

**FHA/MBA Industry Meeting Notes from the  
FHA Bimonthly LIVE Online Conference  
May 20, 2008  
Risk-based Premiums and FHA*Secure***

**Attendance**

**Participants:**

FHA

Joanne Kuczma, Director, Home Mortgage Insurance Division  
Susan Cooper, Senior Advisor, Home Mortgage Insurance Division  
Margaret Burns, Director, Office of Single Family Program Development

MBA

Corey Carlisle, MBA Senior Director of Government Affairs  
Judith Smith, Member of MBA Residential Board of Directors, Chair of MBA Loan Production Committee, President of Judith Smith Mortgage (Fort Worth, TX)

**Presentation**

Powerpoint: MBA+Presentation+052008+Final+.pdf

**Introduction**

Corey Carlisle

**Welcome**

Judith Smith

FHA*Secure*

Joanne Kuczma

- Program initially announced in Mortgagee Letter 2007-11
- Since then, HUD accepted comments on www.fha.gov and now released ML 2008-13 to expand the program
- FHA has done a significant number of these loans since first ML issued – FHA records daily statistics on this program – on pace to help 500,000 homeowners by year’s end
- Goal of program: help people refinance into safer, prime product
- Primary changes to the program made through the update:
  - o Borrower can qualify if defaulting from interest rate reset or extenuating circumstances/temporary economic hardship
  - o Previous payment history requirements for 97% LTV and 90% LTV
  - o Interest Only ARMs do not qualify
  - o Payment Option ARMs are still permissible if delinquency resulted from an interest rate reset and the prior 6 months of payments were all on-time
  - o Comprehensive set of FHA*Secure* Guidelines
- Underwriting requirements remain the same
- Premium increase for delinquent loans:
  - o 225 bps up-front premium
  - o 50 bps annual premium when LTV is less than or equal to 95
  - o 55 bps when LTV is greater than 95

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Risk-based Premiums

Joanne Kuczma

- Effective for all loans for which case numbers are assigned on or after July 14, 2008
- To get a break in the upfront and annual premiums, a first-time borrower or borrowers with specific LTVs needs to be counseled at a HUD Housing Counseling Agency
- There are few changes to the program since the notice was issued and comments were received:
  - No changes to underwriting standards: FHA is not implementing this to allow a more risky borrower or to lower standards
  - When underwriting, there will be some more accept/approves and a reduced number of “refers”
  - Most borrowers’ premiums remain unchanged: FHA did not want to increase premiums for traditional FHA borrowers so those remain the same
- In response to the comments received on the initial notice, FHA is implementing the following in the policy:
  - Using LTV rather than down payment
  - No special premium is charged based on type of down payment
  - Non-traditional credit borrowers are permitted
- We often hear that FHA borrowers are in the 500 range of credit scores
  - Untrue: 50% of FHA borrowers have a credit score of 620 or above
  - 23% have credit scores between 680 - 850
- Status quo is not an option for FHA: if the RBP changes aren’t implemented, FHA will require \$1.4 billion in appropriations to operate; even if FHA increases the premium to 225, they will need \$607 million in 2009 to operate

**Q&A Session**

**Qs:** Call-in participants and online queue

**As:** Joanne Kuczma, Susan Cooper, Meg Burns

The following Questions were submitted online and on the telephone:

**General Questions**

**1. Can you clarify the color scoring on the matrix in the presentation?**

The colors in the matrix reflect the claim rates for the buckets, LTV and credit score, which help to explain how the premiums and claim rates correlate.

**2. Is FHA planning to issue any policy updates on condominiums and manufactured homes in the near future?**

The updates to policies on condominiums are dependent on the passage of the FHA Modernization Bill. Primarily, FHA aims to move condominiums out of the 234 program and into 203 (b). Regarding manufactured housing, FHA is currently working on a

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Mortgagee Letter to update the policy and plans to send it through the clearance process soon.

**3. On what figures are the appropriation predictions in the presentation based?**

The figures were derived using the 2007 Book of Business and projecting economic conditions through 2009.

**4. If things improve dramatically, is it possible that FHA will not need these appropriation levels?**

In the event that FHA sees substantial change or improvement among the types of borrowers, the need or level of required appropriations could be affected. However, FHA only has historical figures to determine the level of appropriations it will need and will have to make predictions using these figures. Regardless of any predicted improvement for the future, we do not expect to see a large number of less risky borrowers because of both seller-funded down payment assistance and the number of FHA*Secure* borrowers.

