

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**[Docket No. FR-5171-N-03]**

**Federal Housing Administration (FHA) Single Family Mortgage Insurance:  
Announcement of Moratorium on Risk-Based Premiums**

**AGENCY:** Office of the Assistant Secretary for Housing—Federal Housing Commissioner, HUD.

**ACTION:** Notice.

**SUMMARY:** Consistent with the Housing and Economic Recovery Act of 2008, signed into law on July 30, 2008, this notice announces a one-year moratorium, commencing October 1, 2008, on premium pricing in accordance with FHA's risk-based premium structure. This structure was set for most Title II single family mortgage insurance programs by a May 13, 2008, notice, which provided for implementation commencing on July 14, 2008. This notice provides directions for FHA-approved mortgagees to ensure their compliance with the moratorium that commences October 1, 2008.

**FOR FURTHER INFORMATION CONTACT:** Margaret E. Burns, Director, Office of Single Family Program Development, Department of Housing and Urban Development, 451 Seventh Street, SW, Washington, DC 20410; telephone number 202-708-2121 (this is not a toll-free number). Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at 800-877-8339.

## SUPPLEMENTARY INFORMATION:

### I. Background

By notice published by HUD in the Federal Register on September 20, 2007 (72 FR 53872), FHA announced its plan to implement risk-based premiums for FHA loans and included the following information in the notice. Section 203(c)(2) of the National Housing Act (12 U.S.C. 1709(c)(2)) provides for upfront and annual mortgage insurance premiums for most FHA single family programs. Such upfront and annual insurance premiums are set at levels not to exceed 2.25 percent<sup>1</sup> and 0.50 percent (0.55 percent for mortgages involving an original principal obligation that is greater than 95 percent of the appraised value of the property), respectively, with a discount available on the upfront premiums for some mortgagors who are first-time homebuyers and who successfully complete pre-purchase homeownership counseling approved by the Secretary.

FHA proposed a range of premiums based on risk, so that it would be able to offer options to: (1) mortgagees serving borrowers who were previously underserved, or not served, by the conventional marketplace; and (2) mortgagees serving those borrowers wishing to lower their premiums by, for example, increasing their downpayment or by improving their credit scores. Additionally, FHA noted that offering a range of premiums based on risk helps to ensure the future financial soundness of FHA programs that are obligations of the Mutual Mortgage Insurance Fund (MMIF or the Fund).

The September 20, 2007, notice solicited public comment. Following consideration of public comments, on May 13, 2008 (73 FR 27704), FHA issued a notice announcing its risk-

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<sup>1</sup> First time homebuyers who receive approved counseling pay an up-front premium not to exceed 2.0%. Section 2114 of the FHA Modernization Act (Title I of Division Be of Public Law 110-289, approved July 30, 2008) increased the maximum level of the upfront premium to 3 percent except for first time homebuyers. The maximum level for first time homebuyers was increased to 2.75 percent.

based premium structure, which included changes made in response to public comment, and an implementation date of July 14, 2008.

## **II. Authority for, and Purpose of, This Notice**

On July 30, 2008, the President signed into law the Housing and Economic Recovery Act of 2008 (Public Law 110-289, 122 Stat. 2654, approved July 30, 2008). Title I of Division B is the FHA Modernization Act of 2008 (Act). Section 2133 of the Act places a one year moratorium on FHA's implementation and carrying out of its risk-based premium structure commencing October 1, 2008. Section 2132 of the Act directs HUD to provide by notice additional requirements necessary to immediately carry out the Act. Consistent with this section, HUD is providing early notice to FHA-approved mortgagees of steps to be taken to ensure compliance with section 2133.

Accordingly, this notice provides directions to FHA-approved mortgagees for the timely and orderly transition into, and out of, the statutory moratorium on risk-based premiums. Given the commencement of the moratorium on October 1, 2008, FHA-approved mortgagees are expected to begin modifying their systems and processes for compliance with the moratorium on risk based pricing in accordance with this notice. In addition to the directions provided in this notice, FHA's website at [www.fha.gov](http://www.fha.gov) provides operational questions anticipated to be asked by FHA-approved mortgagees and provides the answers to these questions.

