FHA/MBA Industry Meeting Notes
August 6, 2008

Attendance

Participants:
FHA
Margaret Burns, Director, Office of Single Family Program Development
Jim Beavers, Deputy Director, Office of Single Family Program Development

MBA
Steve O'Connor, Senior Vice President of Government Affairs, MBA
Ken Markinson, Associate Vice President and Regulatory Counsel in the Government Affairs, MBA

Presentation

Welcome
Melanie Santana-Ochs

Introduction
Steve O'Connor

- The Housing and Economic Reform Act is a historic bill: there are provisions in this bill that MBA has been advocating for over a decade, particularly FHA Modernization
- The Bill is good news for industry, housing market, homebuyers
- There are challenges that we face now at MBA: educating members on how to implement provisions of the bill – ongoing effort with calls, training, etc. to help them understand and implement the bill's provisions in the coming weeks
- Thanks for FHA's and HUD's leadership: Brian Montgomery and Meg Burns (critical role as legislation implemented)
- Ken Markinson will also be on the call as a speaker and facilitator

Housing and Economic Reform Act (HERA)
Meg Burns

- We have already received dozens of calls on legislation; this call gives us a great opportunity to answer questions this way instead of having members call MBA with questions

Ken Markinson

- This call will be conducted by MBA asking FHA a series of questions on the legislation and FHA having the opportunity to answer them. We will then open the conversation up to questions submitted online and over the telephone.

Q&A Session

Qs: MBA, call-in participants and online queue
As: Meg Burns, Jim Beavers

The following Questions were prepared by the MBA and asked by Ken Markinson:

1. **The stimulus package increased the FHA loan limits. Can you tell us about the new limits and what they will be?**

   Yes. For forward mortgages, the new floor will be $271,050 and the new ceiling will be $625,500. For all the areas in between, the Loan Limit will be based on 115% of the median sales price for that area. How FHA calculates which limit will apply in each area: FHA runs data on every county and its median sales price. If the median sales price is below the floor, the loan limit for that area is the floor. If the median sales price is above the ceiling, the loan limit for that area is the ceiling. Any median prices that fall between the floor and the ceiling will be based on 115% of the median sales price for that area.

2. **These limits become effective at the beginning of January. They are tied to the GSE limit of $417,000. What happens if the GSE limit goes up?**

   If the GSE limits increases, the FHA limit increases, which is how it works outside of this legislation at the end of every year.

3. **In terms of the area median house prices, when do they come out?**

   To calculate the median house prices, we wait until the 4th quarter of the year so that we have the most data available. We plan to run the data in November and issue a ML in December.

4. **You have already indicated that the limits vary throughout the nation. What are the current FHA high-cost area limits? Is it in the 729 range?**

   Yes, 729 to 750. This range will change in January.

5. **The notion of the "percentage limitation on FHA financing": how does HERA affect it in relation to appraised value?**

   To us, there are a number of provisions that play a role together to dictate the mortgage amount and the LTV cap: the new cash investment requirement of 3.5%; the new LTV limit of 100% of appraised value; and the requirement of the MIP to be added to loan amount before the LTV is taken into consideration. These factors substantially affect what the loan will look like in the future. The amount that the borrower will bring to the table will be larger in the future than it is today.

6. **Regarding closing costs, is that something that the seller can pick up?**

   Yes, our policy is the same: up to 6% would be permissible for the seller to pick up.

7. **Regarding the Mortgage Insurance Premium, the idea is that max amount of mortgage can be increased by the amount of the MIP when the principal obligation to be insured is not greater than 100% of the appraised value. We understand that the premium can be financed as long as the total does not exceed the 100% of the appraised value. Is this correct?**

Yes, exactly.

8. **Risk-based premiums are a policy area that we have been getting a lot of calls about. This law changes the FHA policy drastically. Can you speak to how this law will affect risk-based premiums?**

   We feel terrible that mortgagees have to modify their systems again. We will accept all of those loans in the pipeline from July 14 to October 1 under the RBP structure that we implemented. Until October 1, all of our systems will be operating as though risk-based premiums are in effect.

   For all loans where the case number is assigned after October 1, you will use the new structure, which will be higher than the previous structure. We will have a special premium carved out for those loans under FHA*Secure* for delinquent borrowers (up to the cap of 3.0) and streamline refinance transactions.

