NAMB

February 20, 2019

The Honorable Commissioner Brian D. Montgomery
Federal Housing Administration
Department of Housing and Urban Development
451 7th Street SW
Room 9100
Washington, DC 20410

Dear Commissioner Montgomery:

NAMB is the only national trade association representing the mortgage broker industry. With members in all 50 states, NAMB promotes the industry through programs and services such as education, professional certification and government affairs representation.

We are writing to recommend a change to the Mortgage Insurance Premium (MIP) structure which we believe will make the FHA mortgage a more competitive product in the marketplace while still maintaining the Congressionally mandated 2% cash reserves for the Mutual Mortgage Insurance Fund (MMIF). NAMB is proposing FHA implement or, at least, pilot test a tier pricing structure for credit scores similar to Conventional Loan market where higher credit scores earns a lower annual renewal for the borrower.

Since the introduction of Fannie Mae and Freddie Mac HomeReady and HomePossible products offering conventional loans with just 3% down and mortgage insurance premiums lower than FHA, the credit quality of borrowers using an FHA loan has deteriorated. Loan Originators helping first-time home buyers with credit scores over 700 and average debt-to-income ratios would be ill-serving their customers by placing them in an FHA loan. Example: With a $300,000 sale price the borrower's down payment is 3.5% using FHA vs. 3.0% Conventional loan with Fannie Mae or Freddie Mac. Up front Mortgage Insurance cost is 1.75% for FHA ($5,066) vs. $0 on Conventional. In 5 years, Annual Renewal Mortgage Insurance for FHA is .85% ($12,303) vs. Conventional at .58% ($8,439). In this example, the FHA loan costs almost $9,000 more.

Loan Originators assisting their higher credit score/average debt-to-income buyers are obligated to inform the borrower that an FHA loan has mortgage insurance premiums that NEVER EXPIRES vs. Freddie Mac and Fannie Mae Conventional products where mortgage insurance can be eliminated.

We are concerned that FHA is only attracting the lowest credit score and highest debt-to-income borrowers which ultimately puts the Mutual Mortgage Insurance Fund at a greater risk for loss.

Conventional Mortgage Insurance cannot be obtained on credit scores under 640. FHA will take scores as low as 580. Typically, Conventional debt-to-income ratios (DTI) are acceptable up to 45%. Beyond that, these borrowers typically get an FHA loan where DTI ratios can exceed 50%.

After one year, many good FHA borrowers are refinanced into the 97% Conventional products so higher MIP can be reduced and eventually eliminated. This structure of FHA leads to less revenue coming to the MMIF from loans that are seasoned and paying into the fund and is a fundamental flaw in the FHA program.

Tier price for credit scores similar to Conventional market-higher credit score earns a lower annual renewal: Instead of .85%, 740+ might be .50%. Tier price MIP over time: Lower credit score/higher debt-to-income borrower start at .85% for 3 years. Reduced to .50% for the next 3 years. Then drop to .35% thereafter, if not completely removed.

There is precedent for this type of pricing model. From 1934 to June 2013, FHA borrowers were able to cancel their MIP upon proof their loan-to-value was 78% or less.

NAMB would appreciate your thoughts on this proposal.

Sincerely,

Richard M. Bettencourt Jr.,CVLS, CRMS
2019 NAMB President

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