Session 9

FHA Fricassee

2:45 p.m. – 4:00 p.m.

Nancy West

U. S. Dept. of Housing & Urban Development
U.S. Department of Housing and Urban Development
Revised September 21, 2012
Today’s Agenda

- Changes in FHA programs that may affect your transactions
  - Prior to 2011 – new or returning to FHA
  - 2011 Changes
  - 2012 Changes
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) Health, Safety, and Soundness
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”
Housing and Economic Recovery Act of 2008 - HERA

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”
Key Provisions of HERA Continued

- 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

Purchase Transaction

- Maximum LTV for purchase simplified
  - 96.5% of sales price or appraised value
  - Whichever is less

- 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% (ok)

- 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
Short Sales and Short Pay Offs

- Borrowers not eligible for FHA insured mortgage if pursued a short sale for 3 years
  - 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
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
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

Additional guidance to be provided in future Mortgagee Letters
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
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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>Purchase Price/Appraised Value</td>
<td>$100,000</td>
</tr>
<tr>
<td>Offer Price</td>
<td>$100,000</td>
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<tr>
<td>Downpayment</td>
<td>$100</td>
</tr>
<tr>
<td>Base Loan Amount</td>
<td>$99,900</td>
</tr>
<tr>
<td>Upfront Mortgage Insurance Premium</td>
<td>$999</td>
</tr>
<tr>
<td>Total</td>
<td>$100,899</td>
</tr>
</tbody>
</table>

Borrower must bring in a total of $999 – 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.
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:
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
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
50% maximum FHA concentration

- Projects with three or 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
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

Mortgagee Letters:

- Temporary ceiling/limits
  - Most recent extension - December 2011
  - 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 its 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
Mortgage Insurance Premiums

- 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
Existing Programs Not Affected

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

- Annual/Monthly Insurance Premiums increased
  - Regardless of loan amount or term of loan
    - Except 15 year term with LTV of 78% or less
  - Additional changes/increases to annual/monthly take effect with Case Number Assignments June 11, 2012
### Annual/Monthly Premiums Case
Numbers Assigned June 11, 2012

<table>
<thead>
<tr>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Effective</th>
<th>Annual MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>$625,500</td>
<td>95.00%</td>
<td>June 11, 2012</td>
<td>120 bps</td>
</tr>
<tr>
<td>$625,500</td>
<td>95.00%</td>
<td>June 11, 2012</td>
<td>125 bps</td>
</tr>
<tr>
<td>Above $625,500</td>
<td>95.00%</td>
<td>June 11, 2012</td>
<td>145 bps</td>
</tr>
<tr>
<td>Above $625,500</td>
<td>95.00%</td>
<td>June 11, 2012</td>
<td>150 bps</td>
</tr>
</tbody>
</table>

**Term ≤ 15 Years with LTV above 78%**

<table>
<thead>
<tr>
<th>Base Loan Amount</th>
<th>LTV</th>
<th>Effective</th>
<th>Annual MIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>$625,500</td>
<td>90.00%</td>
<td>June 11, 2012</td>
<td>35 bps</td>
</tr>
<tr>
<td>$625,500</td>
<td>90.00%</td>
<td>June 11, 2012</td>
<td>60 bps</td>
</tr>
<tr>
<td>Above $625,500</td>
<td>90.00%</td>
<td>June 11, 2012</td>
<td>60 bps</td>
</tr>
<tr>
<td>Above $625,500</td>
<td>90.00%</td>
<td>June 11, 2012</td>
<td>85 bps</td>
</tr>
</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).
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
Elimination of HUD HQ concurrence of affordable housing programs with borrowers whose household income exceed 115% of the area median income

- Approval now done through HUD/FHA Homeownership Center where program offered
  - May not exceed a maximum of 140%
  - No exceptions allowed above 115% for Hawaii
Secondary Financing Eligibility for IRC Section 115 Nonprofits

- Rescinded Mortgagee Letter 2009 – 38 and now superseded in its entirety
- All 501(c)3 and IRC Section 115 non-profit “Instrumentalities of Government” providing secondary financing with an FHA insured mortgage must be a HUD approved non-profit
  - IRC Section 115’s currently operating without approval must be approved by June 12, 2012

IRC = Internal Revenue Code
Waiver of Requirements of 24 CFR 203.37a(b)(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

Closing Loan in the Name of an FHA Approved Mortgagee Acting as a Sponsored Third Party Originator (TPO)

- Effective February 10, 2012
- A non-FHA approved sponsored third party originator
  - Does not hold a Title II origination agreement and may not purchase or hold FHA insured mortgages
  - Loan originated by non-FHA approved sponsored TPO’s must close in the name of the sponsoring FHA approved mortgagee
Closing Loan In Name of TPO

Continued

- An FHA approved mortgagee acting as a sponsored third party originator is
  - Authorized to originate Title II mortgage loans for sale or transfer to a sponsoring FHA approved lender or mortgagee which holds a valid Title II Origination Agreement
  - May close loans in its own name
    - When choosing to act as a TPO due to its’ approval due to its approval by the Secretary and in accordance with the requirements of the National Housing Act
February 2012