**5. The use of the 2007 Book of Business to project economic conditions through 2009 is understandable. However, it could not have been predicted that FHA business would be up 150% as it is today.**

This dramatic increase may be temporary. We do not have a full understanding of housing market conditions and how they may change in the future. Therefore, we cannot predict whether or to what extent FHA will have to increase premiums or request appropriations in the future.

**6. Is FHA's intended plan to ask for \$607 million in appropriations and raise the premium to 225, or ask for higher appropriations and retain lower premiums?**

We haven't determined this yet. Even if the premium were raised to 225, the \$607 million in appropriations would not be adequate.

**7. Will there be any training provided by FHA for FHA*Secure* and Risk-based Pricing?**

FHA realizes how beneficial it is to conduct training. We are conducting training all over the country this month. All 4 HOCs have training going on until the end of the fiscal year. Go to [www.fha.gov](http://www.fha.gov) and go to the Lenders page. This page will show all of the training events taking place.

**8. Which screens on the FHA Connection will calculate and display the up-front MIP? For Streamline Refinances, the case number assignment screen will feed back the appropriate premium to be charged. For all other loans, the AUS feedback message will include the appropriate premium.**

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**Loan Transmittal Forms**

- 9. Regarding the New Loan Transmittal Form, how long will it be before the new 92900-LT becomes mandatory?**

According to ML 2008-15 issued on May 22, the HUD-92900-LT, which will replace the HUD-92900-PUR and the HUD-92900-WS, may be used by mortgagees beginning on June 9, 2008. It then becomes mandatory and must be used for all loan applications taken on or after October 1, 2008.

- 10. When will revised Refinance Worksheets be published?**

FHA has no plans to revise the refinance worksheets, which served as models on how to complete the MCAW. The MCAW is being replaced by the Loan Transmittal form, HUD-92900-LT. To learn more on the new Loan Transmittal form, individual HOCs may provide training on the new form and how to use it. Further information on this form and its implementation is provided in Mortgagee Letter 08-15. The 203(k) worksheet for maximum loan amount is still required in addition to the Loan Transmittal Form.

**Risk-Based Premiums**

- 1. On what time period are the data used to determine borrower profile in the presentation based?**

This data is from 2007. FHA has been getting borrowers with slightly higher credit scores and lower LTVs. We expect the borrower profile to remain approximately the same. Some of the better business that we have seen has been coming from increased loan limits and the economic stimulus, but we will have updated data on borrower profiles in June of 2008.

- 2. Are loans originated prior to 7/14/08 and closed after 7/14/08 subject to the old MIP?**

If the case number was assigned before 7/14/08, the old MIP is applicable.

- 3. In the Notice on RBPs (as posted in the Federal Register on page 27705), it says that HUD has the authority to make changes to the RBPs but they cannot exceed the respective statutory limits. Does HUD intend to make changes to the RBP to meet the statutory maximum? We do not want to modify our software just to have to revise it again later.**

**Also, does HUD anticipate requesting statutory changes to allow FHA to change the limit to above 225?**

HUD has the discretion to charge upfront and annual insurance premiums that are greater than 0% but do not exceed the statutory limits, as supported by the statutory authority granted in the National Housing Act. We do not intend to make changes that will increase

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the premium to the statutory maximum across all loans. Additionally, at this time, we cannot predict if HUD will request changes to the statutory limits.

**4. Does the RBP apply to 15-year loans?**

Yes, but the matrix differs for 15 year loans and loans that are greater than 15 years. In the Notice issued on May 13, 2008, there are two charts on annual and upfront premiums – one is for loans with loans terms greater than 15 years and the other is for loans with loan terms that are 15 years or less. Please refer to the notice for the specific type of loan that you are looking for and the appropriate matrix to use.

**5. Does FHA know when and how often the Risk-based Premiums will adjust?**

We do not anticipate changing premiums frequently, but we will review them on an annual basis. FHA will announce any change 60-90 days before it goes in effect so that everyone has time to make necessary adjustments.

**6. Joanne stated that the risk-based pricing applies to all FHA production. I thought I had read that it does not apply to Hawaiian Homelands, Indian Reservations, and a few other sections of the act. Can you confirm that these sections are not impacted by the change?**

Risk-based premiums apply to those forward mortgages insured under FHA's Mutual Mortgage Insurance Fund (MMIF), the Section 203k rehabilitation mortgage insurance program, and individual condominium units insured under section 234(c). Risk-based premiums 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).

