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June 30, 2014

The Honorable Carol Galante
Assistant Secretary for Housing – Federal Housing Commissioner
US Department of Housing and Urban Development
Washington, DC 20410

Dear Commissioner Galante:

I am writing on behalf of the one million members of the National Association of REALTORS® (NAR) to submit our comments on FHA's Homeowners Armed with Knowledge (HAWK) pilot program. NAR appreciates FHA's efforts to provide reduced mortgage insurance premiums to first-time home buyers who participate in housing counseling. As you know, NAR is very concerned with FHA's high annual mortgage insurance premiums and mortgage insurance that is required for the life of the loan. Home purchases are becoming increasingly out of reach for many qualified borrowers who rely on FHA financing.

NAR is America's largest trade association, including NAR's eight affiliated institutes, Societies and Councils, five of which focus on commercial transactions. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®.

NAR offers the following comments on the proposed HAWK program. HAWK will allow some buyers to gain a greater understanding of mortgage and homeownership responsibilities while improving affordability through reduced mortgage insurance premiums.

Program Eligibility

Borrowers eligible for the HAWK program are first-time home buyers that FHA defines as an individual who has not been an owner in a primary residence for at least three years leading up to the purchase. The borrower must also qualify for FHA-mortgage insurance. NAR understands that the pilot is currently limited to first-time home buyers. If the program is successful, NAR would like to see HAWK expanded to any qualified buyer using an FHA mortgage to buy a home.

Counseling Fees

HUD deems fees of \$300 for pre-contract counseling, \$100 for pre-closing counseling and \$100 for post-closing counseling to be reasonable and customary for agencies providing the minimum required counseling. Fees can be paid by FHA-insured borrowers, consumers, originators, and servicers. Housing counseling agencies may choose not to charge any fees if they have other resources.



NAR feels that first-time home buyers may be skeptical of fees for counseling. Prospective home buyers may be willing to pay a nominal amount of \$50-\$100, but \$300-\$500 could be prohibitive if the housing counseling agency or lender is not able to pay part of the fee. It is important for home buyers to have some skin in the game, but FHA must be realistic about what first-time home buyers will be able to pay. It could take a home buyer two years to offset the cost of counseling with the premium reductions offered under the HAWK program.

Home buyers may be eligible for programs in addition to HAWK that provide financial assistance toward the purchase a home. These programs typically include a fee-based education and counseling component that the buyer must go through to qualify for the assistance. It would be cost prohibitive and time consuming if buyers have to satisfy the requirements of HAWK and other financial assistance programs separately. NAR encourages FHA to allow coordination of pre-purchase counseling for other financial assistance programs with HAWK.

Implementation

The HAWK program is proposed as a four-year pilot. The program will be implemented in two phases. The first phase will be limited to certain HUD-approved housing counseling agencies and select FHA-approved lenders and servicers. Phase two will be expanded to any FHA-approved lender and HUD-approved housing counseling agency around the country who are interested in participating in the program. HUD hopes to identify and publish a list of HAWK-participating lenders.

Eligible home buyers must complete pre-contract and pre-closing counseling as well as post-closing counseling. Housing counseling and education may be conducted in person, via telephone or internet, or delivered by other methods mutually agreeable to the potential borrower and the housing counseling agency. Counseling must comply with National Industry Standards for housing counseling and education and be in accordance with the HUD Housing Counseling Program Handbook.

NAR is concerned about the amount of time it could take to access and complete counseling. Many first-time home buyers approach real estate agents when they are ready to buy, not when they are thinking about buying. For instance many renters will turn to homeownership options when they are faced with signing a new lease or their rents increase. A renter may decide not to renew the lease and contact a real estate agent for help searching for a house. Real estate agents will often work to accommodate the time constraints of a renter needing to close in a 60-day time frame. When referring home buyers to counseling, the next available class can often be 30 to 60 days out and the counseling process can take 30 to 45 days due to the lack of available counselors at HUD approved counseling agencies. This can put renters well beyond their target move-out dates. Allowing internet and telephone counseling may help improve access to counseling, especially in rural areas where the population tends to be underserved, but counseling agencies would still face the challenge of having adequate staff to provide these counseling options.

