

FHA Basics & Updates
July 27, 2011

 Presented by

JMAC Lending

1

FHA Handbooks

2

- Updated, on-line versions of two principal handbooks are available.
- Handbook 4155.1 *Mortgage Credit Analysis for Mortgage Insurance*.
- Handbook 4155.2 *Lender's Guide to the Single Family Mortgage Insurance Process*.
- These handbooks may be found at <http://www.fhaoutreach.gov/FHAHandbook/prod/index.asp>

FHA Handbooks (cont)

3

The screenshot shows the FHA Handbook Portal. It includes a 'Table of Contents' with links to various handbooks and a 'Handbook Hierarchy' table. The table lists the handbook hierarchy and numbering examples.

Handbook Hierarchy	Numbering Example
Handbook	4150.1
Chapter	4150.1.1

FHA Handbooks (cont)

4

- Handbooks are regularly updated to reflect policy changes announced in mortgagee letters.
- Check the “change date” in the handbooks to determine if mortgagee letter changes have been incorporated into the handbooks.
- If not, the mortgagee letter represents official policy until the handbooks are updated.

FHA Handbooks (Cont)

5

The screenshot shows the FHA website interface. The main content area is titled "4. Transactions Involving Unit Properties". Under this heading, there is a "Change Date" field with the value "March 26, 2011". A red arrow points to this field. Below the change date, there is a section for "Mortgage Reserves for Three and Four Unit Property" with a "B.S.A.G." label. The left sidebar contains a navigation menu with categories like "Home Lenders", "Mortgagee Letters", and "Mortgage Insurance".

FHA FAQ's

6

FHA Resource Center

- **Frequently Asked Questions.** Go to fhaoutreach.gov/FHAFAQ. Our online knowledge base helps you find answers 24/7.
- Answers to over 1,200 questions about FHA programs and policies.
- Searchable by category or key word.

FHA Lender Approval

13

Third Party Originators (TPOs)

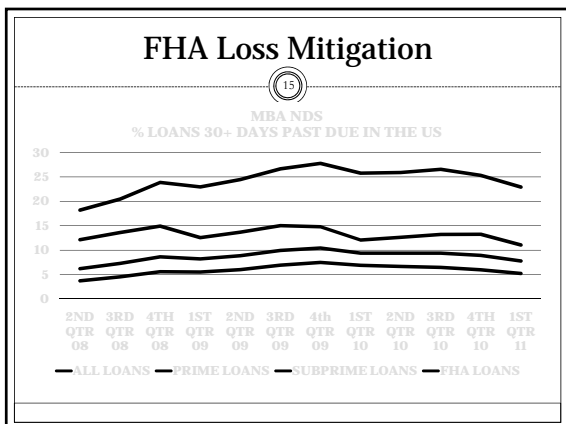
- Any lender, including brokers, sponsored by a HUD-approved mortgagee may originate an FHA loan.
- FHA refers to these lenders as Third Party Originators (TPOs).
- Mortgagees will be held fully responsible for the TPOs they sponsor.

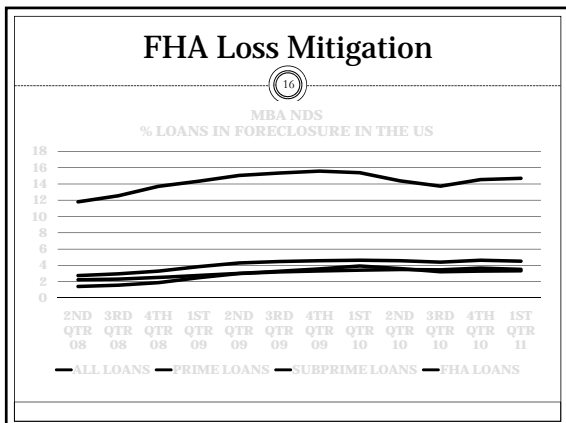
FHA Lender Approval

14

Third Party Originators (TPOs)

- If the TPO has not already been registered in FHA Connection by another lender, The FHA-approved mortgagee must register the TPO using their employer identification number.
- The TPO may not underwrite or approve the FHA loan, or close the FHA loan in their name.
- TPOs do not have access to FHA Connection.
- **Contact Anne** at FHA@jmaclending.com





FHA Loss Mitigation

17

Imminent Default

- For borrowers who can document reduction or loss of income or change in circumstances due to death, serious illness or disability.
- Relief includes forbearance or FHA Home Affordable Loan Modification.

