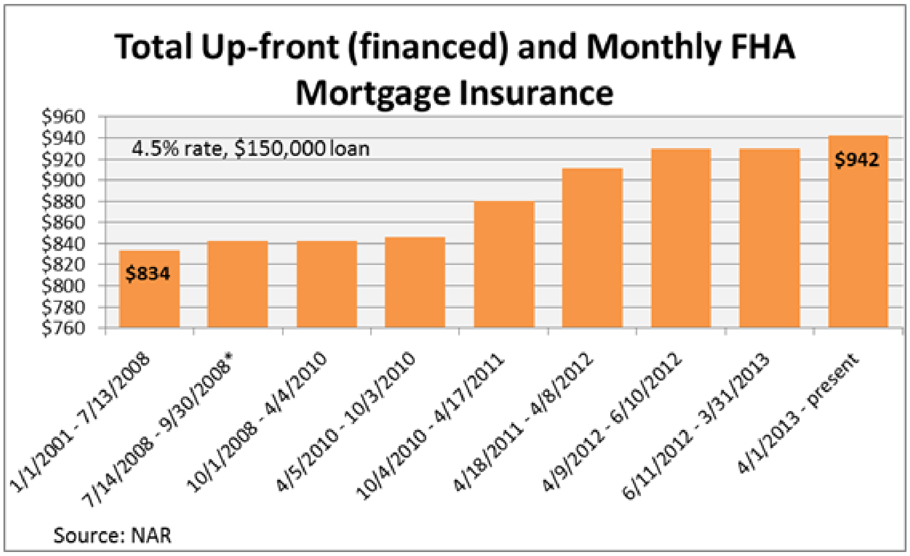

Table 1

In 2014, the mortgage insurance premium of 1.35 percent is 80 basis points higher than the rate of 0.55 percent in 2010. The 80 additional basis points pushed an estimated 1.45 million to 1.65 million renters over a sustainable debt-to-income level for purchase of a home in 2013 (see Table 2). Adjusting for FHA market share and taking repeat buyers into account, these changes may have priced out as many as 125,000 to 375,000 home buyers.

Year	MIP	Change in MIP from 2010	Renters Impacted
10/4/2010 - 4/17/2011	90	35	550,000 to 750,000
4/18/2011 - 4/8/2012	115	60	1,000,000 to 1,250,000
4/9/2012 - 6/10/2012	125	70	1,200,000 to 1,400,000
6/11/2012 - 3/31/2013	125	70	1,250,000 to 1,450,000
4/1/2013 - present	135	80	1,450,000 to 1,650,000

Source: NAR, Census and Genworth Data

Table 2

Many of the potential home buyers who are priced out of FHA cannot migrate to private mortgage insurance (PMI) either due to higher cost or lack of availability. PMI[2] currently charges 1.1 percent annually for a borrower with a down payment less than 5 percent and a FICO score of 720 or higher. The rate rises to 1.31 percent if the FICO is between 680 and 720 and 1.48 percent if the FICO is below 680. Combined with the higher funding cost of roughly 37.5 basis points for a conventional execution (e.g. the difference in base 30-year fixed rates, estimated at roughly 4.5 percent vs 4.125 percent for a prime borrower with no fees) as well as loan level pricing adjustments (LLPA) and the adverse market delivery fee (AMDC), only borrowers with the highest credit could afford to migrate to GSE financing. For example, the monthly payment for the 2013 median priced home financed through a conventional loan with a down payment less than 5 percent and a FICO score of 670 is $92 higher than if it were financed through the FHA. Likewise, for a larger down payment of 5 to 10 percent with a FICO of 670, the cost of PMI falls to 1.15 percent, but the payment is still $58 per month more expensive than FHA when all costs are included.

