## FHA Updates

**U.S. Department of Housing and Urban Development**  
Revised December 4, 2012

### Appraisal Protocol

**Mortgagee Letter 2005 – 48**

- Inspections no longer **mandated** but may still be required:
  - Pest Inspection
  - Well Cert
  - Septic Cert
  - Flat and/or unobservable roof

- Items no longer **required** to be repaired:
  - Missing handrails
  - Cracked window glass
  - Minor plumbing leaks
  - Poor workmanship
  - Defective floor coverings

**NOTE:** Lender and/or appraiser determines repairs and may even require more than FHA Minimum Property Requirements (MPR's)

### Closing Costs

- Lenders are expected to charge fees that are **fair, reasonable, customary**, and documented
  - Any and all fees must be disclosed
  - Good-Faith-Estimate

  - A borrower may pay all fees associated with the completion of the transaction
  - Except “Tax Service”
Key FHA Provisions

- Permanently increased county loan limits
  - County limits not less than $271,050
  - **No minimum mortgage loan amount**
  - Limits vary by county (MSA’s)
  - One national limit of $417,000 for Home Equity Conversion Mortgage (temporary increase)
- Banned all “Seller-Assisted Downpayment Assistance Programs”

Minimum required investment – down payment

- 3.5% of appraised value or sales price
  - Whichever is less
  - If sales price greater than appraised value then also need to pay difference
- May come from borrower’s own funds or 100% gift or acceptable secondary financing
  - Immediate family member/close familial tie
  - HUD approved non-profit organization
  - Local city, county, and state programs

Maximum Loan-To-Value Ratio

- Maximum loan-to-value on the FHA insured mortgage
  - With Upfront Mortgage Insurance Premium financed **may not exceed** 100%

**Example:** 96.5% LTV + 1.75% UFMIP = 98.25%
- With acceptable secondary financing the combined loan-to-value **may exceed** 100%

Appraisal Validity Periods

- Effective for case numbers assigned 1/1/2010
- Appraisals valid for 120 days
  - Regardless of construction type
    - Existing, proposed, and under construction
  - Including HUD REO appraisals
- NOTE: 120 Days is **NOT** 4 months
**Mortgagee Letter 2009 – 52**  
December 2009

**Short Sales and Short Pay Offs**
- Borrowers that pursued a short sale are not eligible for FHA insured mortgage for 3 years if
  - To take advantage of a declining market
  - To purchase, at a reduced price, a similar or superior property within a reasonable commuting distance
- Short sales are treated like a foreclosure
- May be eligible if:
  - Were current on mortgage and all other installment debt for immediate preceding 12 months from sale
  - Proceeds of sale served as payment in full

**Mortgagee Letter 2010 – 13**  
April 2010

**Electronic Signatures on Third Party Documents**
- Electronic Signatures now acceptable
  - **Except** HUD REO contracts
    - Wet signatures still required
- Lenders reminded to employ same levels of care and due diligence

**Mortgagee Letter 2010 – 20**  
June 2010

**Strengthening Risk Management**
- Eliminated approval of FHA loan correspondents
- Non-FHA approved originators may be permitted to originate FHA insured mortgages
  - FHA approved lender makes decision as to who they will do business with
  - Known as “Third Party Originators” (TPO)
  - Sponsored relationship with FHA approved direct lender not FHA

**Mortgagee Letter 2010 – 29**  
September 2010

**Minimum Credit Scores & Loan-to-Value Ratios**
- Effective Case Numbers assigned
  - On or after October 4, 2010
  - Does not affect Title I, Hawaiian Homelands, Indian Reservations, Declining Neighborhoods – Section 223(e), and Military Impact Areas of Georgia and New York

Additional guidance to be provided in future Mortgagee Letters
Minimum Credit Scores and Loan-to-Value Ratios – Continued