FHA Mortgage Limits

18

- Temporary mortgage limits extended under Public Law 111-242, the Continuing Resolution to fund HUD and other federal agency operations
- Mortgage limits based on lesser of 125% of area median or 175% of conforming loan limit, but not less than 65% of conforming loan limit.
- **ML 10-40**. Effective 01/01/11 – 09/30/2011
<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-40ml.pdf>

FHA Mortgage Limits

19

- At this point, temporary mortgage limits are not expected to be renewed.
- Unless Congress acts, mortgage limits will be capped at levels authorized by Housing and Economic Recovery Act of 2008.
- For an analysis of the impact of this change, review the Market Impact Analysis at http://portal.hud.gov/hudportal/documents/huddoc?id=FHA_Loan_Limits_HERA.pdf

FHA Mortgage Limits

20



FHA Mortgage Limits

21

- High Cost Area "Ceiling"

	1 Unit	2 Unit	3 Unit	4 Unit
Now	\$729,750	\$934,200	\$1,129,250	\$1,403,400
10/01/11	\$625,500	\$800,775	\$967,950	\$1,202,925
- Low Cost Area "Floor" (will not change on 10/01/11)

	\$271,050	\$347,000	\$419,400	\$521,250
--	-----------	-----------	-----------	-----------
- Limits between floor and ceiling vary based on local median sales prices.

FHA Mortgage Limits




Homes & Communities U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FHA Mortgage Limits
Access to the FHA Mortgage Limits page. This page allows you to look up the FHA mortgage limits for your area or several areas, and then list them by state, county, or Metropolitan Statistical Area. Detailed [help](#) is available, or send questions to the [Single Family Administrator](#).

Sorted By:
 State:
 County:
 County Code:
 MSA Name:
 MSA Code:
 Loan Type:
 Loan Year:
 Last Revised:

You may download the mortgage limit data and it's file description using the [File Download Page](#).
 Please Note: Mortgage Limits 2009-07 replaces the HECM limits described in Mortgage Letter 2009-12. It also replaces Forward Limits described in Mortgage Letter 2009-10.

FHA Mortgage Limits



Homes & Communities U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FHA Mortgage Limits List - FHA Forward
Message: MORTGAGE LIMITS SUCCESSFULLY COMPLETED

Mortgage information as of Wednesday, February 25, 2009
 (2 records were selected, 1 records displayed.)


MSA Name	MSA Code	Division	County Name	County Code	State	One-Family	Two-Family	Three-Family	Four-Family	Median Sale Price	Last Revised	Loan Year
ATLANTIC CITY, NJ (MSA)	12100		ATLANTIC	901	NJ	\$473,750	\$760,870	\$762,150	\$872,600	\$225,000	01/01/2009	CY2011

Selection criteria:
 Sorted by: County
 State: NJ
 County: Atlantic
 County Code:
 MSA Name:
 MSA Code:
 Loan Type: FHA Forward
 Last Revised:

The CY2011 limit attached mortgage limits for FHA insured loans are:

	One-family	Two-family	Three-family	Four-family
FHA Forward	\$271,000.00	\$347,000.00	\$419,425.00	\$521,250.00
HECM	\$424,500.00			
Forward Flexible	\$533,850.00	\$644,300.00	\$801,950.00	

Mortgage Insurance Premiums



Up Front Mortgage Insurance Premium (UFMIP)

- The UFMIP for all loans except HECMs and H4H is **1.00%** of the loan amount.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-2.7.2.a>
- No refund of UFMIP is earned when loan is paid off except for certain FHA-to-FHA loans.

Mortgage Insurance Premiums

25

Up Front Mortgage Insurance Premium (UFMIP)

- On an FHA-to-FHA refinance within 3 years, a portion of the unearned UFMIP will be credited to the borrower.
- Schedule for UFMIP credit can be found at <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-2.7.2.i>

Mortgage Insurance Premiums

26

Loan Terms > 15 years

≤ 95.00%	1.10%
>95.00%	1.15%

Loan Terms ≤ 15 Years

≤ 90.00%	0.25%
>90.00%	0.50%

<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-2.7.3.e>

Mortgage Insurance Premiums

27

- For loans with term ≤ 15 years and LTV ≤ 78.00% no Annual MIP is charged.
- New mortgagee letter will correct current schedule. 0.25% Annual MIP will be charged on loans with term ≤ 15 years and LTV between 78.01% and 90.00%.

Mortgage Insurance Premiums

28

Annual premium will be cancelled when...

