COME HOME TO **FHA**

HOW FHA HELPS REALTORS® SELL MORE HOMES




ONE- TO FOUR-FAMILY HOMES / **CONDOMINIUM UNITS** / ADJUSTABLE RATE MORTGAGES / **MANUFACTURED HOMES** / REHABILITATION MORTGAGES / **STREAMLINED 203(K) LIMITED REPAIRS** / ENERGY EFFICIENT MORTGAGES / **HOUSING COUNSELING** / GOOD NEIGHBOR NEXT DOOR / **HOME EQUITY CONVERSION** / DISASTER VICTIMS / **INDIAN RESERVATIONS**

REALTOR®
NATIONAL ASSOCIATION OF REALTORS®
The Voice For Real Estate®

Real Strength.
Real Advantages.

“Demand for these once-neglected mortgages has surged because they do not require the hefty down payments or stellar credit scores that lenders have come to expect from borrowers.”

“FHA Loans Emerge From the Sidelines,” *The Washington Post*, June 10, 2008

Design by Sensical Design & Communication

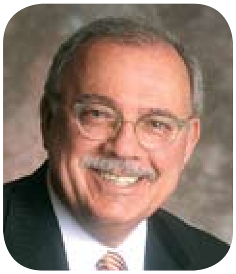
FHA: OUR PARTNER IN TURNING DREAMS INTO REALITY

After our decades in the business, there is still no better feeling than when we can hand a first-time homebuyer the keys to their home. Since 1934, the Federal Housing Administration has been helping REALTORS® in communities across America make homeownership dreams come true. More recently, the FHA program has been streamlined to help us serve even more families.

In 2006, NAR extended our natural partnership with FHA to bring you the brochure *Shopping for a Mortgage? FHA Improvements Benefit You*. We are excited to report that NAR is again building on our partnership with FHA to bring you this valuable toolkit. We encourage all REALTORS® to use it to educate your clients about the great benefits of using FHA when shopping for a home.

Working “All Together,” we can launch a new era for the American Dream.

Dick Gaylord
2008 President



Charles McMillan
2009 President

CONTENTS

FHA: WORLD'S LARGEST INSURER OF MORTGAGES

The Federal Housing Administration (FHA) provides mortgage insurance on loans made by more than 8,000 FHA-approved lenders throughout the United States and its territories.

Since FHA was established in 1934, it has insured more than 34 million home mortgages and nearly 50,000 multifamily project mortgages. FHA currently has 4.8 million projects in its portfolio. This makes it the largest insurer of mortgages in the world.

Every REALTOR® should know how much FHA has to offer. FHA-insured mortgages are solid, reliable ways for qualified clients to finance homes at market rates—rates that compete with conventional mortgages.

FHA Protects Lenders

FHA mortgage insurance protects lenders against loss by paying the lender if a homeowner defaults. The cost of the mortgage insurance is passed along to the homeowner and typically is included in the monthly payment. In most cases, the cost drops off after five years or when the remaining loan balance is 78 percent of the property value, whichever occurs first.

FHA loans must meet certain requirements to qualify for insurance, but they offer opportunities to borrowers who may not qualify for conventional loans. FHA-insured loans require small down payments that are usually less than those required for a conventional loan. They also offer the lender more flexibility in calculating household income and payment ratios.

Loans require small down payments. The cost of mortgage insurance is typically included in the monthly payment.

Taxpayers Are Protected as Well

FHA operates entirely from self-generated income and costs the taxpayers nothing. The proceeds from the mortgage insurance paid by the homeowners are captured in an account that pays all the costs of operating the program. FHA provides a huge economic stimulus to the country in the form of home and community development, and the economic benefits soon reach local communities in the form of property taxes.

BORROWERS BENEFIT FROM LOW COSTS

FHA's mortgage insurance programs help low- and moderate-income families become homeowners by lowering some of the costs of their mortgage loans. By protecting the lender against default on mortgages for qualified properties, FHA insurance also encourages lenders to make mortgages to otherwise creditworthy borrowers and projects that might not be able to meet conventional underwriting requirements. These include manufactured homes as well as single-family and multifamily properties. FHA-insured loans are particularly well-suited for:

- First-time homebuyers
- Borrowers without a lot of money for a down payment
- People who want to keep monthly payments as low as possible
- Those who are worried about monthly payments increasing
- Those who are worried about qualifying for a loan, and
- People with less than perfect credit.

FHA-insured loans offer many benefits and protections not found in other loans, including:

Lower cost. FHA loans have competitive interest rates because the Federal government insures the loans for lenders.

Smaller down payment. FHA loans require a cash investment of only 3.5 percent, and the money can even be a gift from a family member, employer, or charitable organization—an option that other loan programs don't allow.

