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## What's Changing?

1. **Fairfax. Virginia FHA loans** will have some changes coming on April 5<sup>th</sup>, 2010. Federal Housing Administration (FHA) Commissioner David Stevens today announced a set of policy changes to strengthen the FHA's capital reserves, while enabling the agency to continue to fulfill its mission to provide access to homeownership for underserved communities. The mortgage insurance premium (referred to as up front mortgage insurance premium) will be increased from 1.75% to 2.25%. This change will add some cost to purchasing a home, but will not overburden consumers since the mortgage insurance is paid over the life of the loan, rather than upfront at closing. This change will become effective on April 5, 2010.
2. New down payment and credit score requirements. According to the new policy, homebuyers who have a credit score of at least 580 may still be able to purchase a home with 3.5% down, but those with credit scores of less than 580 will be required to put down at least 10%. This change is designed to help the FHA balance its risk, while still providing affordable down payments for consumers with a history of good credit and responsibility. This really doesn't matter much, since most lenders are not originating loans with credit scores less than 600.
3. Reduced seller concession. Basically, this change means that the person selling the home will now only be able to offer the homebuyer 3% to help defray closing costs, as opposed to 6% under the previous policy.



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The HUD announcement  
HUD No.10-016

### **Announced FHA Policy Changes:**

- 1. Mortgage insurance premium (MIP) will be increased to build up capital reserves and bring back private lending**
  - The first step will be to raise the up-front MIP by 50 bps to 2.25% and request legislative authority to increase the maximum annual MIP that the FHA can charge.
  - If this authority is granted, then the second step will be to 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
  - The initial up-front increase is included in a Mortgagee Letter to be released tomorrow, January 21st, and will go into effect in the spring.
  
- 2. Update the combination of FICO scores and down payments for new borrowers.**
  - New borrowers will now be required to have a minimum FICO score of 580 to qualify for FHA's 3.5% down payment program. New borrowers with less than a 580 FICO score will be required to put down at least 10%.
  - This allows the 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 in February and, after a notice and comment period, would go into effect in the early summer.
  
- 3. Reduce allowable seller concessions from 6% to 3%**
  - The current level exposes the FHA to excess risk by creating incentives to inflate appraised value. This change will bring



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FHA into conformity with industry standards on seller concessions.

- This change will be posted in the Federal Register in February, and after a notice and comment period, would go into effect in the early summer.

#### **4. Increase enforcement on FHA lenders**

- Publicly report lender performance rankings to complement currently available Neighborhood Watch data - Will be available on the HUD website on February 1.
  - This is an operational change to make information more user-friendly and hold lenders more accountable; it does not require new regulatory action as Neighborhood Watch data is currently publicly available.
- 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 is included in a Mortgagee Letter to be released tomorrow, January 21st, and is effective immediately.
- Implement statutory authority through regulation of section 256 of the National Housing Act to enforce indemnification provisions for lenders using delegated insuring process
  - Specifications of this change will be posted in March, and after a notice and comment period, would go into effect in early summer.
- HUD is pursuing legislative authority to increase enforcement on FHA lenders. Specific authority includes:
  - Amendment of section 256 of the National Housing Act to apply indemnification provisions to all Direct Endorsement lenders. This would require all approved mortgagees to assume liability for all of the loans that they originate and underwrite
  - Legislative authority permitting HUD maximum flexibility to establish separate "areas" for purposes of review and termination under the Credit Watch initiative. This would



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provide authority to withdraw originating and underwriting approval for a lender nationwide on the basis of the performance of its regional branches.

In addition to the changes proposed today, the FHA is continuing to review its overall response to housing market conditions, and continuing to evaluate its mortgage insurance underwriting standards and its measures to help distressed and underwater borrowers through FHA/HAMP and other FHA initiatives going forward.

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*HUD is the nation's housing agency committed to sustaining homeownership; creating affordable housing opportunities for low-income Americans; and supporting the homeless, elderly, people with disabilities and people living with AIDS. The Department also promotes economic and community development and enforces the nation's fair housing laws. More information about HUD and its programs is available on the Internet at [www.hud.gov](http://www.hud.gov) and [espanol.hud.gov](http://espanol.hud.gov).*