   Regarding the Federal Register Notice that explains the new structure, we do not know when it will be issued. We are waiting for the Office of Management and Budget (OMB) to approve of our recommendation. We know that it cuts into preparation time for mortgagees but we have to wait at least another 1-2 weeks for it to be issued. We already have a Mortgagee Letter prepared for issuance.

9. **As it stands, the limits are 2.75 for first-time homebuyers?**

   Yes, if they receive housing counseling. First-time homebuyers would otherwise be charged 3.0.

10. **Regarding the cash-to-close issue presented in the legislation, what we have here are two different restrictions: a change from permitting seller-financed down payment (DP) assistance and the effect of this new provision on other providers of down-payment assistance. Can you take us through what it means for someone to bring 3.5% to the table?**

    The 3.5% down payment means cash or its equivalent. Down payment assistance will be accepted as long as it is not seller-funded. Specifically, the law prohibits specific arrangements where a party to the transaction provides the DP assistance to the borrower. For example, the lender cannot provide down-payment assistance but a relative or friend of the borrower who is not a party to the transaction can.

11. **If I have loans now with DP assistance from a party that is connected to the seller, can I still expect FHA insurance on that loan?**

    The way the law reads, it says that FHA cannot accept any new business for which there was DP assistance and the credit was not approved prior to October 1, 2008. For loans manually underwritten, the credit approval date is the date of the MCAW or loan transmittal worksheet. For loans underwritten through AUS, we will take the last date that the loan was scored to determine if it is insurable.

12. **So if credit approval on a loan with DP assistance is received prior to October 1, we can expect that it will be insured.**

    Yes. As a note, we will not be issuing any additional policy guidance on this subject. We have prepared FAQs and have submitted them to a number of trade associations including MBA.

13. **What if there is a rescoring of a loan through TOTAL? How does that affect the October 1 date?**

    If the loan is rescored, we use the last scoring, which is the one used to determine the borrower's eligibility. This may affect the borrower's eligibility for insurance.

14. **Can you comment on the effect of what this new prohibition will mean to FHA Connection?**

    We will put something in the system that will flag the loan as uninsurable from the outset if it has used DP Assistance. We will ensure that the system has a method in place for recognizing these loans.

15. **What organizations can provide DP assistance?**

    Among others, family, employers, non-profits, and government entities are permitted to provide down-payment assistance, as listed in the new law. It is only those organizations that are affiliated with the transaction that cannot.

16. **The real prohibition here then is against anyone who has an interest as a party in the loan.**

    Yes, exactly.

    Comment: Because the change regarding calculations for the industry is so significant, we plan to issue guidance on the cash investment requirements and the overall calculations for how much the borrower has to bring to closing, the new LTV cap, and new calculation methods. This guidance will be issued by October 1. The effective date for these methods is January 1, 2009.

17. **Moving on to HECMs, the law makes clear that the new limit for forward mortgages will be $417,000. Is that limit applicable to HECMs? Is it the floor or subject to adjustment based on area median house price and is the high-cost limit applicable to HECMs as well?**

    Unfortunately, we do not know the answer to this yet. Because the language is ambiguous, HUD is trying to figure out exactly what the limit will be. Specifically, will it be set or will it fall along a range of limits? We do not have an answer yet but we will send out notice as soon as we know.

If it turns out to be a single national loan limit, we can implement it by October 1; if it is a range, then we will likely wait to run all of the new median prices and implement the limit on January 1, 2009.

18. **In connection with HECM, there is new language on new restrictions on unrelated financial products like annuities or life insurance to HECM borrowers as a condition or requirement of taking a HECM. Do you know when and how these will apply?**

    We know that we need additional information from the industry on this topic, specifically how insurance companies are regulated by the states. We will be putting out a Federal Register Notice to solicit additional information on this subject to determine what is appropriate. We will also have additional calls and discussion with the industry before that Federal Register Notice even comes out. We will draft something regarding this issue 90-120 days from now.

19. **While there is a prohibition for selling insurance or annuities, there is a permissive clause that indicates that title, hazard, flood, or other peril insurance can be sold in conjunction with the HECM as a condition of getting the loan.**

    Yes, these typical insurance products are still permitted for sale in conjunction with the reverse mortgage.

20. **Regarding HECMS for purchase, how do they work?**

    Borrowers will be permitted to purchase a home and convert that mortgage into a HECM all in one transaction. It will work like a standard HECM - the calculation of the principal limit is exactly the same. Essentially, the senior will not have to pay two sets of transaction costs.