Easier qualification. Because FHA insures the mortgage, lenders are often more willing to offer loan terms that make it easier to qualify.

Less than perfect credit. A borrower does not need perfect credit to get an FHA mortgage. Borrowers who have had credit problems, such as a bankruptcy, will qualify more easily for an FHA loan than for a conventional loan.

More protection to keep the home. FHA has programs to help homeowners stay in their homes and avoid foreclosure.

NOT THE SAME OLD FHA

FHA is a leader in protecting against foreclosures—an important consideration in today's housing market. FHA's loss mitigation program authorizes lenders to assist borrowers in default. In 2004 alone, more than 78,000 borrowers were able to retain their homes through FHA's loss mitigation program; two years later, nearly 90 percent of these borrowers were still in their homes.

Other improvements made in recent years include:

- FHA offers the Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard. HUD developed the TOTAL Scorecard as an automated underwriting system to evaluate the credit risk of FHA applications. The system was created to ensure that all applicants for FHA loan insurance are evaluated by the same scoring process. Manual underwriting is possible as well, and decisions are not driven solely by credit scores.
- FHA has also changed its guidelines for appraisals to make them the same as conventional appraisals. The new focus is on the valuation of the property. Repairs are no longer needed for cosmetic or minor defects or normal wear and tear, such as missing handrails, cracked or damaged exit doors that are otherwise operable, cracked window glass, minor plumbing leaks (such as leaky faucets), or evidence of previous (non-active) wood destroying insects. More information is available from the HUD Mortgagee Letter 05-48.
- FHA's loan to value ratio is now comparable with other prime products. Upfront premiums, which may be financed, cannot exceed 3.0 percent. Premiums for first time homebuyers who complete a counseling program cannot exceed 2.75 percent. T he annual premium is 0.5 percent.

Recent FHA improvements include a loss mitigation program to help borrowers in default keep their homes.

- Borrowers can now pay any closing costs that are customary and reasonable in the local market. However, FHA does not allow a borrower to pay a tax service fee, and the borrower cannot be charged an origination fee greater than one percent on forward mortgages.

NON-TRADITIONAL CREDIT HISTORY? BORROWERS CAN STILL QUALIFY

Some potential homebuyers cannot qualify for a mortgage because they lack a traditional credit record. A traditional record, expressed in the Fair Isaac Corporation's FICO score ranging from 300 to 850, takes into account payments on credit cards, retail accounts, finance company loans, mortgages, and information from legal records such as bankruptcy.

Lenders may accept verified non-traditional credit histories to establish eligibility.

However, many people, including recent college graduates, immigrants, those recently widowed or divorced, or those who usually pay their bills in cash, lack this type of record. To encourage homeownership by qualified borrowers who fall into this category, FHA has authorized lenders to accept verified non-traditional credit histories to establish eligibility for FHA-insured mortgages.

Non-traditional histories include payment information on bills that are not considered as part of the FICO process: rent payment, utilities such as gas and electric, cable, and telephone or cell phone, insurance, and day care.

PRBC—Payment Reporting Builds Credit® (**www.prbc.com**)—is one agency that REALTORS® can encourage potential homebuyers to use in order to establish this additional credit information. PRBC enables a client to set up a system for recording payment of bills for rent, utilities, and so forth. It generates a verified PRBC Bill Payment Score based on the types and numbers of bills, length of payment history, timeliness of payments, severity of late payments, and time since the last late payment. The PRBC Report documents the data to lenders in the same form as the traditional FICO report.

In Mortgagee Letter 2008-11, FHA spells out the criteria lenders must use in evaluating this type of alternative credit report. (See Mortgagee Letter at HUD Clips, **http://www.hud.gov/offices/adm/hudclips/index.cfm**.)

MORTGAGE INSURANCE FOR ONE- TO FOUR-FAMILY HOMES (SECTION 203(b))

Section 203(b) is the centerpiece of FHA's single-family mortgage insurance programs. One- to Four-Family Mortgage Insurance is an important tool the Federal government uses to expand homeownership opportunities for first-time homebuyers and other borrowers who would not otherwise qualify for conventional mortgages on affordable terms, as well as for those who live in underserved areas where mortgages may be harder to get.

Eligibility: Borrowers who are purchasing or refinancing a home of their own.

Type of Assistance: Insured mortgages may be used to finance the purchase of new or existing one- to four-family housing, as well as to refinance debt.