**Maximum loan-to-value limits based on credit scores**
- Score of 580 or greater: 96.5%(P) 97.75(R)
- Scores between 500 to 579: 90%
- Scores less than 500: Not eligible
- Disaster Relief Program
  - Score of 500 or greater: 100% Purchase
  - Below 500: Not eligible
- Borrowers in negative equity position
  - Refer to Mortgagee Letter 2010 – 23

(P) = Purchase  (R) = Refinance

FHA Capture of NMLS Registry Information
- HUD will collect the NMLS ID and Tax Identification Number on companies originating FHA insured mortgages and those seeking FHA lender approval
- HUD will collect the NMLS ID for loan officers originating FHA insured mortgages
- Information is required as part of loan documentation and for insuring the mortgage

Use of HUD/FHA Logo, Name, And Acronym In Advertising
April 2011 – Mortgagee Letter 2011 – 17
- HUD prohibits the use and misuse of the terms, seals, logo’s, and acronyms in any advertising, print media, electronic media, web-sites, web-addresses, business names, d/b/a’s, etc.
  - Federal Housing Administration or FHA
  - Department of Housing and Urban Development or HUD
  - Government National Mortgage Association or GNMA
- Violations subject to sanctions & civil money penalties

Financing of Transactions Costs for Real Estate Owned Properties Purchased Under FHA $100 Down Sales Incentive
- Only cost that may be financed is upfront mortgage insurance premium
- Subject to FHA’s guidelines for maximum financing
  - Total FHA insured mortgage may not exceed 100% of as-is appraised value with the upfront mortgage insurance premium financed

NOTE: Closing costs (recurring and non-recurring) paid by borrower – No change
**Example of $100 Down Incentive With Upfront Mortgage Insurance Calculation**

- **Purchase Price/Appraised Value**: $100,000
- **Offer Price**: $100,000
- **Downpayment**: $100
- **Base Loan Amount**: $99,900
- **Upfront Mortgage Insurance Premium**: $1,748.25

**Total**: $100,899

Borrower must bring in a total of $1,748.25 – FHA insured loan many not exceed 100% loan-to-value and Upfront Mortgage Insurance must be paid in full or fully financed.

**NOTE**: Closing costs (recurring and non-recurring) also paid by borrower.

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**Condominium Insurance Program**

Complete guidelines, requirements, extension dates, and instructions contained in:

- **Mortgagee Letter 2011 – 22 and 2012 - 18 With Attachments**

“Project Approval and Processing Guide”

*(Consolidated Mortgagee Letters 2009 – 46A and 46B, and 2011 – 03)*

HUD’s list of approved projects is located at:


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**Condo Insurance Program – Cont.**

- Project **approval** period is 2 years
  - From when placed on approved list
- Loan **eligibility** must be determined **each and every** time a mortgage will be insured with FHA
  - For eligibility: Lenders must recertify occupancy and that no adverse conditions exist
  - May be determined unacceptable for FHA insurance

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**FHA Condo Loan Insurance Continued**

- Two types of approval processes
  - Lender to review and process (DELRAP)
  - HUD to review and process (HRAP)
- Lender’s choice on any given project
  - Exceptions apply
  - **Refer to Mortgagee Letters**
Condo Approval Process – Cont.

- 50% Owner occupancy required
  - Verified true second homes are treated as owner-occupied
- No more than 15% total units 60 days in arrears on HOA Dues
  - Exceptions to maximum 20% - See Guide Page 31
- No one entity can own more than 10% of all units
- “Walls In” insurance required by borrower when master insurance policy does not cover unit interior improvements or betterment

Condo Approval Process – Cont.

- 50% maximum FHA concentration
  - Projects with three of less units must not have more than one unit encumbered with an FHA insured mortgage
  - Exceptions may be granted
    - Seven requirements for exception - Pages 44 and 45 of Project Approval and Processing Guide
    - By Homeownership Center where property located
    - Termination of exception occurs with expiration of current project approval

Concentration Checked @ https://entp.hud.gov/idapp/html/condlook.cfm

Condo Approval Process – Cont.

