NATIONAL ASSOCIATION OF REALTORS®

December 15, 2021

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Lopa P. Kolluri
Principal Deputy Assistant Secretary
Federal Housing Administration
451 7th Street, S.W., Washington, DC 20410

Dear Principle Deputy Assistant Secretary Kolluri:

On behalf of the 1.5 million members of the National Association of REALTORS® (NAR), I thank you for your efforts to support the nation's housing market through the COVID-19 health pandemic. The Federal Housing Administration (FHA) continues to play a critical role in the nation's housing finance system to ensure access to homeownership for groups traditionally underserved by the private market, in particular low- to moderate-income households, minority and first-time homebuyers. NAR urges FHA to review its anti-flipping rule as well as its mortgage insurance premium requirements to ensure it is fulfilling its critical mission.

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 1,200 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 25,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock, along with its availability to the widest range of potential homebuyers.

Anti-Flipping Rule

REALTORS® are concerned that FHA's anti-flipping rule (Mortgagee Letter 2003-07) has not been updated for recent market dynamics and is hurting first-time buyers. While intended to protect home buyers from spurious price growth and hidden costs, the anti-flipping rule does not reflect the supply shortage that is driving price growth. This trend is expected to persist for several years. The prohibition on financing flipped properties narrows the already limited supply for first-time homebuyers who wish to use FHA financing. Furthermore, ibuyers and other short-term investors have grown in importance in the market. These entities use their economies of scale and access to capital markets to buy, remodel, and sell homes in a short time frame. As the market share of ibuyers and other short-term investors grow, the FHA's anti-flipping rule will further limit supply for first-time and underserved buyers as it prevents ibuyers in distress from selling off their inventory to FHA borrowers. Consequently, REALTORS® believe the FHA should suspend the anti-flip rule until Dec 31, 2025.

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FHA Mortgage Insurance Premiums

REALTORS® congratulate the FHA on the strength of its Mutual Mortgage Insurance Fund (MMIF). The capital reserve ratio now sits over 8.0%, four times its statutory level of 2.0%.

However, a strong capital reserve ratio is not a success if the FHA's ability to serve first-time buyers and underserved communities withers because of its excessive financial prowess. While we recognize concern for an imminent increase in distressed sales due to the end of pandemic-related forbearances, market conditions are likely to mute the impact and the MMIF is strong enough for the FHA to responsibly lower the mortgage insurance premium and eliminate the life of loan mortgage insurance premium requirement, while maintaining stability in the market. The Urban Institute recently published, *The FHA's Annual Report, Its Financial Health, and How It Should Cut Pricing*, in which Laurie Goodman and Jim Parrott provide an analysis of both the impact of distressed owners on the MMIF and illustrated how fees could be lowered by as much as 119 to 219 basis points.

FHA borrowers tend to have less cash on hand and lower incomes from which to build a down payment. Consequently, they greatly benefit from being able to obtain mortgage financing with a higher loan to value ratio (LTV). According to NAR research, 42 percent of all homebuyers put down 10 percent or less for their down-payments. When looking at African-American and Hispanic households, 59 percent of African-American homebuyers and 61 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. NAR urges FHA to reinstate cancellation 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 and acting as an automatic refinance in a rising mortgage rate environment. FHA could also consider implementing the Homeowners Armed with Knowledge (HAWK) program, which allows a borrower's premium to decline after several months of successful ownership and the completion of borrower education course work. Finally, NAR recommends that any premium reductions be done in conjunction with the Federal Housing Finance Agency to coordinate pricing with the Enterprises.

Further Collaboration

Once again, thank you again for your efforts to support the nation's housing market through this pandemic and future buyers. We would greatly appreciate the opportunity to discuss the issues shared in this letter in more detail with you and your staff. If you have any questions or comments, please feel free to reach out to Ken Fears, NAR's Senior Policy Representative at (202) 383-1066 or KFears@Nar.Realtor.

Sincerely,

Leslie Rouda Smith

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2022 President, National Association of REALTORS®