

September 8, 2020

Vince Malta
2020 President

Bob Goldberg
Chief Executive Officer

ADVOCACY GROUP

William E. Malkasian
Chief Advocacy Officer / SVP

Shannon McGahn
SVP Government Affairs

The Honorable Dana Wade
Assistant Secretary for Housing
Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

Dear Commissioner Wade:

On behalf of the 1.4 million members of the National Association of REALTORS® (NAR), I write to express concern about the growing homeownership disparity in this country between white homeowners and homeowners of color, particularly black households. NAR recognizes that the Federal Housing Administration (FHA) has tried to remedy many of the discriminatory actions taken in the past that have led directly to the current homeownership gap. REALTORS® have been working together with FHA on these issues in an attempt to increase the homeownership rate among African Americans and we look forward to our continued engagement under your leadership at FHA.

Recent tragic events have highlighted the large disparities between white and non-white households in this country, and REALTORS®, like so many other Americans, are working in their communities to correct the harmful actions of the past and create a fairer society for all. According to the US Census Bureau, in 2020, white households have a 73.7 percent homeownership rate compared to 44 percent for black households. Much of this disparity stems from the unjust redlining practices of the 20th century, of which FHA and REALTORS® were both a party.

Unfortunately, the current life of loan premium requirement for low down-payment borrowers and higher premium levels continues to add to the disparity between white and minority households, as the impact of this policy disproportionately affects minority borrowers. Requiring borrowers with loans of over 90 percent loan to value ratio (LTV) at origination to pay annual insurance premiums for the life of the loan disproportionately affects minority borrowers, who are more likely to make a lower down-payment. This requirement is unnecessary, since 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 premiums paid in advance will cover any losses to the Mutual Mortgage Insurance Fund's (MMIF). Congress recognized the sufficiency of 78 percent LTV and enacted the Homeowners' Protection Act in 1999, which requires lenders to



automatically cancel private mortgage insurance for borrowers who achieve sufficient equity. In addition, the percentage of prepayments returning as new FHA refinances has plummeted, costing the MMIF billions of dollars of revenue. Prior to the life of loan requirement, FHA's recapture rate exceeded 50 percent for each year from FY 2009 to FY 2012. In July 2020, the recapture rate was 25 percent and over 110,000 loans left the MMIF permanently. By keeping the life of loan requirement, FHA is penalizing lower down payment borrowers and disproportionately minority borrowers. NAR urges FHA to cancel 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.

Moreover, the current rate for FHA premiums is unnecessarily high, creating another financial roadblock for minority borrowers. A reduction in the premium would allow more financially-eligible minority borrowers to use the FHA loan program, and would also have a financial benefit for FHA. The last FHA premium cut helped to shore up the FHA's books and restore the MMIF capital ratio above the statutory 2.0 percent level. Lower fees helped FHA to retain better borrowers from refinancing to private mortgage insurers who had re-entered the market, but more importantly, it helped to improve affordability allowing many previously sidelined borrowers to qualify for a home purchase. Per the most recent FHA Annual Report, the MMIF ratio was 4.84 percent at the end of 2019, 2.08 percentage points increase from 2018 and the highest ration since 2007. FHA's capital reserves have increased to \$72 billion in March 2020 from \$55 billion in September 2019. As of August 16, 2020, FHA/VA loans in forbearance have declined to 9.54 percent from 12.6 percent in May 2020. The strong financial health of FHA despite the ongoing pandemic demonstrates that FHA would be able to comfortably reduce the premiums while bringing in new borrowers that support the stability of the MMIF.

NAR urges FHA to reduce these premiums and eliminate the life of loan requirement in order to allow minority families to achieve the American dream of homeownership. Thank you for consideration of these comments. If I may be of any assistance to you, please do not hesitate to contact me or our Senior Policy Representative, Sehar Siddiqi, at (202) 383-1176 or SSiddiqi@NAR.REALTOR.

Sincerely,



Vince Malta
2020 President, National Association of REALTORS®