FHA Mortgage Insurance Premium Flash Survey

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National Association of REALTORS® Research Department

The Voice for Real Estate®

NATIONAL ASSOCIATION of REALTORS®

On January 10th, the FHA announced a reduction in its annual mortgage insurance premium (MIP) of 25 basis points. That decision was suspended on January 21st. The initial change was unique as it applied to loans *settling* on the 27th or after rather than those *endorsed* by the FHA on the 27th or after, the FHA's normal process. This difference had the effect of making all FHA loans in the lenders' pipeline that were settling on the 27th or after eligible for the lower fees, loans that could have gone under contract as early as November. NAR Research surveyed a panel of mortgage originators to analyze the impact of the changes on lenders and the market.

- Respondents indicated that a range of 1 percent to 40 percent of their pipeline would be impacted with a weighted average of 15.1 percent

- Of those affected, 5.7 percent of affected loans will likely be cancelled while 21.2 percent will be delayed. This implies roughly 0.86 percent of all mortgage production would be cancelled, in line with earlier NAR estimates.

- Half of respondents indicated that consumers would bear the brunt of the higher MIP, while 22.2 percent said they would absorb a rate lock extension. One respondent indicated that the consumer would absorb both costs.

- Overall, lenders were optimistic that the impact would be limited in part due to the time of year, but for some that was not the case.

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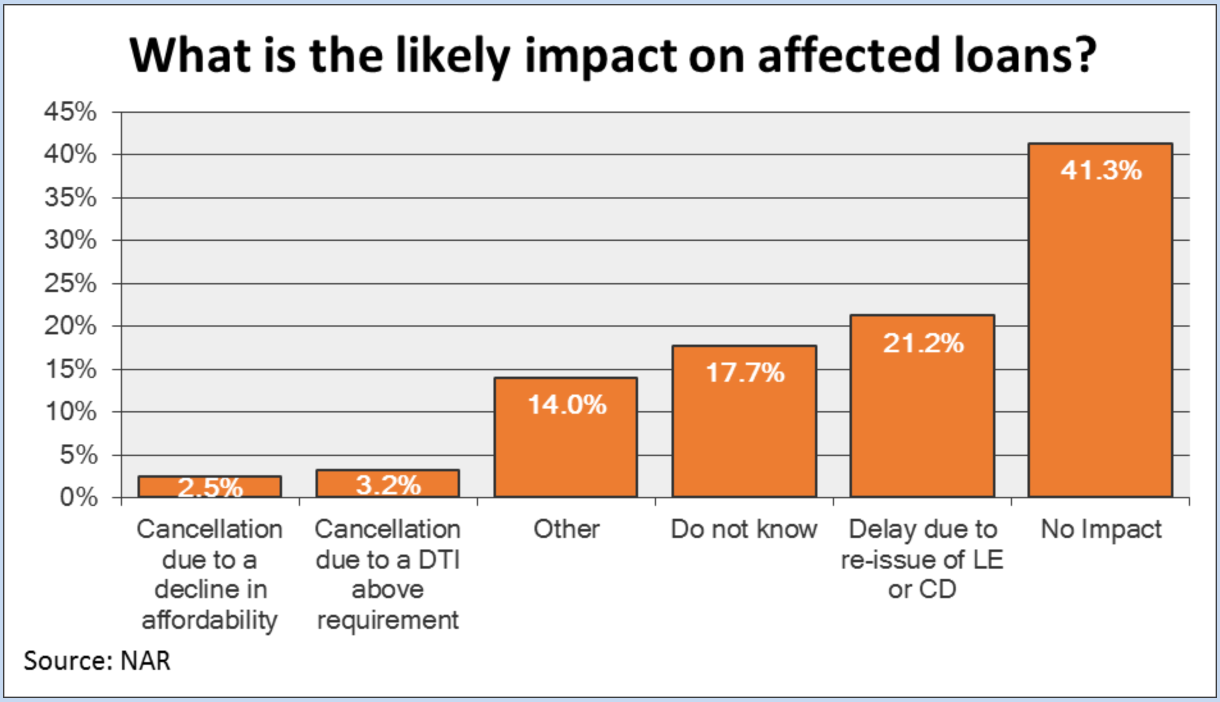

“FHA loans were not far enough along and we had not reissued LE's or made changes...”

