

**FHA/MBA Industry Meeting Notes
September 18, 2008**

Attendance

Participants:

FHA

Margaret Burns, Director, Office of Single Family Program Development-FHA
JoAnne Kuczma, Director, Home Mortgage Insurance Division-FHA

MBA

Ken Markison, Associate Vice President and Regulatory Counsel, Government Affairs, MBA

Presentation

Welcome

Ken Markison

Introduction

Ken Markison

The following was covered relating to FHA and HERA:

- Review recent mortgagee letters, M.L. 8-22 Moratorium on Risk Based Premiums for FHA Mortgage Insurance and M.L 8-23 Revised Downpayment and Maximum Mortgage Amounts
- Hope for Homeowners
- New HECM restrictions
- What to expect from upcoming mortgagee letters
- FHA Secure

Recent Mortgagee Letters and What is to Come

Meg Burns

ML08-22 (Moratorium on Risk-Based Premiums for FHA Mortgage Insurance).

Upfront Mortgage Insurance Premiums are as follows:

- Purchase Money Mortgages and Full-Credit Qualifying Refinances is 1.75%
- Streamlined Refinance is 1.5%
- FHA Secure (delinquent mortgages) is 3.0%

Lender Pipelines - Risk Based Premium loans in pipeline currently are OK. The premiums outlined above are for transactions with case numbers assigned on or after October 1, 2008.

Credit Scores - When available credit score must be provided.

Underwriting – Transactions with credit scores below 500 and LTVs > 90% are no longer eligible for FHA Insurance.

ML08-23 (Revised Downpayment and Maximum Mortgage Requirements)

- Requires 3.5% cash investment
- Maximum LTV is 100% of appraised value
- Upfront MIP can be financed subject to the LTV limitation of 100% of appraised value
- Effective date for Revised Downpayment and Maximum Mortgage Requirements is on transactions with FHA Case Number assignment on or after January 1, 2009

HERA eliminates seller funded downpayment assistance on 10/1/08. Any loan using seller funded downpayment assistance with a credit approval dated on or after October 1, 2008 is not eligible for FHA insurance. For loans with a TOTAL Scorecard approval issued prior to October 1, 2008, lenders should avoid, where possible, re-running applications through TOTAL Scorecard for edit updates. Loans with seller funded downpayment assistance will be ineligible for FHA insurance if any credit approval is issued on or after October 1, 2008. Since the elimination of seller funded downpayment assistance is a statutory requirement, FHA does not have flexibility in implementing the change.

Mortgagee Letters in the pipeline:

- 1) HECM- Home Equity Conversion Mortgage Program – The Mortgagee Letter will eliminate lenders' ability to fund counselor services. Their affiliated non-profits also cannot pay for the counseling.
- 2) HECM for home purchase will be published within a month.
- 3) Converting Existing Homes to Rentals—Underwriting Instructions - FHA will issue underwriting guidance for borrowers who seek to purchase a new home while renting their current home. FHA wishes to curtail a “buy & bail” practice in which the borrower misrepresents rental income on the current home in order to purchase a new home.
- 4) Manufactured Housing – The MLs will incorporate the recent legislative changes in HERA including the elimination of the FHA requirement that manufactured housing must be taxed as real estate.
- 5) Energy Efficient Mortgages- ML is currently in clearance
- 6) Condominiums – FHA will revise the process for condominium project approval. There will be two project approval paths. One will be an approval by FHA and the other will delegate approval authority to direct endorsement lenders. FHA would like the lenders who currently have the capacity, undertake these types of review. FHA intends to discontinue the spot loan approval process. The ML has a target date of 11/1/08 and an effective date of 1/1/09.
- 7) Hope for Homeowners- The goal for this program is build on FHA's existing processes, to enhance its ability to serve as many homeowners as possible. FHA is meeting regularly with Treasury, Federal Reserve and the FDIC to develop the program's policies and procedures. All participants are targeting early October for the announcement of the program's guidelines.

Q&A Session

Questions: MBA, call-in participants and online queue

Answers: Meg Burns, Joanne Kuczma

The following questions were submitted by participants via phone and email:

1. If lenders want to avoid rescoring loans after 10/1/08, what are FHA tolerances for data discrepancies between information in the loan file and the initial data submitted to TOTAL, for seller funded downpayment loans still in the pipeline on October 1st?

