

NAR Regulatory Issue Alert

FHA Changes Announced



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In October 2009, FHA announced that its capital reserve fund had fallen below the congressionally mandated level of 2 percent. The drop in capital reserves has led Congress and the Administration to call for changes to strengthen FHA.

On January 20, 2010, FHA announced major changes to ensure its long-term financial soundness. FHA is trying to balance three fundamental objectives: 1) financial soundness of the FHA insurance fund – ensuring that its capital ratio returns above 2 percent, 2) fulfilling its mission of serving borrowers not adequately served by the private sector and 3) facilitating the recovery of the housing industry and the over-all economy.

NAR has met with the Commissioner on several occasions to discuss the state of the housing market and to underscore FHA's invaluable role. By all accounts the new changes are a victory for home buyers. FHA has carefully balanced the need to make financial reforms with the need to keep FHA available to a large segment of consumers. This is evident by retaining the 3.5 percent minimum down payment requirement and allowing the upfront mortgage insurance premium to be financed.

FHA announced changes in the following areas:

- The upfront mortgage insurance premium (UFMIP) will increase to 2.25 percent up from 1.75 percent. Contrary to reports, FHA will continue to allow the financing of the UFMIP.
- Borrowers with a credit score below 580 will be required to have at least a 10 percent down payment. The minimum down payment will remain at 3.5 percent for all other borrowers.
- FHA will seek legislative authority to increase the annual premium (currently capped at .55 percent). Over time, increasing the annual premium may allow FHA to reduce the upfront premium.
- Seller concessions will be reduced to 3 percent from 6 percent.

FHA will make the following lender enforcement changes:

- FHA will implement credit watch terminations at lender underwriting.
- Public reporting of lender performance through scorecard system will be implemented.
- FHA will implement, through notice and comment, indemnification against lenders. Indemnification will be expanded beyond fraud and misrepresentation.
- FHA will seek legislative authority to enforce indemnifications against direct endorsed (DE) lenders.
- FHA will seek legislative authority to sanction lenders nationwide based on performance of local branch.

FHA is an integral part to the continued recovery of the real estate industry and the overall economy. NAR will continue to work with FHA, the Administration, and the Congress to ensure FHA can fulfill its mission while providing for the safety and soundness of the insurance fund. NAR is committed to assisting FHA as they balance risk management with creating homeownership opportunities across the country.