- Project approval **not required for**:
  - HUD REO to buyer using FHA financing
    - **Lender may require**
  - FHA to FHA refinance
    - **Lender may require**

Mortgagee Letters

2009 – 53 and 2011 – 18

**Real Estate Settlement Procedures Act**

- FHA no longer limits origination fees **except**
  - Home Equity Conversion Mortgage @ 2%
  - Supplemental fees on Rehabilitation Loans (203k)
- Lenders are expected to charge fair and reasonable fees
- Any and all fees must be in writing and disclosed
  - Good-Faith-Estimate
- Regulations relating to fees handled by Consumer Finance Protection Bureau (U.S. Dept. of Treasury)
  - 855 – 411 – 2373
Mortgage Limits – Congressional Acts

**Mortgage Letters:**

  - Temporary ceiling/limits
    - Most recent extension - December 2012
    - 175% of GSE ($417,000 x 1.75%) some counties
      - $729,750 for some counties
    - County MSA’s determine maximums
    - Higher in Alaska, Hawaii, Guam, and U.S. Virgin Islands
  - Home Equity Conversion Mortgage nationwide limit
    - $625,500
  - Expires December 31, 2012
    - Loan must be fully approved

Changes to FHA Mortgage Insurance Premiums

- HUD must balance it’s Mission Statement against risk to the mortgage insurance fund
  - Mission – Stabilize communities/home ownership
  - Risk – Protect the mortgage insurance fund reserve used to pay claims
    - Reserve requirement mandated by Congress
  - Federal law allows Secretary of HUD to charge up to 3% for upfront mortgage insurance premiums as needed in order to manage risk

Mortgage Insurance Premiums Continued

- Most recent change
  - Signed into law on December 31, 2011
    - “Temporary Payroll Tax Cut Continuation Act of 2011”
  - Required FHA to increase the annual/monthly premiums
  - Mortgagee Letter 2012 – 04

- Effective for Case Numbers assigned on or after April 9, 2012
  - Upfront Mortgage Insurance Premium - 1.75%
    - All loans – purchase or refinance
      - Except certain programs not affected
      - Except for FHA forward mortgage streamline refinance endorsed prior to May 31, 2009
    - See Mortgagee Letter for premiums under this conditions
Mortgage Insurance Premiums
Continued

- Annual/Monthly Insurance Premiums required for all FHA insured mortgages
  - Regardless of loan amount or term of loan
    - Except 15 year term with LTV of 78% or less

Existing Programs Not Affected

- Title I
- Home Equity Conversion Mortgages (HECM)
- Section 247 (Hawaiian Homelands)
- Section 248 (Indian Reservations)
- Section 223(e) (Declining Neighborhoods)

Annual/Monthly Premiums Case Numbers Assigned June 11, 2012

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<th>Term &gt; 15 Years</th>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Effective</th>
<th>Annual MIP</th>
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<td>$625,500</td>
<td>95.00%</td>
<td></td>
<td>June 11, 2012</td>
<td>120 bps</td>
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<tr>
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<td>95.00%</td>
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<td>June 11, 2012</td>
<td>125 bps</td>
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<tr>
<td>Above $625,500</td>
<td>95.00%</td>
<td></td>
<td>June 11, 2012</td>
<td>145 bps</td>
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<tr>
<td>Above $625,500</td>
<td>95.00%</td>
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<td>June 11, 2012</td>
<td>150 bps</td>
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<table>
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<th>Term ≤ 15 Years with LTV above 78%</th>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Effective</th>
<th>Annual MIP</th>
</tr>
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<tbody>
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<td>90.00%</td>
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<td>June 11, 2012</td>
<td>35 bps</td>
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<td>90.00%</td>
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<tr>
<td>Above $625,500</td>
<td>90.00%</td>
<td></td>
<td>June 11, 2012</td>
<td>60 bps</td>
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<tr>
<td>Above $625,500</td>
<td>90.00%</td>
<td></td>
<td>June 11, 2012</td>
<td>85 bps</td>
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</tbody>
</table>

Note: SF forward mortgages with amortization terms of 15 years or less, and a loan-to-value (LTV) ratio of 78 percent or less, remain exempt from the Annual MIP (see Mortgagee Letter 2011-35).