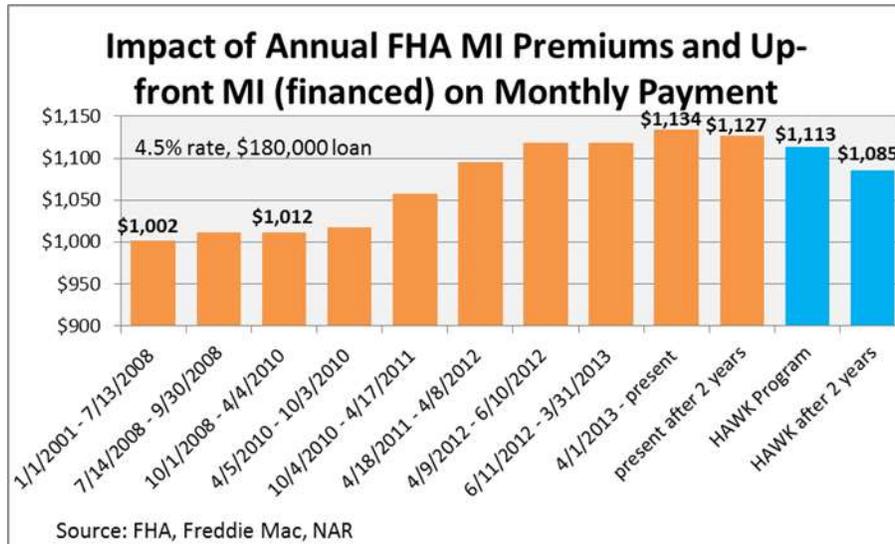
NAR recommends that FHA market HAWK to lenders and real estate agents so they can educate their potential home buyers about the benefits of the program both when they are “thinking of buying” as well as when they are “ready to buy.” Real estate agents and loan officers will be able to help potential home buyers understand the significance of reduced mortgage insurance premiums and help facilitate access to counseling earlier in the process. FHA should advertise on television and radio to the broader public and also work with REALTOR® state associations and local boards.

Counseling Incentive

Home buyers who participate in the HAWK program will benefit from a one-time 50 basis points reduction in the upfront MIP and a permanent reduction of 10 basis points reduction on the annual MIP at loan closing. If a homeowner completes post-closing housing counseling and does not have any 90-day delinquency on mortgage payments in the first 18 months post-closing, the home buyer will receive an additional reduction of 15 basis points on the annual MIP beginning in the 25th month.

According to HUD’s calculations, on a \$180,000 loan, a home buyer would see a reduction of approximately \$9700 over 30 years. This reduces the monthly payment by \$21 per month for the first two years and an additional \$21 per month in the 25th month. While any amount helps, many qualified home buyers will still not be able to achieve homeownership

unless insurance premiums come down more. Since 2010, mortgage payments have increased \$122 per month on a \$180,000 FHA-insured loan. The jump in payments is due to an 80 basis point increase in the annual premium and a 75 basis point increase in the upfront premium since 2010. The premium increases pushed an estimated 1.45 million to 1.65 million renters over a sustainable debt-to-income level for purchase of a home in 2013. The reductions in mortgage insurance premiums for HAWK are a start, but they don't go far enough to make home purchases more affordable.



NAR supports FHA's efforts to reduce premiums through the HAWK program, but is concerned that HAWK will not reach enough qualified home buyers and the reduction in rates is not significant enough. NAR believes the best approach would be to increase the upfront premium and lower the annual MIP for all qualified FHA borrowers, which would still allow FHA to replenish the Mutual Mortgage Insurance Fund (MMI). In addition to reducing the mortgage insurance premiums for all qualified home buyers, FHA could offer further reductions for home buyers who participate in the HAWK program. NAR encourages FHA to support across the board premium reductions because it is on target to meet and exceed the two percent capital reserve requirement in FY 2015 as noted in FHA's FY 2013 Annual Report to Congress.

Thank you for your time and consideration of this timely issue. If I may be of any assistance to you, please do not hesitate to contact me or our Regulatory Policy Representative, Sarah Young, at (202) 383-1233 or scyoun@realtors.org.

Sincerely,

Steve Brown
2014 President, National Association of REALTORS®