21. **The maximum origination fees that can be charged: can you comment on them?**

    Today, the maximum origination fees are 2% of the maximum claim amount. In the future, the max origination fees will be 2% up to $200,000 of the maximum claim amount. Anything above the $200,000 will be 1%. The overall origination fee is capped at $6,000. This provision brings benefit to those consumers with higher- valued properties, and preserves an adequate fee for the lenders who are making those loans.

22. **There is a consumer protection provision for HECM originators. Can you comment on that?**

    Regarding brokers, parties who are not approved by FHA to originate FHA mortgages may no longer participate in the origination of HECMs, which means no more “broker advisors”. FHA has already drafted a mortgagee letter on this topic that is in clearance and should be issued in 30 days.

23. **Regarding counseling, what are the new provisions on counseling for HECM and is it okay for the lender to pay for it?**

Lenders may not pay for counseling: not on a 1:1 basis for an individual client and not in a lump sum to an organization. We have been asked: "What about lender-affiliated non-profits such as lender sponsored foundations?" These organizations cannot provide funding. We have also been asked whether lending organizations that provide funding for other types of counseling services are still permitted to provide such funding. The answer is yes - we highly encourage lenders to do this.

One other change to counseling policies is that, going forward, all HECM counselors will have to be trained, tested, pass the exam, and follow the counseling protocol. We plan for this to take effect in late fall or winter.

24. Regarding the HOPE for Homeowners program, Congress has authorized up to $300 billion to help borrowers refinance into FHA products. Can you provide us with the contours of the program? How does it relate to FHA*Secure* – does it trump it?

In Single Family, we hope to see FHA*Secure* continue beyond the end of this calendar year. We want to make the distinctions clear between the two products.

Under FHA*Secure*, the existing lien holder, borrower or originator has flexibility to negotiate with how to deal when existing loan balance is substantially higher than what can be refinanced under the new FHA-insured mortgage. We say that a new subordinate lien can be originated or an existing lien can be modified, there can a write-down, etc. - anything can be done to get consumer out of high-cost subprime loan into FHA*Secure* is fine.

Under HOPE for Homeowners, the FHA-insured mortgage is considered payment in full against any and all existing liens against that property. The existing lien holder may have to take a loss. Under the HOPE for Homeowners program the borrower shares future property appreciation with FHA. The only hope for some recovery for these lien holders is a provision that allows FHA to share the appreciation with the lien holders.

FHA*Secure* dictates what the borrower's payment record must be during the 12 months prior to using it: the borrower must have no more than 3 30-days late. HOPE for Homeowners doesn't have guidelines yet, but will probably be more lenient than FHA*Secure*'s standards.

Under HOPE for Homeowners, borrowers whose front end ratio is 31% or greater are eligible for the program. FHA*Secure* does not dictate any similar affordability standards.

HOPE for Homeowners will likely be applicable for any type of mortgage product, while FHA*Secure* is available only for borrowers of non-prime ARMs.

For FHA*Secure*, the Upfront MIP is premium is 2.25% and a .55% annual fee. For HOPE for Homeowners, the premium is 3.0 % upfront and 1.5% annually. This, combined with the equity sharing arrangement, will make HOPE for Homeowners more costly for borrowers. Upon sale or refinancing the borrower will have to share equity with FHA on a declining basis for years 1 through 5. After year 5, FHA will continue to receive 50% of the equity.

The board for HOPE for Homeowners will be making any remaining decisions on the program's provisions, as well as the underwriting standards for the program. The Board is made up of members of the Federal Reserve, the FDIC, the Treasury and FHA.

The following questions were submitted online and on the telephone.

25. **Closing costs issue with the new LTV and 3.5% required down payment: currently, the MCAW allows closing costs to be rolled in. Are we still to use this form and roll in the closing costs?**

    Our plan is to put out a new ML over the next 60 days, which will be effective on January 1. The calculation does drastically change the way you do business: you will not be able to put the closing costs into that calculation as you do today, but you can until the effective date.

