

June 7, 2022

Julia Gordon
Assistant Secretary for Housing and the
Federal Housing Commissioner
Federal Housing Administration
451 7th Street, S.W., Washington, DC 20410

Dear Commissioner Gordon:

On behalf of the 1.5 million members of the National Association of REALTORS® (NAR), congratulations on your confirmation by the Senate to Commissioner of the Federal Housing Administration (FHA). The FHA plays a vital role in our nation's housing finance system to ensure access to homeownership for groups traditionally underserved by the private market: low- to moderate-income households, minority, and first-time homebuyers.

NAR is America's largest trade association, including its 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

NAR was encouraged to see the FHA's recent action to address the housing supply shortage in HUD's [2022-08 mortgagee letter](#). Should delinquency rates on FHA loans continue to rise, we encourage the FHA to continue its efforts to ensure foreclosed properties are available to owner-occupants. Offering owner-occupants, government entities, and HUD-sponsored non-profit organizations the first opportunity to purchase FHA-foreclosed homes is a positive step towards providing affordable and sustainable homeownership opportunities.

As we enter the spring and summer homebuying seasons, there are additional steps NAR believes the FHA can take to expand on these efforts to address the low housing supply and help low and moderate-income homebuyers achieve homeownership.

Mortgage Insurance Premium (MIP) Reduction

The FHA facilitates access to mortgage credit during a financial crisis and for those who would otherwise not qualify for conventional financing. As rising mortgage rates combine with record home prices to weigh on affordability, the FHA program will only grow in importance. In the FHA's 2021 Annual Report to Congress, the capital ratio was 8.03 percent – a 1.93 percent increase from 2020 and 6.03 percent above the statutory requirement. With the expanded financial health of the Mutual Mortgage Insurance (MMI) Fund, REALTORS® believe it is prudent for the FHA to reduce the mortgage insurance premium (MIP) to support access for first-time buyers as well as low- and moderate-income borrowers.

NAR also urges the FHA to reinstate cancellation of annual MIPs for all borrowers that reach 78 percent loan to value (LTV) ratio, assuming the borrower has paid the annual MIPs for at least five years. The FHA's current policy to maintain the MIP for the complete lifetime for loans over 90 percent of the LTV is counterintuitive to the FHA's mission of providing housing options to those who cannot qualify for conventional lending. This approach would save borrowers thousands of dollars over the span of a loan, and NAR believes the FHA is in a financially sound position to take this necessary action.

Limited housing supply for entry-level homebuyers may frustrate the FHA's efforts to improve affordability for home buyers if fee reductions are capitalized into stronger home price growth. One alternative is for the FHA to implement the Homeowners Armed with Knowledge (HAWK) program, which allows a borrower's premium to be reduced 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.

120 Day Appraisal Requirements

Current FHA policy requires appraisals to be tied to the property for 120 days after the appraisal takes place, and no loan will be insured if it is not closed within 150 days from the effective date of the appraisal report. Between March and April of this year, NAR research¹ indicates the median single-family house price increased by \$16,400. In today's rapidly fluctuating market, homeowners may avoid selling to FHA borrowers if a dated FHA appraisal limits the profit a seller can gain from the sale of their home.

What's more, lenders cannot safely rely on a collateral valuation several months old and relying on aged appraisals injects undue risk into the housing market. NAR believes the FHA should void the requirement for an appraisal to maintain with a property.

Flexibility in FHA Financed Condominiums

In 2019, HUD issued final rules on project approval for single-family condominiums insured by the FHA. As part of the updated rules, HUD increased the commercial space allowed in an FHA approved property from 25 to 35 percent, with the option to change the allowable space to be within 25 and 55 percent. As the Biden Administration urges state and local governments to make enhancements to their local zoning ordinances, we believe HUD should increase the amount of allowable commercial space in a given property. As homebuyers seek housing in denser areas with mixed-use properties, retail, and city centers, increasing the allowed commercial space would enable more properties to become FHA-approved and expand opportunities in otherwise untouchable spaces for those with FHA financed loans.

NAR also urges the FHA to reduce restrictions on "spot loan" approval. Under the FHA's updated rules, borrowers can obtain Single Unit Approval (SUA) on non-approved FHA properties that meet the requirements of containing at least five units, a limited concentration of FHA-insured units, at least 50 percent owner-occupancy, and a maximum of 35 percent commercial space. Spot loans should create the opportunity for FHA borrowers to purchase homes in condo projects that are financially stable even if they

¹ <https://cdn.nar.realtor/sites/default/files/documents/ehs-04-2022-overview-2022-05-19.pdf>

do not meet the restrictive FHA requirements of owner-occupancy and commercial space. NAR asks the FHA to ease the restrictions on condominiums to increase access to the existing supply and offer many more affordable home ownership opportunities for FHA borrowers.

Further Collaboration

Once again, NAR thanks you for your efforts to support the nation's housing market and future buyers. We would greatly appreciate the opportunity to meet with you and your staff to discuss the issues shared in this letter in more detail. In the meantime, if you have any questions or comments, please feel free to reach out to Jeremy Green, NAR's Federal Housing Policy Representative at (312) 329-8404 or JGreen@NAR.REALTOR.

Sincerely,

A handwritten signature in cursive script that reads "Leslie Rouda Smith". The ink is a dark brown or black color.

Leslie Rouda Smith
2022 President, National Association of REALTORS®