Mortgagee Letter 2011 – 32
August 2011

Home Equity Conversion Mortgage Form 92902 Revised and Clarification on HECM Counseling Guidance

- HUD Form 92902 revised
  - Specific data field for attorney in fact holding “Power of Attorney”
  - HECM Saver has been added
  - HUD approved housing counseling agency ID replaces agency tax ID
HECM Counseling Guidance

- All owners shown on property deed (or court appointed) and non-borrowing spouse must personally receive counseling
- Certificate must be signed by all
- Certificate must be signed by counselor on the date counseling was completed
- Revisions to certificates may only be made up to time of endorsement
- Certificates valid up to expiration date regardless of case number assignment date

Waiver of Requirements of 24 CFR 203.37(a)(2) – December 2011

Property Flipping – Resale Within 90 days

- Temporarily allows FHA insured financing if property resold within 90 – days
  - Expires December 31, 2012
  - Forward mortgages only (not HECM)
  - Must be arms length, no identity of interest, seller actually holds title, no pattern of previous flipping, marketed openly and fairly
  - When sales price exceeds 20% or more over and above seller’s acquisition cost

Mortgagee Letter 2012 – 03

February 2012

Miscellaneous Underwriting Issues

- Identity of interest effective 4/1/12
  - Definition of family member clarified
- FIsA’s TotalScorecard User Guide updated
  - Fannie Mae/DU and Freddie Mac/LP Platforms
- Documentation requirements updated
  - Self-employed borrowers effective 4/1/12
  - Disputed credit, collections, public records effective 7/1/12 (rescinded this part only on June 15, 2012)

Miscellaneous Underwriting

Issued - Continued

- Self-employed borrower documentation
  - Based on “Accept” or “Refer” findings
Handling of disputed accounts, collections, and public records

- Rescinded June 15, 2012
  - Mortgagee Letter 2012 - 10
- Use existing guidance contained in HUD Handbook 4155.1 and FHA Total Mortgage Scorecard User Guide

Mortgagee Letter 2012 – 05
March 2012

FHA Refinance of Borrowers in Negative Equity Positions – Program Enhancements

- Effective for Case Numbers issued on or after March 13, 2012
- Now allows for borrowers who may have been delinquent on their existing loan that successfully complete a trial payment plan
- First lien holders have option to extinguish 2nd lien debt
- Increase of allowable debt-to-income ratios (35%/48%) with manual underwriting or refer findings
- Extends term of program to December 31, 2014

Please see Mortgagee Letter 2010 – 23 and 2012 – 05 for complete details of program

Responsibilities of Mortgagees in Regard to State and Local Laws

- FHA policy does not exempt mortgagees from adhering to state and local laws
  - Protection and preservation of properties that were secured by an FHA insured mortgage
- HUD will reimburse mortgagees in accordance with guidance contained in Mortgagee Letter 2010 – 18
- Mortgagees must notify the Mortgage Compliance Manager of receipt of code violations or demolition notices from state/local government and seek their approval before demo or permitting demo

Mortgagee Letter 2012 – 05
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Mortgagee Letter 2012 – 12
June 2012

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Documentation Requirements for Income from Social Security Administration (SSA)

- Income must be verified and likely to continue for at least 3 years from date of application
  - Supplemental Security Income (SSI)
  - Social Security Disability Income (SSDI)
  - Social Security Income (SSI)
Where to Get More Information

- 1-800-CALL - FHA (1 – 800 – 225 - 5342)
  - A source for all FHA questions
  - Lenders and Consumers

- www.hud.gov
  - On-line resource for info about FHA and FHA programs
  - On-line resource for other types of programs, forms, press releases, etc.
  - User friendly

- www.hud.gov/answers
  - On-line resource to frequently asked questions
The U.S. Department of Housing and Urban Development would like to thank you for your interest in FHA and FHA programs.