

FHA Update



Presented by the FHA Office of
Business Development
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Topics

- Filling the Void
- FHA Program Advantages for Borrowers
- Standard Underwriting Guidelines Overview
- 203k & Energy Efficient Mortgages
- Recent Policy Updates
- Questions?

FHA is Filling the Void

- Market share: over 20% in 2009 vs. 3% in 2006
- Projected to receive 3 million applications and to endorse 2.1 million loans in 2009
- Over \$300 billion in loan volume
- Over 2000 new FHA-approved lenders in 2008.



Advantages of FHA Financing



Borrower Advantages

- 1-4 unit properties
- 3.5% downpayment
 - 100% gift acceptable
 - Flexible secondary financing guidelines
- Reserves not required on 1 & 2 unit properties
- Expanded qualifying ratios – EEM (33/45)
- Non-traditional credit is acceptable

Borrower Advantages

- Seller contributions up to 6% regardless of LTV
- Non-credit qualifying streamline refinances
- No prepayment penalties
- Assumable
- Extensive loss mitigation tools available

Who is Going FHA?

- High-income borrowers are the fastest growing segment.
- Borrowers with incomes above area median are over 45% of all endorsements, up from 28% in 2005.
- High-income borrowers claim rates are just half those of the portfolio average.



FHA Single-Family Insurance Endorsements Median Borrower Characteristics

Characteristic	Percentage
Average FICO	697 Purchase 678 Refi
First-time Homebuyer (share of home purchase loans only)	79.4%
Refinance	36.4%
Purchase	58.8%
HECM	4.8%

* All information updated as of August 31, 2009.

Standard FHA UW Procedures



Borrower Eligibility

- May be a permanent or non-permanent resident alien.
- All borrowers must have a SSN; ITIN is not acceptable.
- May be occupants or non-occupants (co-signers); at least one borrower must be an occupant.
- No income limit; minimum income is that required to qualify for payments.
- Must be primary borrower's primary residence.
- Must occupy within 60 days & live there for at least 1 year.
- Borrowers may have only one FHA mortgage at a time unless...

Borrower Eligibility

Exceptions to one FHA loan at a time policy include:

- Borrower is relocating outside the commuting area
- Borrower's family increases in size
- One borrower is vacating a jointly-owned property
- Non-occupying co-borrowers

Cash Investment Requirements

- Minimum 3.5% cash investment – this does NOT include closing costs or prepaids paid by borrower.
- Cash investment is based on the lesser of the sales price or appraised value.
- Upfront mortgage insurance premium can be financed as part of the mortgage.
- No minimum credit score; non-traditional credit is acceptable.
- Seller (or other “interested party”) may contribute up to 6% of sales price toward borrower’s closing costs and prepaids.

Cash Investment Requirements

Acceptable Sources of Borrower's Cash Investment

- Borrower's own savings
- Gift from a relative, employer or union
- Gift, grant or secondary financing from state and local government programs
- Gift from non-profit organizations not connected to an interested party
- Bridal Registry
- Sweat Equity (on new construction cases)

Property Eligibility

- Property must consist of 1-4 units
- Detached, semi-detached, attached and condos
- Existing and new construction (stick-built and modular)
- Manufactured homes
- Co-ops restricted to developments where HUD insures master mortgage
- Mixed use properties are eligible:
 - ✓ Commercial space cannot exceed 25% of gross square footage

203(k) Rehabilitation Loans and Energy Efficient Mortgages



What is Section 203k?

- One loan to finance both acquisition and rehab of a property.
 - To purchase a home and rehab it.
 - To refinance a mortgage and rehab a home.
- Mortgage amount based on projected value of the property with the work completed.
- Repair escrow account created and repairs completed after closing.

Two Types of 203(k) Loans

- *Standard*
 - Any repair or improvement, capped only up to as-repaired value or max mortgage limit. Minimum \$5,000.
- *Streamline*
 - Extent is limited to minor repairs (no consultant or plans) up to \$35,000.

Property Eligibility

- 1-4 unit property – must be completed for at least 1 year.
- HUD REOs as indicated on website.
- Manufactured Housing.
- Mixed-use and condo properties may be eligible.
- Cooperative units are not eligible.



Energy Efficient Mortgage (EEM)

- Maximum FHA insured loan, using standard underwriting procedures.
- Eligible properties are 1-4 unit existing and new construction.
- FHA maximum loan limit may be exceeded by the cost of the energy efficient improvements.
- Home Energy Rating System (HERS) summary required

What can be financed?

The mortgage loan amount for an EEM can be increased by the cost of effective energy improvements.

The maximum amount of the portion of the EEM for energy improvements is the lesser of 5% of:

- * The value of the property, or
- * 115% of the median area price of a SF dwelling, or
- * 150% of the conforming Freddie Mac limit.

EEM Example

- Value \$300,000 x 5% = **\$15,000**
- 115% of median area price (\$240,000) \$276,000 x 5% = \$13,800
- 150% of Freddie Mac Limit (\$417,000) \$625,500 x 5% = \$31,275

Lowest of the three calculations is the maximum amount of EEM improvements that can be financed.

Recent Policy Updates



What does it mean?

ML09-28 Appraiser Independence

Restates FHA's longstanding policies about the requirement for appraisers to be independent and impartial.

ML09-29 Appraisal Portability

1. Expedites loan closing when a borrower decides to transfer their application to another lender during the transaction process.
2. Esures lenders are not obtaining second appraisals to get a higher value or to eliminate required repairs.

ML09-30 Appraisal Expiration Date

Brings FHA appraisal expiration in line with conventional guidelines.

What does it mean?

ML09-31 Strengthening Counterparty Risk Mngmt.

Limits those that can participate in FHA programs and set additional guidelines for lenders and industry participants that advertise FHA programs.

ML09-32 Revised Streamline Refi

1. Reduces the risk of refinancing FHA mortgages that have a higher probability of early payment default.
2. Ensures that the transaction provides a net tangible benefit for the borrower.

What does it mean?

- **ML09-38 Update on Eligibility Requirements for Nonprofit Instrumentalities of Government**

Expands the number of non-profit s that are eligible to provide secondary financing. Therefore, the homeownership opportunities are increased for low to moderate income borrowers.

Recap

- FHA programs continue to fill the void for affordable mortgage financing.
- Policy updates will continue to:
 - Ensure a stable insurance fund for the long-term
 - Improve controls that protect the borrower
 - Mitigate mortgage fraud



QUESTIONS?

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