## **III Applicability of Statutory Period**

Section 2133 requires that HUD "shall not take any action to implement or carry out risk-based premiums" for a 12-month period beginning on October 1, 2008. HUD considers that this moratorium is intended to establish a clearly delineated, one-year period to cease FHA's risk-based pricing of single family mortgage insurance premiums, but is not intended to disrupt the

reasonable expectations of borrowers and mortgagees participating in the FHA-insured mortgage lending process. The statute and the risk-based premium notice can be read consistently to address such concerns. The May 13, 2008, notice stated that the risk-based premium structure “is effective for new FHA case number assignments made on or after July 14, 2008.” (See 73 FR 27710.) Since the risk-based premium is effective at the point at which a new FHA case number assignment is made, HUD considers the risk-based premium to be carried out at that point. Accordingly, the statutory moratorium shall be effective and carried out on October 1, 2008 for new FHA case number assignments made on or after that date. Again, HUD expects that all FHA-approved mortgagees will begin taking immediate steps to modify their systems and procedures to assure compliance with this requirement by October 1, 2008.

The moratorium will continue for a 12-month period, applying to new FHA case number assignments made through and including September 30, 2009. In this way, the applicability of the term of the statutory period is clearly established, and all participants in the FHA-insured mortgage lending process may adequately prepare for full compliance with the statute. Mortgages with FHA case number assignments made on July 14, 2008, through and including September 30, 2008, shall maintain the risk-based premium structure for the life of the mortgage.

### **III. Directions to FHA-Approved Mortgagees on Premium Pricing during Moratorium**

FHA is not authorized, and will not, insure any mortgages for which new FHA case number assignments are made on or after October 1, 2008 and before October 1, 2009, for which the premium has been set in accordance with the May 13, 2008 notice.

The upfront and annual premiums on mortgages for which new FHA case number assignments are made on or after October 1, 2008 and before October 1, 2009, are as follows:

Upfront Premiums: FHA will charge an upfront premium in an amount equal to the following percentages of the mortgage:

- Purchase Money Mortgages and Full-Credit Qualifying Refinances = 1.75 Percent
- Streamline Refinances (all types) = 1.50 Percent
- FHA Secure (Delinquent Mortgagors) = 3.00 Percent.

Annual Premiums: An annual premium, shown in basis points below, to be remitted on a monthly basis, will also be charged based on the initial loan-to-value ratio and length of the mortgage (except for FHA Secure delinquent mortgages) according to the following schedule:

- Purchase Money Mortgages, Full-Qualifying Refinances, and Streamline Refinances:

LTV	Annual for Loans >15 Years)	LTV	Annual for Loans ≤ 15 Years
≤ 95	50	≤ 90	-None-
> 95	55	> 90	25

- FHA Secure (delinquent mortgagors):

LTV	Annual (all loan terms)
≤ 95	50
> 95	55

FHA will issue another notice that will formally advise when the moratorium is concluded and the premium pricing structure that should be followed once the moratorium ends.

#### **IV. Additional Premium Pricing Requirements**

All FHA-approved mortgagees must begin to modify their systems and procedures to be in compliance with the following additional requirements applicable to any mortgages for which new FHA case number assignments are made on or after October 1, 2008 and before October 1, 2009:

1. The LTV ratio, computed to two decimals (e.g., 95.65) is calculated by dividing the mortgage amount prior to adding on any upfront mortgage insurance premium by the property's sale price or appraised value, whichever is lower.

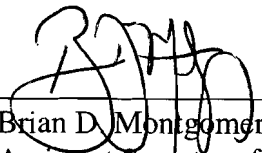
2. Borrowers who have decision credit scores below 500 must have loan-to-value ratios less than 90 percent to qualify for an FHA-insured mortgage.

3. A “decision credit score” is determined for each applicant according to the following guidelines: when three scores are available (one from each national consumer reporting agency: Equifax, TransUnion, and Experian®), the middle value is used; when only two are available, the lesser of the two is chosen; when only one is available, then that score is used. If more than one individual is applying for the same mortgage, the lender should determine the decision credit score for each individual borrower and then use the lowest score to determine the final decision credit score for the application.

4. All borrowers with eligible decision credit scores must be scored by TOTAL.

5. The premium rates established in this notice apply to those forward mortgages insured under FHA’s Mutual Mortgage Insurance (MMI) fund, the Section 203(k) rehabilitation mortgage insurance program, and individual condominium units insured under Section 234(c). The premiums in this notice do not apply to mortgages insured under Title I of the National Housing Act, nor to reverse mortgages under FHA’s Home Equity Conversion Mortgage (HECM) program. The premiums in this notice also do not apply to Section 223(e) (declining neighborhoods), Section 238(c) (military impact areas in Georgia and New York), Section 247 (Hawaiian Homelands), and Section 248 (Indian Reservations).

Dated: 8/24/08

  
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Brian D. Montgomery  
Assistant Secretary for Housing—  
Federal Housing Commissioner

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