Program Features:

- Down payment requirements can be low. In contrast to conventional mortgage products, which frequently require down payments of 10 percent or more of the purchase price of the home, single-family mortgages insured by FHA under Section 203(b) allow cash investments **as low as 3.5 percent**, enabling borrowers to finance 96.5 percent of the value of their home purchase through their mortgage.
- Many closing costs can be financed. With most conventional mortgages, the borrower must pay closing costs. This program allows the borrower to finance many of these charges, thus reducing the up-front cost of buying a home.
- FHA mortgage insurance is not free. Borrowers pay an up-front insurance premium (which may be financed) at the time of purchase, as well as monthly premiums that are not financed, but instead are added to the regular mortgage payment.
- FHA rules impose limits on some of the fees that lenders may charge. For example, the origination fee charged by the lender for the administrative cost of processing the mortgage may not exceed one percent of the amount of the mortgage.
- HUD sets limits on the amount that may be insured in order to guarantee that its programs serve low- and moderate-income people. These figures vary over time and by place, depending on the cost of living and other factors (higher limits apply for two- to four-family properties).

INSURANCE FOR ADJUSTABLE RATE MORTGAGES (SECTION 251)

Section 251 insures adjustable rate mortgages (ARMs), home purchase or refinancing loans with interest rates that change over time and enable consumers to purchase or refinance homes at a lower initial interest rate. When interest rates are high, borrowers can obtain mortgage financing that is more affordable. The interest rate is adjusted annually, based on market indices approved by FHA, and thus may increase or decrease over the term of the loan.

Eligibility: Borrowers who are purchasing or refinancing their home.

Type of Assistance: Insurance for ARMs is used in conjunction with other FHA single-family products (such as Section 203(b), Section 203(k), and Single-Family Mortgage Insurance for Condominium Units (Section 234(c)). FHA uses the1-year Treasury Constant Maturities Index to determine interest rate changes. The maximum amount the interest rate may increase or decrease in any one year is 1 percentage point. Over the life of the loan, the maximum interest rate change is 5 percentage points from the initial rate.

Program Features: In most respects, Section 251 loans are similar to basic FHA-insured single-family loans (see Section 203 (b) features, above).

FHA's insured adjustable rate mortgages enable borrowers to obtain more affordable financing.

MORTGAGE INSURANCE FOR CONDOMINIUM UNITS (SECTION 234(c))

Insurance for condominiums is provided through Section 234(c) and can be important for low- and moderate-income renters who seek to avoid being displaced by the conversion of their apartment building into a condominium.

Eligibility: Credit-worthy owner-occupants who meet FHA underwriting criteria and will make the condominium their principal residence.

Type of Assistance: The program insures a loan for as many as 30 years to purchase a unit in a condominium building. The property must contain at least four dwelling units and can be detached or semidetached, a row house, a walk-up, or an elevator structure.

Program Features: Most are the same as for Section 203(b) (see above). However, Section 234(c) has special restrictions. If the apartment is in a building that was converted from rental housing, no insurance may be provided under Section 234(c) unless: (1) the conversion occurred more than one year before the application for insurance; (2) the potential buyer or co-buyer was a tenant of that rental housing; or (3) the conversion of the property is sponsored by a tenants' organization that represents a majority of the households in the project. Eighty percent of FHA-insured mortgages in the project must be made to owner-occupants. (Developers may obtain FHA-insured mortgages to finance the construction or rehabilitation of housing projects that they intend to sell as individual condominium units under HUD's Section 234(d) program.)

MANUFACTURED HOME LOAN INSURANCE (TITLE I)

This program insures mortgage loans made by private lending institutions to finance the purchase of a new or used manufactured home, including a mobile home. By protecting mortgage lenders against the risk of default, HUD encourages lenders to finance manufactured homes, which in the past were usually financed as personal property through comparatively high-interest, short-term consumer installment loans. The program thereby increases the availability of affordable financing and mortgages for buyers of manufactured homes, and it allows buyers to finance their home purchase at a longer term and lower interest rate than with conventional loans.

FHA-insured loans for manufactured homes feature longer terms and lower interest rates.

Eligibility: Purchasers of manufactured homes.

Type of Assistance: The program insures lenders against up to 90 percent loss of value from default on loans of up to $48,600.

Program Features: Total insurance coverage is limited to 10 percent of the lender's Title I (home improvement loan) portfolio. The buyer must agree to make a 5 percent down payment and interest rate payments determined by the lender. Annual insurance charges start at $1 per $100 of the loan amount, but are reduced in the later years of the loan. The maximum loan term varies from 20 to 25 years.

MANUFACTURED HOME LOT AND COMBINATION LOAN INSURANCE

FHA insures loans up to $64,800 for a manufactured home and $16,200 for a lot only.

