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**January 23, 2012**

As part of FHA's continued efforts to protect and strengthen the Mutual Mortgage Insurance (MMI) Fund and facilitate access to mortgage credit for qualified borrowers, FHA has posted a final rule governing the process for receiving and maintaining approval to participate in the Lender Insurance (LI) process. These new regulations, which are posted on our website and will be published this week in the Federal Register, will provide greater clarity regarding our expectations for our LI lending partners, as well as the actions we will take to prevent losses when those standards are not met.

### **Lender Insurance Final Rule**

These regulations strengthen the process by which FHA approves, monitors, and takes enforcement actions against LI lenders. First, FHA will evaluate LI lenders on an ongoing basis to ensure that they continue to maintain the compare ratio required for participation in the program. Only lenders that maintain a two-year seriously delinquent and claim rate at or below 150 percent of the aggregate rate for the states in which the lender does business are eligible for LI authority.

Next, the rule provides a process by which FHA-approved mortgagees — created as a result of a merger, acquisition, or reorganization, and which as a result do not have a two-year default and claim history — may still be granted LI authority. Previously, lenders without a two-year compare ratio were ineligible for LI authority, a limitation that did not accurately account for such organizational changes which have become much more common for corporations in the industry.

Finally, the rule sets a standard for what constitutes a "serious and material violation" of FHA origination requirements. Serious and material violations, as well as instances of fraud or misrepresentation, will require indemnification by LI mortgagees. In providing a standard for these violations, along with a clear process by which FHA will require indemnifications for loans that do not meet these standards, FHA is providing a level of certainty to our partners with regard to the types of violations which are actionable under HUD policy.

### **Reducing Seller Concessions**

In another move to prudently manage risk, FHA will issue a revised proposed rule on seller concessions. This proposal, which will be published in the Federal Register in the near future and have a 30-day comment period, is in response to comments received following the publication of FHA's July 15, 2010 proposed rule on the same topic.

The purpose of the proposed rule is to reduce the maximum allowable seller concession for single family mortgages from its current level to one that is more appropriate and better manages risk. The current level exposes the FHA and borrowers to excess risk by creating incentives to inflate appraised value.

### **Conclusion**

The final and proposed regulations we're announcing reflect FHA's continued commitment to strong and effective risk management while ensuring access to sustainable homeownership opportunities. Throughout this Administration, FHA has sought to implement a more robust risk management system appropriate to a 21<sup>st</sup> century mortgage insurer. We have seen the benefits of those efforts as we have insured the highest quality books of business in FHA's history over the past two years.

At the same time, we also recognize that the quality of our business and our service to the American people is largely dependent upon you, our business partners. And we understand and appreciate the fact that as we emerge from a period of instability and difficulty into a new era of mortgage finance, it is imperative that you possess the certainty and clarity necessary to do business with us.

As we continue to announce new measures to strengthen and protect our insurance funds while ensuring access to homeownership, we will seek to make the "rules of the road" as clear as possible so that together we can ensure that FHA remains a strong and stable source of mortgage credit for American families.

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