

NAR Issue Summary

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) 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 90%.

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

In January 2015, FHA reduced annual lifetime mortgage insurance premium from 1.35% to 0.85%, estimating an additional 250,000 potential homebuyers would purchase their first home within three years due to the reduction in overall cost. In November 2015, FHA released its Annual Report to Congress and the FY 2015 Independent Actuarial Assessment of the FHA Mutual Mortgage Insurance Fund (MMIF). The review showed that the MMIF capital reserve ratio has reached beyond the required two percent capital reserve ratio and has improved by more than \$40 billion since FY 2012. The 0.5% mortgage insurance premium reduction in January 2015 increased the solvency of the fund and added 75,000

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borrowers with credit scores below 680. NAR believes this trend will continue and will push FHA to make policy changes that promote homeownership, including advocating for the elimination of the annual lifetime mortgage insurance premium.

Current Legislation/Regulation (bill number or regulation)

None at this time.

Legislative Contact(s):

Megan Booth, mbooth@realtors.org, 202-383-1222

Joe Harris, jharris@realtors.org, 202-383-1226

Regulatory Contact(s):

Sehar Siddiqi, ssiddiqi@realtors.org, 202-383-1176