Many first-time home buyers, who are priced out of FHA and unable to migrate to private mortgage insurance, are likely under the age of 44. Since 2008, income growth has been slowest among Millennials, ages 33 and younger, and Generation Xers, ages 34-44 (see Table 3). Of these young buyers, over 40 percent are minorities. If most of the people buying homes in the next two decades are now under the age of 44, then more than one in four homebuyers will be Hispanic or Asian.[3]

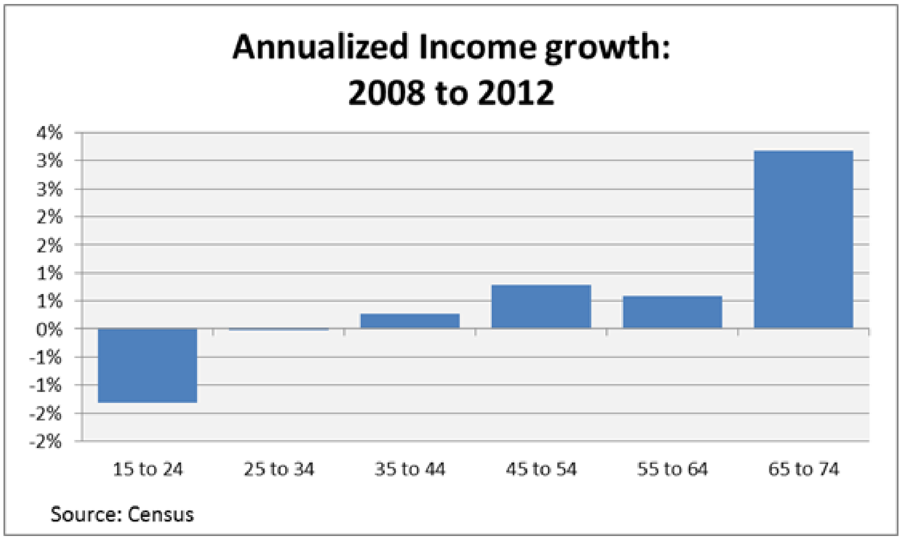

Table 3

FHA has played an important role in helping young and minority borrowers become homeowners. In 2012, FHA insured more than half of the purchase money loans made to African Americans and Hispanics.[4] Providing access to credit for these homebuyers is a critical means of building wealth. A recent research paper by the Joint Center for Housing Studies at Harvard concludes that even after the decline in housing prices and the increase of foreclosures beginning in 2007, homeownership continues to be a significant source of household wealth, particularly for lower-income and minority households.[5] The study notes that, "efforts to save for a down payment lead to a large jump in wealth that is then further supported by at least modest appreciation and some pay down of principal over time. Renters may have the opportunity to accrue savings and invest them in higher yielding opportunities but lack strong incentives and effective mechanisms for carrying through on this opportunity…and those who made a failed transition from owning to renting are no worse off financially than those who remained renters over the whole period."[6]

NAR is aware that HUD has proposed a new program called Homeowners Armed With Knowledge (HAWK). The pilot program will offer reductions in FHA mortgage insurance premiums if a homebuyer completes housing counseling. We look forward to learning more about who might be eligible for the program and how and when HAWK will be implemented. While HAWK is a step in the right direction, NAR is concerned about the amount of time it will take to develop the program and make it available to home buyers. We have many qualified homebuyers who need help now, but are being shut out of the market due to record high annual premiums and mortgage insurance for the life of the loan.

Thank you for your time and consideration of this timely issue. If I may be of any assistance to you, please do not hesitate to contact me or our Regulatory Policy Representative, Sarah Young, at (202) 383-1233 or scyoung@realtors.org.

Sincerely,

Steve Brown
2014 President, National Association of REALTORS®

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[1] U. S. Department of Housing and Urban Development (HUD) Office of Risk Management and Regulatory Affairs, Office of Evaluation, Reporting and Analysis Division, *FHA Production Report*, December 2013.
[2] Genworth Financial data on PMI.
[3] The Changing Face of America (2011, August) *National Association of REALTORS Global Perspectives Newsletter*. Retrieved from http://www.realtor.org/sites/default/files/global-perspectives-2011-08-US-demographic-shift-full-issue.pdf

[4] U. S. Department of Housing and Urban Development (HUD), *Annual Report to Congress FY 2013 Financial Status FHA Mutual Mortgage Insurance Fund*, December 2013.

[5] Christopher Herbert, Daniel McCue, and Rocio Sanchez-Moyano. "Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was it Ever?),"49, Joint Center for Housing Studies, Harvard University, September 2013.

[6] Ibid, 26-27.