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) 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

On March 30, 2021, Department of Housing and Urban Development (HUD) Secretary Marcia Fudge announced that Federal Housing Administration (FHA) Mutual Mortgage Insurance Fund remained strong given the financial challenges faced by homeowners with FHA-insured mortgages in 2020. The Fund has more than $80 billion in reserves and remains well above the 2 percent minimum capital reserve required by Congress. Unfortunately, due to the COVID 19 pandemic, the number of seriously delinquent FHA loans and FHA loans in

forbearance has grown considerably. Given ongoing concerns for those borrowers adversely affected by the pandemic, FHA has decided to maintain the current pricing of the FHA loan premiums in order to protect against potential future losses to the Fund.

Current Legislation/Regulation (bill number or regulation)

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

Legislative Contact(s):

Sydney Barron, sbarron@nar.realtor, 202-383-1089
Jeremy Green, jgreen@nar.realtor, 312-329-8404

Regulatory Contact(s):

Ken Fears, kfears@nar.realtor, 202-383-1066