

# NAR Legislative Issue Brief

## H.R. 5072 FHA Reform Act of 2010



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### **Summary: Why NAR Supports H.R. 5072**

While NAR would certainly prefer that FHA not make any changes, we believe H.R. 5072 provides a balanced approach that will have the least negative impact on FHA borrowers. The FHA mortgage insurance program is critical to our nation's economy, and is the only option for many American home buyers today.

### **Background:**

The Federal Housing Administration's single-family mortgage insurance program has never been more important to our housing markets than it is today. H.R. 5072 balances the need to strengthen FHA while keeping the program affordable and available for responsible homeowners.

In October of 2009 FHA's annual audit revealed that FHA's reserves, in place to avoid a taxpayer bailout, had fallen significantly below the 2% capitalization ratio required by Congress. There was an immediate cry from some lawmakers to suspend the program, eliminate the program or at a minimum increase the FHA's downpayment to 10%. NAR leaders met with FHA and urged caution at making big changes to a program that was so critical to our housing markets and our overall economy.

On January 20, 2010, FHA announced changes to ensure its long-term financial soundness. FHA is trying to fulfill its mission while protecting the financial soundness of the insurance fund and aiding in the housing recovery. The most immediate change was to increase the Up-front Mortgage Insurance Premium (UFMIP) from 1.75% to 2.25% to begin rebuilding their reserves.

### **HR 5072**

FHA has proposed legislative language to authorize them to increase the Annual (monthly) MIP. When given this authority, FHA has made it very public that they intend to lower the UFMIP to 1%. The Annual MIP would rise from .55% to .85%. Lowering the UFMIP, which can be financed into the loan, would protect borrowers by lowering their Loan-to-Value ratio (LTV) and their mortgage amount. So when a borrower puts the required 3.5% down and finances their UFMIP, their LTV is 98.75%. With the UFMIP lowered to 1%, the LTV will only be 97.5%. This provides borrowers with more equity. While raising the Annual MIP will increase monthly costs slightly (average cost expected to be \$33/month), borrowers will have a lower loan amount, which will help with qualifying.

### **Alternatives**

Increase the down payment by as much as 10%. FHA does have legal authority to increase the downpayment requirement, but have NOT made any recommendations or proposals to do so. They believe increasing the downpayment would have a drastic impact on their borrowers, estimating more than 300,000 borrowers would be disenfranchised. However, some in Congress are pushing for this change.

Maintain Current Premiums. Increased UFMIP may be financed into the loan but at the current price the LTV would be 98.75% (as opposed to 97.5%). FHA data showed that increasing the Annual (monthly) Mortgage Insurance Premium (MIP) would be a better alternative because it would restore reserves more quickly, but they did not have legal authority to do so.