- Term > 15 years: When payments have been made for at least 5 years and until LTV = 78% (e.g., even if initial LTV is below 78%, MIP must be paid for 5 years).
- Term ≤ 15 years and LTV > 90%: when LTV = 78%.
- <http://www.fhaoutreach.gov/FHAHandbook/product/infomap.asp?address=4155-2.7.3.c>

Mortgage Insurance Premiums

29

LTV for Annual MIP cancellation purposes will be based on ...

- The lesser of the sales price or the appraised value at the time of loan origination.
- New appraisals will not be considered.
- <http://www.fhaoutreach.gov/FHAHandbook/product/infomap.asp?address=4155-2.7.3.d>

FHA Loan To Value Ratio

30

Purchase Loans

- Maximum LTV Not Including UFMIP may not exceed **96.50%**
<http://www.fhaoutreach.gov/FHAHandbook/product/infomap.asp?address=4155-1.2.A.2.b>
- Combined LTV may only exceed 96.5%, where down payment assistance is being provided by a government agency or non-profit instrumentality of government.

FHA Loan To Value Ratio

31

Rate and Term Refinance

- Maximum LTV for FHA 1st mortgage not including UFMIP may not exceed **97.75%**
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.3.B.1.a>
- Maximum combined LTV (FHA 1st mortgage and other liens) may not exceed 97.75%.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.3.B.1.c>

FHA Loan To Value Ratio

32

Cash-Out Refinances

- Maximum LTV for FHA 1st mortgage not including UFMIP may not exceed **85.00%**.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.3.B.2.e>
- CLTV including new subordinate financing may not exceed **85.00%**. No limit on existing subordinate financing.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.3.B.2.d>

FHA Loan To Value Ratio

33

Streamline Refinances Without Appraisal

- No Maximum LTV.
- Mortgage amount equals outstanding principal balance minus old UFMIP credit plus new UFMIP.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.3.C.2.c>

FHA Loan To Value Ratio

34

Streamline Refinances Without Appraisal

- Maximum CLTV for existing subordinate financing may not exceed 125.00%.
<http://www.fhaoutreach.gov/FHAHandbook/product/infomap.asp?address=4155-1.3.C.2.f>

Mortgage Term

35

- Maximum term may not exceed 30 years.
- No requirement that terms be in 5 year increments.
- Exceptions:
 - H4H: Term may be up to 40 years.
 - Streamlines Without Appraisal: lesser of 30 years or remaining term of original loan plus 12 years.

Borrower Eligibility

36

Occupying and Non-Occupying Co-Borrowers

- Take title to the property at settlement.
- Must sign all loan documents including the security instruments.
- Must sign the note.
- <http://www.fhaoutreach.gov/FHAHandbook/product/infomap.asp?address=4155-1.4.A.1.d>

Borrower Eligibility

37

Co-Signers

- Do *not* hold ownership interest in a property
- Must complete and sign all loan documents except the security instrument.
- Must sign the note.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.A.1.e>

Borrower Eligibility

38

Non-Occupying Borrowers and Co-Signers must be...

- Related by blood or marriage; or
- Have a longstanding relationship not arising out of the loan transaction.
- Otherwise, maximum LTV is limited to 75% of value.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.2.B.3.b>

Borrower Eligibility

39

- At least one borrower must be an occupant. Borrower expected to take occupancy within 60 days and reside there for at least 1 year.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.B.2.b>
- No maximum age for borrower. Minimum age is minimum legal age in that state at which a Note can be enforced.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.A.1.b>

Borrower Eligibility



- The property must be the primary borrower's principal residence that is occupied by the borrower for the majority of the year.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.B.2.a>
- Borrowers may have only one FHA mortgage at a time unless...

Borrower Eligibility



Exceptions to one FHA loan at a time policy

- Borrower is relocating outside the reasonable commuting area; **or**
- Borrower's family increases in size; **or**
- Borrower is vacating a jointly-owned home; **or**
- Borrower is a non-occupying co-borrower.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.B.2.d>

Borrower Eligibility



A borrower is ineligible if he or she appears on either

- HUD Limited Denial of Participation (LDP) list; or
- General Services Administration's (GSA's) "*List of Parties Excluded from Federal Procurement or Nonprocurement Programs*"
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.A.2.b>

Borrower Eligibility



A borrower is ineligible if he or she...