**Risk-based Premium Matrix (LTV & Credit Scores)**

**7. How do we determine which FICO score to use if there are multiple borrowers and/or multiple scores?**

If there are two or more borrowers, the lender should use the lowest score to determine the final decision credit score for the application. This credit score is then used to underwrite the loan.

When three scores are available, the middle value is used. When two credit scores are available, the lower of the two scores is used. When only one score is available, that score should be used. (Refer to the guidelines provided on page 27710 of the notice in the CFR.)

**8. There appears to be a discrepancy between the LTV tiers in the new rule and 24 CFR 203.284. Have you looked at this?**

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Yes, there is a discrepancy between the LTV tiers in the new rule and the CFR. Lenders should use the LTV tiers provided in the new rule.

9. **The tiers in the new Premium Chart do not match the statutory tiers in 24 CFR 203.284 and 203.285 for the annual premiums. For example, the CFR says that there are no annual premiums for 15 year loans when the LTV is less than 90% and there is an annual premium for those loans where the LTV is greater than or equal to 90%. The new premium chart shows no annual premiums for loans that are equal to or less than 90% and a premium charged for loans that are greater than 90%. For loans with LTVs of 90%, will a premium be charged?**

Yes, a premium will be charged for loans with LTVs of 90% or greater.

10. **Based on borrowers with insufficient credit, we cannot include income from a non-occupying co-borrower. Does this mean that when the child is in college, the parent's income cannot be included as qualifying income?**

Mortgagee Letter 2008-11 provides that qualifying ratios are to be computed only on those occupying the property and obligated on the loan and may not exceed 31% of the payment-to-income ratio and 43% of the total debt-to-income ratio. Compensating factors are not applicable for borrowers with insufficient credit references. From this, we would infer that "kiddie condos" are not permitted since ratios are to be computed only on those that occupy the property.

11. **When the TOTAL scorecard gives a "refer", is the Direct Endorsement Lender required to manually underwrite the loan?**

Yes, the DE Lender is required to manually underwrite the loan in this case.

12. **If a borrower has a LTV greater than 95 and is in the 300-399 credit score bucket, and the co-borrower is in a higher bucket, what do we do with the lower credit score? On the grid, the borrower with the lower score is not eligible under that LTV. What will TOTAL do once the two scores are received?**

The decision credit score and the LTV determine the upfront and annual MIPs so this set of borrowers would not be eligible. TOTAL should also say that they are not eligible.

13. **Can you drop off the borrower with the lower credit score?**

Yes, as long as the other borrower(s) that are applying qualify.

**Traditional Credit Score & Non-Traditional Credit**

14. **Regarding the non-traditional credit mortgagee letter and two-month reserves, are the two-month reserves only required if the borrower does not have a housing history or is it required any time non-traditional credit is used?**

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The two-month reserves are required for borrowers with no credit references or references that are only derived from Group II references (see below). For such borrowers, underwriting requirements include 2 months of cash reserves from their own funds – and not from cash gifts - following loan settlement. It also requires that qualifying ratios be computed only on those occupying the property and obligated on the loan, and may not exceed 31% for the payment-to-income ratio and 43% for the total debt-to-income ratio.

For further details on verifying and evaluating non-traditional credit, as well as evaluating borrowers with insufficient credit, please refer to Mortgagee Letter 2008-11.

- 15. The ML references “thin files” even when a score is determined. The ML specifically states: “Mortgage lenders also may use nontraditional credit verification to augment “thin-file” credit reports where a credit score was generated but based on only a few trade lines.” This is seems subjective. What is the definition of a “thin-credit file”?**

Mortgagee Letter 2008-11 states that “thin-file” credit reports are those where a credit score may have been generated but is based only on a few credit lines.

- 16. If there are two borrowers, one with a credit score and one without a credit score and the loan is a TOTAL Accept, do we need to obtain non-traditional credit on the co-borrower without a credit score?**

No, you do not. The premium is based on the borrower who has a credit score.

- 17. If there are two borrowers, one with a credit score and one with non-traditional credit and TOTAL gives an Accept, will the premium be based on the borrower with a traditional credit score?**

Yes, the premium will be based on the traditional credit score. If you get an Accept from TOTAL, you do not need to refer to the non-traditional credit.

- 18. If there are two borrowers, one with a traditional credit score and the other with non-traditional credit, is the underwriter required to use the higher premium among the two borrowers?**

Yes, the higher premium prevails

- 19. If there is a borrower with a score of 500-599 or lower, would we use non-traditional credit (which is higher) or the lower score to determine RBP?**

The lower of the two scores is used to determine the premium.