26. **Related to HECM loans, I learned that loan originators are compensated more; if the consumer takes more cash draw down at the closing. Is FHA aware of this?**

    Yes, we have heard that. The secondary market prefers a HECM where the borrower draws all of the money at once: this makes the loan predictable and prevents interest rate risk. We, at FHA, do not like this because there are many times when it is not in the consumer's best interest to draw all of the funds at once. For example, fixed rate HECMs are currently taken at a 100% upfront draw. If the borrower decides that they do not need all of the funds; they put it into a savings account that pays 2% interest. Meanwhile, they are paying 6% interest on the loan. This is an unwise financial decision for the borrower, because the borrower is losing money. We have told counseling agencies to focus on this and make borrowers aware of the disadvantages of drawing all of the funds at once if they do not need them. We will probably issue some guidance on this issue as well.

27. **The legislation contains a provision that the board establish standards on sharing appreciation going forward: how might this work? What percentage are they thinking this will be? Shared appreciation is very important to lenders.**

    Because there is a board deciding this, we cannot say. In my opinion, all of that shared appreciation will go to the existing lien holder as the incentive to participate.

28. **You said that there is no cash upfront for the subordinate lien holder under the HOPE for Homeowners program. But is it possible for the subordinate lien holder to get money from the borrower outside the transaction, or is it possible for the subordinate lien holder to go to the first lien holder and ask for a specific amount out of the new transaction?**

    It does not read as though it is permissible but we will inquire with the attorneys. We really do want to take a look at the negative features and figure out how we can entice the lien holders to participate. We understand that they will not want to participate if there aren't incentives.

29. Will current LTV factors no longer apply at all after October 1?

Those will no longer apply after January 1.

30. If the loan amount and MIP exceed the 100% appraised value, does the borrower pay the entire MIP in cash or just the amount that exceeds the 100%?

Just the amount that exceeds the 100% will have to be cash.

31. Will the low-cost or high-cost areas be discontinued after October 1?

The new loan limits will be effective January 1. The new high-cost area limit ($625,000) and the floor will continue to be $271,000. The concepts of low and high-cost areas will remain but the numbers will change.

32. Will TOTAL Scorecard distinguish HOPE for Homeowners loans from FHA*Secure* transactions?

Yes, we will likely insert some questions into TOTAL that will ensure that the two products are distinguished. There will also be a new code identifying each type.

33. Has HUD made any determination regarding maintaining an existing residence as a rental as Fannie Mae has?

Yes, we have a mortgagee letter regarding this issue that should be issued in a week or so.

34. Regarding the cut-off date for DPA, when is the loan no longer eligible?

If the MCAW is dated after October 1, seller-funded DPA is not acceptable. The effective date is based on the date of the credit decision.

35. How will the streamline condos rule impact spot approvals, approved projects, and in particularly, detached site condos?

Regarding condos, we will have 3 sets of processes: one permits lenders to approve and certify developments themselves; the second will be an FHA-approval process that will streamline what we do today with approved projects; and the third will be that we will continue the spot-approval process. For single-family detached condos, we are looking to move in the same direction that we did with the Planned Unit Developments where they are not all subject to the same types of approval requirements.

36. Is there any indication regarding how Ginnie Mae will treat HOPE for Homeowners? Will they be thinking along the lines of the pooling for FHA*Secure*? It may be too early in the process to ask this.

Ginnie Mae is still looking at the issue. It has been said repeatedly that this product will not succeed unless there is an interest in the secondary market. Ginnie Mae is actively involved in figuring it out.

37. The Bill states that first-time homebuyers can qualify for a tax credit if they purchase a home by July 1, 2009. The MBA said it was April 1, 2009. Can you tell us which is correct?

(Ken) This not an FHA issue. I do not think that I would do justice to it if is answered here. We will be following up with a series of calls and we will address it then.

38. Will HUD provide a shared equity document for the HOPE for Homeowners program?

We do not know yet. There may be a model document provided to serve as a guide for those who need it.

39. Can a new HECM for purchase be insured if claims were made to FHA over the last three years for the borrower?

Yes, it would work just as it does through CAIVRS today.

40. Regarding the upfront MIP and the changes: we heard you say that it is 2.0%. We have heard differing rates with lenders having said it will be 1.75. We need clarity on this issue.

We do not know what the new premium will be yet. We will issue a new federal register notice next week and a mortgagee letter that will make the premiums effective on October 1. So as of now, everything that is in place is effective.

41. Regarding energy efficient mortgages, there is a limit of 5% annual FHA single family mortgage insurance volume. How will we know when you are approaching the 5%?

It has been a problem in the past with similar volume restrictions. If we anticipate a problem we will issue a notice to the industry.

42. Just to confirm: new premiums are effective October 1?

Yes.