- Is presently delinquent on any Federal debt or has a lien placed against his/her property for a debt owed to the United States Government,
 - But may become eligible once he/she brings the account current or enters into a satisfactory repayment plan with the Federal agency.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.A.7.b>

Automated Underwriting



What Is The TOTAL Scorecard?

- Technology Open To Approved Lenders.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.6.A.1.a>
- TOTAL is not an Automated Underwriting System (AUS) like DU or I.P. It is a scorecard that is used *within* an AUS. TOTAL operates as a system-to-system connection to an AUS.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.6.A.1.b>

Automated Underwriting



TOTAL scoring recommendation based on ...

- Credit Score.
- Monthly Housing Expense.
- Loan To Value ratio.
- Mortgage Term.
- Number of monthly payments in reserve.
- FAQs at http://www.hud.gov/offices/hsg/sfh/total/total_faqs.pdf

Automated Underwriting

46

What Do The Recommendations Mean?

- **Accept/Approve** means that, based on the analysis of the credit and capacity to repay, the loan is eligible for FHA insurance.
- **Refer** means that the lender must conduct a manual underwriting review, according to FHA requirements.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.6.A.1.c>

Collections & Judgments

47

- Must collections be paid off?
Collections need not be paid off, but borrower must provide a written explanation for them.
- How about judgments?
Judgments must be repaid in full or be under an approved repayment plan.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.C.2.e>

Employment / Income

48

Employment/Income

- Must verify employment, income for 2 full years. Allowances for school, maternity.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.D.1.b>
- Overtime, bonus can be used if documented for 2 years and likely to continue.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.D.2.b>

Self Employment

49

Self-Employment

- Borrower must have been successfully self-employed for at least 2 years, or
- Self-employed at least 1 year and self-employment is in the same field as previous employment. No credit if less than 1 year.
- <http://www.fhaoutreach.gov/FHAHandbook/pr od/infomap.asp?address=4155-1.4.D.4.c>

Other Income

50

Other Income Can Be Used As Well

- Retirement.
<http://www.fhaoutreach.gov/FHAHandbook/pr od/infomap.asp?address=4155-1.4.D.2.j>
- Social Security.
<http://www.fhaoutreach.gov/FHAHandbook/pr od/infomap.asp?address=4155-1.4.D.2.k>
- Alimony, child support.
<http://www.fhaoutreach.gov/FHAHandbook/pr od/infomap.asp?address=4155-1.4.E#1>

Non-Taxable Income

51

Non-Taxable Income May Be “Grossed Up.”

- Percentage of gross-up may not exceed borrower’s actual tax rate.
- No additional allowances for dependents.
- Lender must document the percentage used.
- If the borrower is not required to file a tax return, use a 25% tax rate.
- <http://www.fhaoutreach.gov/FHAHandbook/pr od/infomap.asp?address=4155-1.4.E.5.b>

Income Documentation

52

Employment/Income Documentation

- Verification of Employment (VOE) from current employer and most recent pay stub.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.1.B.2.d>
- Or, pay stubs covering most recent 30 day period, W-2s from the previous two years, and an oral VOE.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.1.B.2.e>

Income Documentation (cont)

53

Employment/Income Documentation

- To document self-employment, borrower must submit tax returns for last two years.
- YTD income must be verified through Profit & Loss Statements.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.4.D.4.d>

Appraisal Term

54

- Appraisals, both existing and new construction, are valid for 120 days.
<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-2.4.4.d>
- Validity period of appraisals may be extended under certain circumstances.

Extension of Appraisal Term

53

The term of an appraisal may be extended for an additional 30 days where

- The borrower signs a valid sales contract prior to the expiration of the appraisal.
- The borrower is approved for the loan prior to the expiration of the appraisal.

<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-2.4.4.f>

Seller Contributions (concession)

56

Seller Contributions

- Seller (or other “interested party”) may contribute up to 6% of sales price toward the actual cost of the borrower’s closing costs and prepaids.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.2.A.3.b>
- FHA proposed reducing this percentage to 3% of the sales price – this change will take place in a very near future.

Seller Contributions (Concession)

57

Interested parties may not contribute to the borrowers 3.5% minimum cash investment.

- Sellers, builders, realtors, lenders or entities associated with them may provide neither gifts nor loans, neither directly nor indirectly.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.5.B.4.c>
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.5.B.7.b>

Source Of Funds



Acceptable Sources of Borrower's Cash Investment

- Borrower's own savings
- A gift from a relative, employer, union or qualified non-profit.
- Secondary financing or collateralized loans from government agencies or qualified non-profits.
- <http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.5.B.1.b>