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**Housing Counseling & Discounts on the MIP**

- 20. Why did FHA only offer a premium discount to first-time homebuyers with FICOs between 500-559 and LTVs above 95? Why not offer a counseling benefit for all first-time homebuyers who are counseled? Additionally, do first-time homebuyers only get the 25 basis point discount with housing counseling where their LTV is 95?**

The criterion for offering this discount to first-time homebuyers is set by the law. Yes, first-time homebuyers only get the 25 basis point discount.

- 21. Does this counseling need to be face-to-face counseling through a HUD-approved agency?**

FHA would like the counseling to be “one-on-one” through a HUD-approved agency, meaning that the borrower should be counseled by a single counselor, as opposed to group counseling or education classes. FHA would prefer that counseling be in-person (or “face-to-face”) but the consumer can opt out of in-person counseling if it is difficult to reach a counseling agency from his or her home. In that case, the counseling may occur over the telephone.

**Refinances**

- 22. For streamline refinances of loans using the new risk-based tiers, does the upfront and monthly premium stay the same?**

If the case number for the streamline refinance is assigned on or after 7/14/08, borrowers will have the upfront premium reduced to 100 bps and have an annual premium of 50 bps.

We are drafting a new Mortgagee Letter now that will further clarify how the risk-based premiums are applied to refinances.

- 23. Streamline Refinances where the case number is assigned after 7/14/08 are not mentioned in notes to the chart. What is the policy on these refinances?**

Although not specifically mentioned in the matrix, the chart will apply to those refinances with a new case number assigned on or after 7/14/08 since that is the effective date of this policy.

- 24. For non-traditional credit qualifying streamlined refinances, do we need to send the file to TOTAL?**

No, we do not normally send it to TOTAL. The borrower pays the premium based on the LTV and non-traditional underwriting requirements.

**FHA*Secure***

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- 1. Does “temporary hardship” include those who are current on their mortgages but are having financial hardship elsewhere? For example, does it include those customers that are current on their mortgage but are delinquent on their other debt?**

Not necessarily. The borrower can be current or delinquent on their mortgage and still qualify for FHA*Secure*. Temporary hardship may include those borrowers who are either current or delinquent on their mortgages and are experiencing economic hardship caused by a rate reset or extenuating circumstances such as illness or job loss.

- 2. Even if the borrower is current on their mortgage but delinquent on other debts, do we still have to establish that the mortgage reset of payment has or will significantly impact the borrower so that we can use FHA*Secure*?**

Mortgagee Letter 2008-13 provides that if the credit report indicates satisfactory credit prior to the reset or extenuating circumstance, and any derogatory credit subsequent to that date can be related to the effects of the reset or extenuating circumstance, FHA will consider for its underwriting standards that the borrower is a satisfactory credit risk.

Mortgagee Letter 2008-13 also provides that underwriters should not automatically penalize borrowers who made their mortgage payment their first priority at the expense of meeting other recurring obligations on time.

- 3. When the term “hardship” is used, does it include refinancing current 1<sup>st</sup> and 2<sup>nd</sup> Adjustable Rate Mortgages that are due to roll?**

This is not necessarily considered an economic “hardship”.

- 4. The program matrix also shows that second and seasoned HELOCs can be included in FHA*Secure*, but should we assume this is only for a borrower who is current? The body of the ML does not reference seasoned equity lines.**

FHA*Secure* has an unlimited CLTV so that you can subordinate any other outstanding liens except federal debt. Additionally, they do not have to be seasoned.

- 5. Am I correct in assuming that the risk-based pricing grid is applicable to FHA*Secure*? If so, does the 225/55 for delinquent borrowers supersede? How about the minimum 500 FICO for LTVs over 90% - how does that play into FHA*Secure*?**

Yes, the risk-based pricing grid is applicable to FHA*Secure*, and the 225/55 for delinquent borrowers does supersede. The minimum 500 FICO for LTVs over 90% also applies.

- 6. For FHA*Secure*, will the back end ratio of 43% be affected and, if so, when?**

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After July 14, 2008, the 43% will be “hard and fast”. You cannot use compensating factors if the borrower does not meet this requirement.

**Suggestions/Open Issues for FHA**

Issue new policy guidance/Mortgagee Letters that clarify the following:

- When determining RBP, which credit score should be used among co-borrowers when one is lower than the other? What about when one borrower is using non-traditional credit and the other is using a credit score? Non-occupying co-borrowers?
- Streamlined Refinancing: explain the program thoroughly and how it works with Risk-based Premiums and FHA*Secure*