

# Changes to FHA's Single-Family Guarantee Program



National Association of REALTORS® Government Affairs Division  
500 New Jersey Avenue, NW, Washington DC, 20001

The National Association of REALTORS® (NAR) has a long tradition of support for innovative and effective federal housing programs and has worked diligently with Congress to fashion housing policies that ensure federal housing programs meet their mission responsibly and efficiently. In testimony before the House Financial Services Housing Subcommittee on the recent (and upcoming) changes to the Federal Housing Administration's (FHA) single-family program, NAR's 2009 President Charles McMillan stressed the importance of FHA and the critical role it is playing in our nation's economic recovery.

In 2009, FHA insured nearly 30 percent of the single family mortgage market, compared to a low of nearly 3 percent just three years ago. In the same year more than 50 percent of all first-time buyers used FHA; and nearly 80 percent of FHA's purchase loans were to first-time homebuyers. In addition, FHA is serving a need for those who need to refinance out of risky nontraditional ARMs or subprime and predatory loans with high interest rates.

In its 2009 Audit, FHA showed its reserves had fallen below the 2% capitalization ratio. In an effort to replenish its capital reserves, FHA has implemented (or proposed) a number of changes to the program. Below is a snapshot of these changes and NAR's position on each.

## **Mortgage Insurance Premium (MIP)**

FHA has increased the upfront MIP from 1.75 percent to 2.25 percent for borrowers while it awaits legislative authority to increase the annual premium. FHA stated they will decrease the upfront premium when they can increase the annual premium. NAR supports legislation to reasonably increase the annual MIP to replace FHA capital reserves, but in turn, FHA should reduce the up-front premium due at the closing table because it adds to the buyer's closing costs.

## **Credit Score Changes**

FHA has proposed that borrowers with a credit score below 580 be required to make at least a 10 percent down payment. The minimum down payment will remain at 3.5 percent for all other borrowers. NAR does not condone making loans to borrowers who are unable to repay the loan, or are at significant risk to not repay the loan. However, NAR does not believe that credit scores are a perfect indicator of risk and FHA should not use them as the sole indicator of credit worthiness. Furthermore use of credit scores alone has a disparate impact on minorities over other borrowers.

## **Seller Concessions**

FHA intends to propose a rule to decrease allowable seller concessions from 6%-3%. FHA will publish this proposal in the federal register with a 30-day period for public comment. NAR plans to argue against this decrease particularly with regard to existing homes. Closing costs differ greatly among states, and with fees on services (such as appraisals) increasing, seller concessions can be a vital part of closing the transaction.

(over)

# Changes to FHA's Single-Family Guarantee Program



National Association of REALTORS® Government Affairs Division  
500 New Jersey Avenue, NW, Washington DC, 20001

## **FHA Loan Limits**

NAR strongly supports H.R. 2483, the "Increasing Homeownership Opportunities Act." Current FHA loan limits are as high as \$729,750 in high-cost areas, and are set to expire at the end of the year and revert to lower amounts, greatly hindering the housing recovery process. A decrease of current limits would adversely affect 612 counties in 40 states and the District of Columbia.

NAR is urging passage of legislation to make the loan limits permanent, and urges changes to FHA's condo policy.

## **Condominium Rules**

NAR applauds FHA for delaying implementation of Mortgagee Letter 2009-19 and making temporary enhancements (ML 2009-46A) to the policy as outlined below:

- Eliminated the owner-occupancy requirement for FHA condo mortgages and not counting bank-owned REOs for the purposes of calculating the occupancy ratio.
- Increased the FHA concentration requirement limit from 30 percent to 50 percent.
- Reduced the number of units sold prior to FHA's endorsement of a unit from 50 percent to 30 percent.

NAR believes that the above temporary changes should be made permanent or the limitations eliminated. By doing so, this will enable buyers to purchase condominiums (which are often more affordable) and stabilize these developments and the community. FHA should also consider bringing back the Spot Loan Approval Process.

NAR urges Congress and the Administration to move cautiously before making changes to the FHA program that has served the needs of millions of American families for more than 75 years and is a critical part of our nation's economic recovery. For more information on NAR and FHA please visit [www.realtor.org/fha](http://www.realtor.org/fha).

max \$270,000  
5-1 Adjusted program