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April 7, 2016

Mr. Edward Golding
Principal Deputy Assistant Secretary for Housing
US Department of Housing and Urban Development
Washington, DC 20410

Dear Mr. Golding:

I am writing on behalf of more than 1.1 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.

The National Association of REALTORS® (NAR) is America's largest trade association, including our eight affiliated Institutes, 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 1,300 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 30,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers.

Throughout its history, FHA has played a critical role in the nation's housing finance system. NAR applauds FHA's long standing role of ensuring access to homeownership for groups traditionally underserved by the private market, in particular low- to moderate-income households and first-time homebuyers. These groups tend to have less cash on hand and greatly benefit from being able to obtain mortgage financing with a higher loan to value ratio (LTV). According to NAR research, 43 percent of all homebuyers put down 10 percent or less for their down-payment. When looking at African-American and Hispanic households, 63 percent of African-American homebuyers and 56 percent of Hispanic homebuyers made down payments of 10 percent or less. Yet, FHA's current policy to maintain lifetime annual mortgage insurance premiums for loans with over 90 percent LTV at origination penalizes any homebuyer without the means to put down a larger down payment. This goes against the core of FHA's mission, to provide fair homeownership opportunities to worthy borrowers who are overlooked by conventional lenders.

Requiring the annual mortgage insurance premium for the life of the loan will encourage strong borrowers to refinance out of the FHA portfolio, weakening the quality of FHA's books of business in the future. On the contrary, eliminating the life of loan requirement will reduce the borrower's monthly payments, providing with them more cash on hand so they may better withstand economic shocks and thereby reduce defaults.[1] Although FHA carries the insurance for the life of the loan, once a borrower reaches 78 percent LTV, there is sufficient equity in that home that even if the homeowner eventually defaults, the value of the home in combination with the

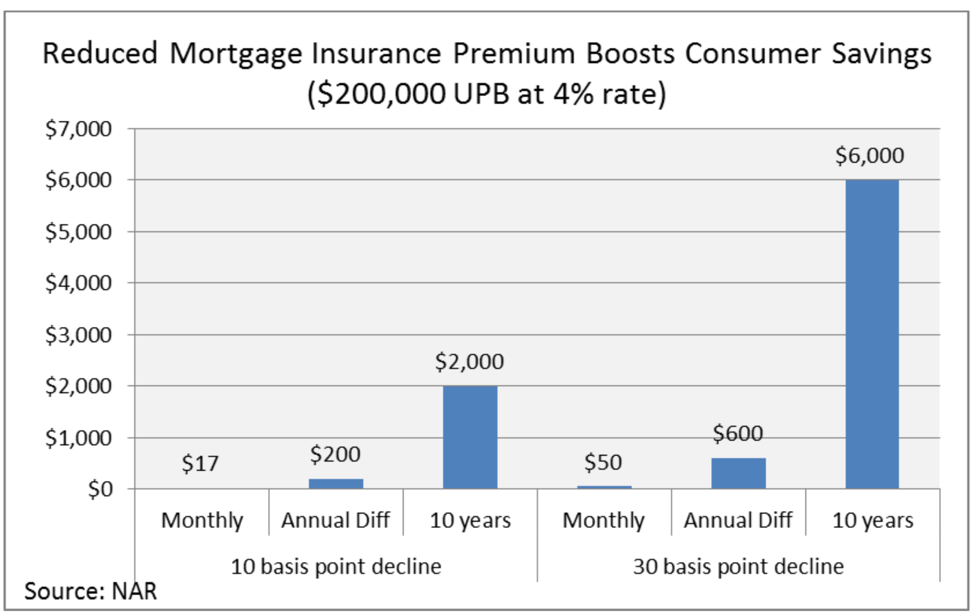
[1] For a person borrowing $200,000 at 4 percent, the monthly payment would be reduced by roughly $112 when the mortgage reaches the78 percent LTV.

premiums paid in advance will cover any losses to the Mutual Mortgage Insurance Fund (MMIF). Congress understood this principle and enacted the Homeowners' Protection Act in 1999, which requires lenders to automatically cancel private mortgage insurance for borrowers who achieve sufficient equity. Why should FHA borrowers be denied the same relief from excess insurance? Now that the housing market has recovered, NAR urges FHA to reinstate cancelation of annual mortgage insurance premiums for all borrowers that reach 78 percent LTV, assuming the borrower has paid the annual mortgage insurance premiums for at least five years. This should be made retroactive to current borrowers with this burden, saving homeowners thousands of dollars in unnecessary payments.

As the country continues to emerge from the Great Recession and recent economic crisis, NAR supports the steps FHA has taken to ease the premium increase that was enacted to mitigate credit risk and help strengthen the MMIF. While lowering the annual mortgage insurance premium from 1.35 percent to 0.85 percent to improve the MMIF appeared counter intuitive, the excessive mortgage insurance premiums were driving borrowers away from using FHA-insured loans. By reducing its fee, but still retaining a healthy revenue margin, FHA added 75,000 borrowers with credit scores below 680 and the MMIF reached beyond the required 2.0 percent capital reserve ratio, with improvement by more than $40 billion since FY 2012.

With continued profitability, the forward book of business should surpass the 2.0 percent mark and continue to grow. FHA's 2015 book[2] of business retains its strong credit profile, but FHA projects an even stronger profile for 2015 through 2022.[3] As a result, FHA's revenue growth is expected to increase, bringing in annual revenues of $3.55 billion[4]. NAR contends that the sustained profitability should be scaled back to avoid overshooting the intended goal. Reducing profitability to 1.87 percent per FHA's target, as implied in its proposed supplement performance metric,[5] could allow for a reduction of its annual fee of roughly 10 basis points, while still generating annual revenues of roughly $2.6 billion. While reducing FHA's premium would reduce the economic value or the current value of its total future earning adjusted for inflation on each year's book, under either scenario FHA's resources would continue to grow. Furthermore, developing a steady rate of growth to reach optimal fund size would be in line with other government insurance programs like the FDIC.[6]

Lowering the annual mortgage insurance premium would have real impacts for a borrower. A reduction of the annual mortgage insurance premium from 0.85 percent to 0.55 percent would save a borrower with a $200,000 mortgage roughly $50 per month or $600 annually.



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[2] http://portal.hud.gov/hudportal/documents/huddoc?id=MMIQtrlyQ12016.pdf
[3] FHA projects the 620-679 credit cohort. For this analysis this projection was split between the 620-639 and 640-679 credit cohorts using the 2015 distribution.
[4] For detailed analysis see http://economistsoutlook.blogs.realtor.org/2016/04/01/time-to-normalize-fees/#sf23532125
[5] http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_POLI_QA_SUP_Metric.pdf
[6] https://www.fdic.gov/deposit/insurance/assuringconfidence.pdf pp. 6

Recognizing the growing strength of the MMIF and the potential savings for homebuyers, NAR *urges* FHA to eliminate the life of loan mortgage insurance premium requirement and reduce the annual mortgage insurance premium level.

Thank you again 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, Sehar Siddiqi, at (202) 383-1176 or SSiddiqi@REALTORS.org.

Sincerely,

Tom Salomone
2016 President, National Association of REALTORS®