



## LINKS

[HUD.gov/fha](http://HUD.gov/fha)

[HUD press releases](#)

[RESPA](#)

Recently FHA announced significant changes to strengthen its capital reserves, while enabling the agency to continue to fulfill its mission to provide access to homeownership for underserved communities. These changes are the latest in a series of efforts we have undertaken to better position FHA to manage its risk while continuing to support the nation's housing market recovery.

Striking the right balance between managing risk, continuing to provide access to underserved communities, and supporting the nation's economic recovery is critically important to FHA. When combined with the risk management measures announced in September of last year, these changes are among the most significant steps to address risk in the agency's history.

By continuing to provide affordable, sustainable mortgage products, FHA will continue to support the housing market's recovery. Importantly, FHA will remain the largest source of home purchase financing for underserved communities.

Let me take a moment to provide more details on these policy changes:

### **1. Mortgage insurance premium (MIP) will be increased to build up capital reserves and bring back private lending**

- The initial up-front MIP increase is included in Mortgagee Letter 2010-02, which was published on January 21<sup>st</sup> and will go into effect April 5, 2010.

(Click here to view the full text of Mortgagee Letter [2010-02](#))

- The first step will be to raise the up-front MIP by 50 basis points to 2.25% and request legislative authority to increase the maximum annual MIP that FHA can charge so we shift some of the premium increase from the up-front MIP to the annual MIP.
- This shift will allow for the capital reserves to increase with less impact to the consumer, because the annual MIP is paid over the life of the loan instead of at the time of closing.

### **2. Update the combination of credit scores and down payment requirements for new borrowers**

- New borrowers will now be required to have a minimum credit score of 580 to qualify for maximum financing. New borrowers with less than a 580 credit score will be limited to a 90% loan-to-value ratio.
- This allows FHA to better balance its risk and continue to provide access for those borrowers who have historically performed well.

- This change will be posted in the *Federal Register* shortly and, after a 30-day notice and comment period, would go into effect in the summer.

### **3. Reduce allowable seller concessions**

- FHA borrowers will be limited to 3% seller concessions.
- The current level exposes FHA to excess risk by creating incentives to inflate appraised value. This modification will bring FHA into conformity with industry standards on seller concessions.
- This change will be posted in the *Federal Register* shortly, and after a 30-day notice and comment period, would go into effect in the summer.

### **4. Increase lender enforcement**

- Enhance monitoring of lender performance and compliance with FHA guidelines and standards.
  - Implement Credit Watch termination through lender underwriting ID in addition to originating ID.
  - This change was included in Mortgagee Letter 2010-03 published on January 21, 2010.

(Click here to view the full text of Mortgagee Letter [2010-03](#))

- Implement statutory authority through regulation of Section 256 of the National Housing Act to allow for enforcement of indemnification provisions for lenders using delegated insuring process (Lenders Insurance).
  - Specifications of this change will be posted in March and, after a 60-day notice and comment period, would go into effect in the summer.
  - The authority will allow FHA to obtain indemnifications on “material” errors within underwriting of a loan that had clear impact on the loan decision.
  - The authority does not provide for indemnification of loans that were underwritten to guidelines, but have gone delinquent due to a borrower or marketplace change.
- Additionally, HUD is pursuing legislative authority as follows:
  - Amend Section 256 of the National Housing Act to apply indemnification provisions to all Direct Endorsement lenders. This would expand the authority discussed above to all lenders for the origination and underwriting of FHA-insured loans.
  - Authority permitting HUD maximum flexibility to establish separate “area(s)” for purposes of review and termination under the Credit Watch initiative. This would provide authority to withdraw originating and underwriting approval for a lender nationwide on the basis of the performance of its regional branches.

I want to take this opportunity to mention another change we recently announced. FHA published a notice announcing that FHA has waived the regulation that prohibits the use of FHA financing to purchase properties that are being resold within 90 days of the previous acquisition. The waiver of the regulation took effect for all sales contracts executed on or after February 1, 2010.

During this period of high foreclosures, FHA wants to encourage investors that specialize in acquiring and renovating properties to renovate foreclosed and abandoned homes with the objective of increasing the availability of affordable homes for homebuyers. Our aim is to help stabilize real estate prices as well as neighborhoods and communities where foreclosure activity has been high. The waiver is applicable to all properties being resold within the 90-day period after prior acquisition and is not limited to foreclosed properties. The waiver, however, has conditions, and eligible mortgages must meet the conditions specified in this notice found at <http://www.hud.gov/offices/hsg/sfh/waivpropflip2010.pdf>.

In order to further clarify language in the waiver, we will be publishing a notice shortly in the *Federal Register*, followed by a Mortgagee Letter, which will lay out these changes in more detail.

**Listed below are some questions we have been asked frequently since announcing the above policies:**

**Q: Why didn't you just impose an across-the-board increase in required down payment?**

*A: There are a range of factors that determine how risky a loan can be, not just the down payment level. The data clearly show that the greatest problems are created by a combination of a low down payment and other factors, like low credit scores, higher back-end ratios, or other debt characteristics. Indeed, loans with lower down payments and higher credit scores perform better on average than some sets of higher down payment, lower credit score loans. So in addressing risk, we need to take a focused approach to ensure that we are targeting our measures appropriately. Our change enables a broader selection of credit-worthy borrowers than would be afforded by an across the board increase in the down payment requirement, while avoiding the significant, disproportionate impact on minorities that such an overbroad measure would have.*

**Q: There have since been some modifications to the Lender Enforcement Policy. Can you explain what the modifications are and the reasons for the change?**

*A: We have received a number of inquiries about this. The "Direct Endorsement Lenders Performance Report" (DE Lender Report) shows the performance of FHA's active Direct Endorsement Lenders against the national averages for seriously delinquent loans and claims. Data derived for this report includes DE Lenders with one or more loans underwritten and zero or more seriously delinquent loans (90+ day delinquencies) and claims within the*

*past 24 months. The DE Lenders are divided into segments based on the total number of loans underwritten within the past 24 months. The DE Lender Report consists of three lists: Mega Segment, Highest Ranked by Segment and Lowest Ranked by Segment.*

*Our Quality Assurance Division is in the development stages of a Lender Scorecard intended to provide a comprehensive view of a lender rather than just looking at a lenders underwriting performance. The Lender Scorecard will show the lender's performance in four review categories: underwriting, delinquency management, loss mitigation, and program compliance. The lender will be scored in each review category and given a final overall rating, such as excellent, good, fair, etc. The scorecard will be made available later this year.*

**Q: Will these changes be enough?**

*A: The policy changes announced in September and those announced last month together comprise the most dramatic changes to FHA in recent history. These changes represent significant, concrete steps to minimize FHA's exposure to losses in the existing loan portfolio, increase the quality and sustainability of new FHA-insured loans, and improve FHA's capital. Additionally, FHA is continuing to assess the appropriateness of its risk management policies and their impact on the sustainability of the mutual mortgage insurance (MMI) reserves, and may decide upon further changes as a result of this ongoing assessment. We are asking Congress for authority to increase the statutory cap on the annual MIP and to permit termination of origination and underwriting approval on a national basis. These changes will give FHA the authority necessary to continue to respond effectively.*

In closing, I hope you find this overview and Q&A helpful. As I mentioned in the beginning, these changes are designed to significantly strengthen FHA, allowing it to better fulfill its mission. These actions, together with the work being done by this Administration, are helping to rebuild the housing finance system. And, because housing is the cornerstone of our economy, as the housing market improves, that improvement will ripple through every financial sector helping us to create the stabilization necessary for recovery.

###