“Waiting for Buyer and Seller to renegotiate purchase contract”

“We've just identified the loans impacted and are in the process of re-disclosing at the higher monthly MI. We have yet to review borrowers eligibility”

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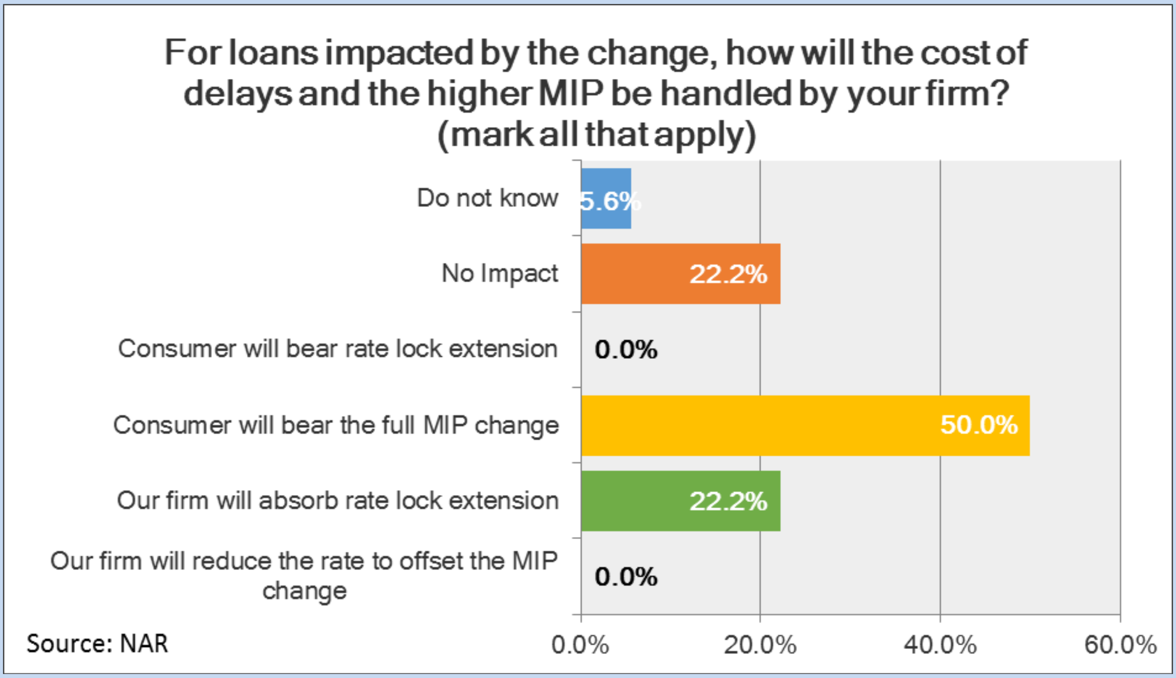

Respondents also said…

“The lower MIP is a great benefit to 1st time homebuyer especially when qualifying in high cost markets”

“We will have no delays in closings. The cost of the MI increase will be born by the borrower. “

“The MIP reduction was necessary to keep FHA competitive with the conventional MI options now available. Additionally, prices have been increasing in the areas we do business and this change was very helpful for qualifying clients looking at lower price points that have gone up significantly.”

“Wasted some time but overall it was okay given the time of year when business is a little slower anyway.”

“If re-implemented, go by case number instead of closing date. This will make it much less confusing and troublesome in a TRID compliant world.”

“In addition to consumer will bear the full MIP…the consumer will bear any rate lock extension created by this MIP suspension.”

“We can't yet estimate the number of purchase transactions that did not go together as a result of the delay (prior to even applying for a loan). Volume is low right now but, we anticipate a loss of approximately 25 percent in FHA purchase volume if the delay is permanent.......most of those will be first time buyers. Too early to tell what the impact will be on the FHA loans in our pipeline.....current trend shows a fall-out of approx. 35 percent”

“We had to re-disclosed the new MI premium to all borrowers then had to go back and tell them that the reduction won't apply. We felt bad for the borrowers but they had all qualified before the reduction was announced so no impact to cancellations.”

Appendix: Survey Methodology

- 135 lenders were surveyed
- The survey was conducted from January 24th to January 25th of 2016.
- Response rate was 13.3 percent and a margin of error of 5.7 percent

Questions can be directed to Ken Fears at kfears@realtors.org

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