In today's letter, I would like to update you on progress we are making in our risk management efforts and the initial work we are doing to align internal functions to support the risk management office. FHA continues to be a critical player in the market and it is our top priority to reduce risks and return FHA's insurance funds to mandated levels.

On the policy side, FHA will soon publish a final rule to increase the net worth requirements of FHA-approved lenders, strengthen lender approval criteria, and make lenders liable for the oversight of mortgage brokers. The complete text of the final rule is expected to be published in the *Federal Register* within the next week.

These changes support quality mortgage lenders while excluding organizations that are ill-equipped to handle the risk associated with market variations. That is particularly important now when a robust, competitive mortgage finance market is a crucial element in rebuilding the American economy. Lenders bear the overall risk of FHA-endorsed loans, therefore it makes sense for them to approve their counterparties and have sufficient capital to operate.

The final rule permits FHA to more effectively focus its resources on lenders that pose the greatest potential risk to its insurance funds and to ensure that lenders possess the resources appropriate for the financial services they deliver. FHA solicited public comments on this new regulation and considered those comments in the development of the final rule.

Last September 18, we announced a set of credit policy changes to enhance FHA's risk management function, including the hiring of a Chief Risk Officer for the first time in the agency's 75-year history. I also announced my intent to propose new regulations to further strengthen FHA's risk management. The final rule to be published soon makes good on that promise and will:

- **Strengthen the Capacity of FHA-Approved Lenders –** Since 1993, FHA has required approved lenders to have a net worth of at least $250,000. To ensure that FHA lenders are sufficiently capitalized to meet potential need, effective immediately, all new lender applicants for FHA programs must now possess a minimum net worth of $1 million.

- **Provide Sufficient Time for Current FHA Lenders to Increase Net Worth –** Effective one year following the enactment of this rule:

LINKS

HUD.gov/fha

HUD press releases

- Current FHA-approved lenders – with the exception of small businesses – must possess a minimum net worth of $1 million.

- Current FHA-approved *small business* lenders must possess a minimum net worth of $500,000.

Effective three years following the enactment of this provision:

- Approved lenders and applicants to FHA *single-family programs* must have a net worth of $1 million plus 1% of total loan volume in excess of $25 million.

- Approved lenders and applicants to FHA *multifamily programs* must have a minimum net worth of $1 million.
  - Multifamily lenders that also engage in mortgage servicing must have an additional 1% of total volume in excess of $25 million.
  - Multifamily lenders that *do not* perform mortgage servicing must have an additional 0.5% of total loan volume in excess of $25 million.

- **Streamline Lender Approval –** FHA-approved lenders currently assume liability for all the loans they originate and/or underwrite. While mortgage brokers will continue to be able to originate FHA-insured loans through their relationships with approved lenders, they will no longer receive independent FHA eligibility approval. These changes align FHA with Fannie Mae and Freddie Mac and have potential to increase the number of mortgage brokers eligible to originate FHA-insured loans while providing for more effective oversight of brokers by FHA-approved lenders.

  Mortgage brokers or other third-party originators, already approved by FHA, will be authorized to continue to originate FHA-insured loans through the end of the calendar year without sponsorship of an FHA-approved lender. Commencing January 1, 2011, however, the origination authority will end.

These new regulations align with risk management practices within the conventional marketplace and permit FHA to mitigate losses and decrease risk to its insurance funds. These represent significant steps toward ensuring that FHA resources are entrusted to lenders strong and healthy enough to meet the needs of the market.

Internally, we have realigned some important functions within the Office of Housing at HUD. Today's market environment and regulatory priorities demand our highest attention and focus. We must continue to improve our risk controls and better align our functions with the overall goal of managing our risks – not only financial, but also regulatory, and operational risks – so that the Office of Housing and FHA can better serve its constituents.

We are making internal changes designed to improve our handling of financial risks to the Department, especially as they relate to managing counterparty risk. As an initial step to bring additional risk oversight to functional areas within HUD, I have asked Bob Ryan, Chief Risk Officer, to oversee the Office of Regulatory Affairs and Manufactured Housing. Bob will provide leadership and direction to this important office and will integrate the operation into the Office of Risk Management and Regulatory Affairs once it has been formally established.

Bill Matchneer, who has served as Acting Deputy Assistant Secretary for the Office of Regulatory Affairs and Manufactured Housing since January of 2009, will transition to the Office of General Counsel to provide expertise and legal counsel as it relates to RESPA and developing protocols for enforcement of the SAFE Act. His broad expertise and knowledge will bring an added voice and industry perspective to the office.

Ivy Jackson, who has been part of the RESPA team since 1991, including Director of the Office of RESPA and Interstate Land Sales since 2000, and helped shape the final RESPA rule, will take her vast HUD experience and leadership to the Office of Insured Health Care Facilities reporting directly to Roger Miller. With the unprecedented growth in HUD's Insured Health Care portfolio, Ivy brings a unique skill set to the leadership team as they navigate the various challenges growth of this nature presents.

Teresa Payne will move to the Office of Regulatory Affairs and Manufactured Housing in the role of Associate Deputy Assistant Secretary. Teresa has been with the Department of Housing and Urban Development since 1996. She served as an attorney in the Office of General Counsel, worked in both the RESPA enforcement office and the RESPA policy office and served as co-counsel for the Department's first successful administrative action against a landlord for violations of the Lead Based Paint Disclosure Rule.

Reporting to Teresa will be Barton Shapiro, Deputy Director of the RESPA Office, who has been part of the RESPA team for over 2 years and will step in as Acting Director of RESPA and Interstate Land Sales; and James Beavers, who leads HUD's efforts to ensure that the industry is in compliance with the SAFE Act.

As we continue to make changes within FHA and as the Office of Risk Management and Regulatory Affairs evolves, we will keep you informed on significant developments.

###