

## FHA Policy Changes Announced January 20, 2010

1. **Mortgage insurance premium (MIP) increase and adjustments to upfront/annual MIP relationship**
  - Raise upfront MIP by 50bps to 2.25%
    - Policy change through Mortgagee Letter – effective in spring
  - **Pursue legislative authority** to increase the statutory cap on the annual MIP. Upon receiving legislative approval, **the upfront/annual premium structure will be adjusted**, with some of the upfront premium being shifted to the annual premium. This shift will allow for an increase to the capital reserve with less impact to the consumer.
2. **New downpayment / credit score requirements**
  - Loans to borrowers with a FICO of 579 or lower will require a minimum 10% downpayment
  - Loans to borrowers with a FICO of 580 or above will require current minimum 3.5% downpayment
  - Policy change through *Federal Register* Notice with comment period
3. **Reduce allowable seller concessions from 6% to 3%**
  - Conform with industry standards and reduce potential value inflation
  - Policy change through *Federal Register Notice* with comment period
4. **Increase enforcement on FHA lenders**
  - Publicly report lender performance rankings to complement currently available Neighborhood Watch data
    - Operational change; does not require new regulatory action
  - Enhance monitoring of lender performance and compliance with FHA guidelines and standards.
    - Implement Credit Watch termination at lender underwriting ID in addition to originating ID
    - Mortgagee Letter – effective immediately
  - Implement statutory authority through regulation of section 256 of the National Housing Act to enforce indemnification provisions for lender's using delegated insuring process
    - Policy specifications through regulation with comment period
  - **Pursue legislative authority** to increase enforcement on FHA lenders. Specific authority includes:
    - Amendment of section 256 of the National Housing Act to apply indemnification provisions to all Direct Endorsement lenders. This would require all approved mortgagees to assume liability for all of the loans that they originate and underwrite
    - Legislative authority permitting HUD maximum flexibility to establish separate "areas" for purposes of review and termination under the Credit Watch initiative. This would provide authority to withdraw originating and underwriting approval for a lender nationwide on the basis of the performance of its regional branches

### Previously Announced Policy Changes Effective January 1, 2010

HUD announced a series of initial policy changes on September 18, 2009 as a first round of risk management.

*Changes implemented via mortgagee letter, with an implementation date of January 1, 2010:*

1. Modifications to streamline refinance documentation requirements
2. New appraisal standards – *implementation date has been extended to February 15, 2010 to enable system changes*
3. Submission of audited financial statements required for supervised lenders

*30-day notice and comment period ended on December 30, 2009 (Comments currently under review to develop final rule.)*

4. Increase net worth requirements for approved mortgagees from \$250,000 to \$1 million within one year and \$2.5 million within three years
5. Eliminate independent FHA approval of mortgage brokers who originate but do not fund loans