HUD/FHA is unsure at this time.

2. Will FHA grant credit approval waivers regarding the 10/1/08 deadline for seller funded downpayment transactions for properties affected by the recent hurricane disasters?

No, the 10/1/08 deadline is statutory.

3. What version of TOTAL is to be used for the standard Mortgage Insurance Premiums in ML 08-22?

There will be a new version of TOTAL scorecard – it will be version 2.1 – the cut points will not be different from version 2.0 – the new version will be implemented so that lenders will receive the new MIP requirements in the feedback messaging for the changes effective October 1, 2008. (This is an update to the information provided on the call.)

4. Under the FHA Secure Program is there a CLTV cap?

No, The FHA Secure Program does not have a cap on the CLTV.

5. With the passage of HERA, and a maximum LTV of 100%, will FHA allow cash-out refinances to 100%?

No, in fact, FHA is considering reducing the current limits to below the current 95% LTV.

6. Can the upfront Mortgage Insurance Premium be financed in the FHA mortgage?

Yes, the MIP can be included in the FHA mortgage, up to the HUD 100% LTV limit.

7. Is FHA considering any policy guidance regarding the impact of HR 6694 which would allow seller funded DPAs?

Since HERA terminates the seller funded DPAs on 10/1/08, loans with seller funded DPAs receiving credit approvals after 10/1/08 are not eligible for FHA programs. FHA is moving forward based on current statutory language.

8. FHA Secure allows subordination of existing secondary financing including HELOCs. Does FHA have any restrictions regarding the characteristics of this resubordinated debt, particularly HELOCs?

FHA is currently evaluating this issue.

9. Some builders are considering the use of FHA's sweat equity as a substitute for DPA. What are FHA's requirements for sweat equity?

The 4155.1 handbook provides the key guidance regarding "sweat equity". The key test is that the prospective homeowner must have the skills to complete the work and the appraiser must document the value of the work that is completed.

10. Can you update us on the origination fees that are allowable under the Hope for Homeowners program?

We are currently working on this issue with the HERA interagency group. We hope to announce the overall program guidelines in October.

11. HERA made changes to the 234 (C) Condo program. How will the changes impact the program?

The upcoming Mortgagee Letter (described above) will address the major changes. There will be some coding changes and we will issue guidance when the changes are made.

12. When the FHA loan limit is reduced on 1/1/09, will FHA loans with mortgage amounts above the new 2009 limits be eligible for an FHA streamline refinance?

The loans will be eligible for FHA Insurance. Ginnie Mae is currently evaluating if the loans will be eligible for Ginnie Mae securitization.

13. Will FHA provide model documents for the HECM for Purchase Program?

FHA is not planning to provide model documents. Lenders should develop documents that are consistent with state and local laws in their markets.

14. Regarding HECM loan limits, will there be a single national loan limit or will they vary at the local level?

As you know, the law is ambitious in this matter. The decision regarding one national limit or geographic area limits will be made in November. We plan on issuing guidance by January 1, 2009.

15. Some non profits are considering charging consumers for HECM counseling. Are there any standards regarding reasonable fees for this type of counseling?

Agencies participating in HUD counseling programs can charge a fee that is reasonable and customary. Fees should not be a financial burden for the HECM client. FHA has found

that fees in the \$125 range are appropriate. In spite of the suggested fee, counseling agencies can only charge the actual costs of the counseling.

16. In the Hope for Homeowners program, there are borrower eligibility restrictions for fraud and default on federal debt. The law also requires certifications regarding defaults on previous mortgage and other debts. How will FHA monitor compliance with these requirements?

These types of policies will be worked out by the Home for Homeowners Board. FHA is developing a position so that there are existing systems to capture information such as fraud convictions and defaults on federal debt. Lenders will be expected to rely on these systems. In the instances where the borrower provides certifications, the lender will be able to rely on these certifications.

17. Can you describe the relationship between FHA Secure and the proposed HOPE for Homeowners Program?

Both programs share a common goal to help homeowners stay in their homes. FHA Secure is operational and FHA is considering an expansion of the program. Hope for Homeowners is an entirely new program with its own mortgage insurance and underwriting guidelines. FHA is working with the Department of Treasury, FDIC and the Fed to develop the program guidelines and implement the program.