

NAR Committee:

Federal Financing and Housing Policy Committee

What is the fundamental issue?

Under the Federal Housing Administration (FHA) mortgage program, borrowers must pay an annual mortgage insurance premium to help protect lenders against losses in the event of a homeowner's default. For FHA loans with a loan to value ratio (LTV) over 90 % at origination, borrowers must pay an annual mortgage insurance premium for the life of the loan, up to 30 years. FHA loans with a lower LTV at origination shall pay an annual mortgage insurance premium for 11 years or until the end of the mortgage term, whichever comes first. Prior to 2013, FHA cancelled annual mortgage insurance premiums for loans when the remaining balance reached an LTV of 78% regardless of the original down payment size. However, in June of 2013, FHA removed the ability to cancel the annual mortgage insurance premium for loans with over 90% LTV at origination. While FHA implemented the change in policy in order to mitigate credit risk and help strengthen the Mutual Mortgage Insurance Fund (MMIF), the greater overall health of the MMIF today shows it is time to reconsider the lifetime annual mortgage insurance premium.

I am a real estate professional. What does this mean for my business?

A lifetime annual mortgage insurance premium makes an FHA loan too costly for many potential homebuyers.

NAR Policy:

NAR supports the elimination of the lifetime annual mortgage insurance premium requirement for loans with an LTV greater than 80%.

Opposition Arguments:

Opponents of NAR policy believe a lifetime annual mortgage insurance premium protects the strength of the Mutual Mortgage Insurance Fund and encourages the return of private capital to the housing market. The lifetime annual mortgage insurance premium works to ensure that FHA covers losses for the life of the loan, while private market participants do not.

Legislative/Regulatory Status/Outlook

As of September 30, 2024, the MMIF capital ratio stood at 11.47%, a 0.96 percentage point increase from the FY 2023 MMIF capital ratio of 10.51%, which is more than five times the Congressionally mandated level of two percent.

Current Legislation/Regulation (bill number or regulation)

NAR is not tracking any specific legislation or regulation at this time.

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