Miscellaneous Underwriting Issues

- Identity of interest effective 4/1/12
  - Definition of family member clarified

- FHA’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

<table>
<thead>
<tr>
<th>REFERENCE AND DOCUMENT TYPE</th>
<th>IF FHA TOTAL MESSAGE IS</th>
<th>NEW GUIDANCE</th>
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</thead>
<tbody>
<tr>
<td>HUD 4155.1 4.D.4.f Year-to-Date Profit &amp; Loss (P&amp;L) and Balance Sheet</td>
<td>Accept</td>
<td>P&amp;L and Balance Sheet required if more than a calendar quarter has elapsed since date of most recent calendar or fiscal-year end tax return was filed by the borrower – with no exceptions. Additionally, if income used to qualify the borrower exceeds the two year average of tax returns, an audited P&amp;L or signed quarterly tax returns obtained from IRS are required.</td>
</tr>
<tr>
<td></td>
<td>Refer</td>
<td>Same requirements as an “Accept”.</td>
</tr>
</tbody>
</table>

When reviewing income documentation, lenders are still required to comply with requirements of HUD Handbook 4155.1 4.D.4.g, which states: To determine if the borrower’s business is expected to generate sufficient income for his/her needs, the lender must carefully analyze the business financial strength, including the source of the business income and general economic outlook for similar businesses in the area.

Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable, even if the current income and debt ratios meet FHA guidelines.
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
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
August 2012

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 homebuying process can seem complicated, but if you take things step-by-step, you will soon be holding the keys to your own home.

Overview

The Federal Housing Administration, generally known as “FHA”, is the largest government insurer of mortgages in the world. A part of the United States Department of Housing and Urban Development (HUD), FHA provides mortgage insurance on single-family, multifamily, manufactured homes and hospital loans made by FHA-approved lenders throughout the United States and its territories. While borrowers must meet certain requirements established by FHA to qualify for the insurance, lenders bear less risk because FHA will pay the lender if a homeowner defaults on his or her loan. FHA has insured over 38 million home mortgages and 47,205 multifamily project mortgages since 1934. Currently, FHA has 6.1 million insured single-family mortgages and 13,000 insured multifamily projects in its portfolio. Clearly, FHA provides a huge economic boost to the country in the form of home and community development, particularly in today’s challenging financial climate.
FHA Frequently Asked Questions

Important Changes to HUD/FHA Communication Options

The FHA Resource Center acts as the first line of defense for the majority of industry and public inquiries about FHA programs and services. HUD/FHA believes that the Resource Center allows members of the industry and the general public to quickly obtain the information they need while improving the consistency and accuracy of the information FHA provides. The email address and FAQ site are integral parts of the FHA Resource Center and FHA is anxious to spread the recent changes to our internal and external partners.

Due to an internal system change we are now able to provide a more appropriate and easier to remember email address and FAQ site address for our clients.

The address changes outlined below go into effect on Saturday, August 13. Both the existing FAQ site and email address will no longer be valid beyond that date and clients should begin utilizing these new addresses exclusively on August 13.

The new address information is:
- Primary Email address is now answers@hud.gov
- Site address for the FHA FAQ site is now www.hud.gov/answers

Please note that there is no change to the primary Resource Center telephone number which remains 1-800-CALLFHA (225-5342)

SEARCH BY KEYWORD SEARCH BY CATEGORY SEARCH TIPS
Keyword: gift funds

Submit a Question

13 Answers Found

<table>
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<tr>
<th>NBR</th>
<th>FAQ's</th>
<th>LAST EDIT</th>
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<tbody>
<tr>
<td>1</td>
<td>Can gift funds be used to pay for prepaids and closing costs?</td>
<td>2011-05-06</td>
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<td>2</td>
<td>Can gift funds be provided from a friend or other unrelated party?</td>
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<td>3</td>
<td>Can a non-profit who is the seller of a property provide gift funds?</td>
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<td>4</td>
<td>Can gift funds come from the employer?</td>
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<td>5</td>
<td>Where can I find the guidelines regarding gift funds?</td>
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<td>6</td>
<td>Can gift funds come from the seller, lender or other interested party?</td>
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<td>7</td>
<td>How do lenders document gift given in the form of cash?</td>
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<td>8</td>
<td>Can I receive a loan from a family member rather than a gift?</td>
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<td>9</td>
<td>Does HUD allow gifts of equity?</td>
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<td>10</td>
<td>What seller contributions are considered inducements to purchase?</td>
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<td>11</td>
<td>How do I know if funds received from a non-profit or downpayment assistance provider are eligible?</td>
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<tr>
<td>12</td>
<td>How do I find HUD approved nonprofit organizations that provide down payment assistance using secondary financing programs or gifts?</td>
<td>2011-05-06</td>
</tr>
<tr>
<td>13</td>
<td>Can a realtor give a gift of their commission for the downpayment?</td>
<td>2011-05-06</td>
</tr>
</tbody>
</table>
The U.S. Department of Housing and Urban Development would like to thank you for your interest in FHA and FHA programs.