NAR Issue Summaries

Housing / FHA Lifetime Mortgage Insurance Premiums

NAR Committee:

Federal Financing and Housing Policy Committee

What is the fundamental issue?

Under the Federal Housing Administration (FHA) single-family forward mortgage program, borrowers are required to pay an annual mortgage insurance premium (MIP) to help protect lenders in case of default. For FHA loans with a loan-to-value ratio (LTV) greater than 90% at origination, borrowers must pay the annual MIP for the entire loan term, up to 30 years. Loans with a lower LTV at origination (i.e., a down payment of at least 10%) require MIP payments for 11 years or until the end of the loan term, whichever comes first.

Prior to 2013, FHA automatically canceled MIP once the loan balance reached an LTV of 78%, regardless of the amount of the initial down payment. That policy changed in June 2013 when FHA began requiring borrowers with less than 10% down to pay MIP for the life of the loan, a shift intended to mitigate credit risk and rebuild the Mutual Mortgage Insurance Fund (MMIF) following the housing crisis.

Today, however, the MMIF is well-capitalized, has undergone rigorous stress testing, and is positioned to withstand significant future market fluctuations. Given this strengthened financial position, it is appropriate to revisit the life-of-loan MIP policy and consider a return to a more equitable structure that rewards long-term, creditworthy FHA borrowers.

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

A lifetime annual mortgage insurance premium can make 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

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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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