



**NATIONAL ASSOCIATION
OF REALTORS®**

The Voice for Real Estate®

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Pat V. Combs, ABR, CRS, GRI, PMN
President

October 22, 2007

Regulations Division
Office of the General Counsel
US Department of Housing and Urban Development
451 Seventh Street, SW, Room 10276
Washington, D.C. 20410-0500

Re: Risk-Based Premiums, FR-5171-N-01

Dear Sir or Madam:

On behalf of more than 1.35 million members of the National Association of REALTORS® (NAR), I am pleased to offer comments on the Federal Housing Administration's planned implementation of risk-based premiums.

The National Association of REALTORS®, "The Voice for Real Estate," is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,500 local associations or boards, and 54 state and territory associations of REALTORS® and therefore has a significant interest in the outcome of this process.

The National Association of REALTORS® would like to take this opportunity to applaud the recent efforts of the Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA) to protect homeowners and home buyers. Recent modernization efforts will result in FHA becoming a mortgage of choice rather than a last resort. The FHASecure initiative will help approximately 80,000 homeowners remain in their homes. HUD's final rule on seller funded downpayment assistance will help ensure communities will not face inflated home prices and homebuyers are protected from the associated risks of delinquency and foreclosure.

The National Association of REALTORS® has concerns with risk-based premiums as proposed by the HUD and FHA in Federal Register notice FR-5171-N-01. FHA, unlike traditional lenders, qualifies borrowers on a number of factors; not just credit score. The Technology Open to Approved Lenders (TOTAL) scorecard was created by FHA to consider these factors. Currently, all FHA-insured borrowers pay an upfront premium of 1.5 percent and 0.5 percent annual premium. Under this pricing structure, risk is spread across a range of borrowers with varying credit profiles. This allows FHA to serve first-time homebuyers with lower incomes and lower downpayments.

The proposed regulation narrowly defines risk-based premiums as a borrower's credit score and downpayment. Borrowers with insufficient trade lines to generate credit bureau scores will be unfairly burdened. A borrower that cannot be scored by the TOTAL scorecard will be required to have a 5 percent

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downpayment and will pay the full upfront mortgage insurance premium. The same borrower with a 10 percent downpayment will still pay a high upfront mortgage insurance premium.

Risk-based premiums were thought of as a way for FHA to accommodate changes in the market that eroded FHA's effectiveness. Developments in the subprime market, including default and foreclosure risk, have resulted in a 75 percent decrease in these mortgage products. A weakened subprime market combined with other FHA modernization efforts will likely result in an increased demand for the agency's products. Risk-based premiums primarily tied to credit scores will negatively affect the availability and affordability of FHA insurance for a number of borrowers. According to a Government Accountability Report (GAO) on FHA Modernization Efforts, if the proposed pricing structure were used in 2005, 37 percent of borrowers would pay more for FHA insurance. Twenty percent would not have qualified at all.

The National Association of Realtors[®] is concerned that the new risk-based premiums will be used by lenders as a guideline for qualifying borrowers. Lenders could, for example, use the proposed risk-based premiums to determine that a borrower with a 599 credit score and 3 percent downpayment from other sources of funds will not qualify to participate in their FHA application process. For these reasons, we strongly urge FHA to reconsider this proposed regulation and better tailor it to address the unique needs and credit scenarios of first time and low to moderate income homebuyers in America's diverse communities.

The National Association of Realtors[®] proposes that HUD consider lowering premiums for homeowners after an established period of good payments. A provision of HR 1852, Expanding American Homeownership Act of 2007, grants the secretary the authority to reduce the amount of annual premium after a period of timely payments. Both Fannie Mae and Freddie Mac offer similar programs.

Thank you for the opportunity to present the views of the National Association of REALTORS[®]. If you have any questions, please do not hesitate to contact our Regulatory Policy Representative, Jerry Nagy at (202) 383-1233 or jnagy@REALTOR.org.

Yours Truly,



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2007 President, National Association of REALTORS[®]