This program insures mortgage loans made by private lenders to buyers of manufactured homes, including mobile homes, as well as the lots on which to place them. The program thereby increases the availability of affordable financing and mortgages for buyers of manufactured homes and allows the buyers to finance the purchase at a term and interest rate comparable with the commercial loans typically used to finance manufactured homes.

Eligibility: Purchasers of manufactured homes and lots.

Type of Assistance: Title I insurance may be used for loans of up to $64,800 for a manufactured home and lot and $16,200 for a lot only. The lot must be appraised by a HUD-approved lender. The dollar limits for combination and lot loans may be increased up to 85 percent in designated high-cost areas. The maximum loan term is 20 years for a single-module home and lot, 25 years for a multiple module home and lot, and 15 years for a lot only.

Program Features: Under this program HUD insures private lenders against losses of up to 90 percent of the value of a single loan, while the lender retains responsibility for the remaining 10 percent. In addition, the insurance coverage is limited to 10 percent of the lender's Title I portfolio. The buyer must agree to make a down payment and interest rate payments determined by the lender.

MORTGAGE INSURANCE FOR OLDER, DECLINING URBAN AREAS (SECTION 223(e))

Section 223(e) provides mortgage insurance to enable people to purchase, rehabilitate, or even construct housing in older, declining urban areas. Section 223(e) can be used only to supplement other HUD mortgage insurance programs. Value of the property is based on pre-rehabilitation value plus cost of rehab or 100 percent of appraised value after rehabilitation. The maximum amount of loan, down payment, and other mortgage terms vary, and there is a low insurance premium on outstanding mortgages.

Eligibility: Borrowers with a home or project that may otherwise be difficult to finance because it is located in an older, declining urban area.

Type of Assistance: To meet the need for adequate housing for low- and moderate-income families, Section 223(e) insures lenders against the risk of default in viable urban areas where requirements for other mortgage insurance cannot be met.

Program Features: This is not a separate program. Mortgages for housing eligible under Section 223(e) may be insured under any one of several HUD programs. The maximum amount of the loan, the down payment, and other mortgage terms vary according to the HUD program under which the mortgage is insured. The mortgage insurance premium is 0.5 percent per year on the outstanding loan balance. Fees are established under the applicable HUD program.

FHA has several types of insured loans that help homeowners or buyers rehabilitate or repair property.

REHABILITATION MORTGAGE INSURANCE (SECTION 203(k))

Section 203(k) insurance enables homebuyers and homeowners to a) finance the purchase or refinancing of a house including the cost of its rehabilitation through a single mortgage, or b) finance the rehabilitation of their existing home.

Section 203(k) fills a unique and important need for homebuyers in another way as well. When buying a house that is in need of repair or modernization, homebuyers usually have to follow a complicated and costly process: First, they obtain financing to purchase the property, then they get additional financing for the rehabilitation work, and finally they find a permanent mortgage after rehabilitation is completed to pay off the interim loans. The interim acquisition and improvement loans often have relatively high interest rates and short repayment terms. Section 203(k) insured loans save the borrower's time and money, and also protect lenders by allowing them to have the loan insured even before the condition and value of the property may offer adequate security. Borrowers may also consider HUD's Title I Home Improvement Loan program for housing rehabilitation activities that do not require buying or refinancing the property.

Eligibility: Homebuyers who are purchasing a house that needs repair or modernization, or homeowners who need to finance the rehabilitation of their current home. The house must be at least a year old.

Type of Assistance: Section 203(k) helps both borrowers and lenders, insuring a single, long-term, fixed, or adjustable-rate loan that covers both the acquisition and rehabilitation of the home. A portion of the loan proceeds is used to pay the seller, or, in the case of a refinance, to pay off the existing mortgage. The remaining funds are placed in an escrow account and released as rehabilitation is completed. The cost of the rehabilitation must be at least $5,000, but the total value of the property must still fall within the FHA mortgage limit for the area.

Many of the rules and restrictions that make FHA's basic single-family mortgage insurance product (Section 203(b)) convenient for lower-income borrowers apply here. However, lenders may charge additional fees, such as a supplemental origination fee, fees to cover the preparation of architectural documents and review of the rehabilitation plan, and a higher appraisal fee. Unlike with other FHA single-family mortgages, Section 203(k) borrowers do not pay an up-front mortgage premium.

STREAMLINED 203(k) LIMITED REPAIR PROGRAM

This program facilitates uncomplicated rehabilitation and/or improvements to a home for which plans, consultants, engineers, and/or architects are not required. I t may be used to:

- Augment an FHA Energy Efficient Mortgage (EEM)
- Insure the mortgage on a single-family housing unit sold from HUD's REO (Real-Estate Owned) inventory
- Insure a mortgage that covers both repair costs and the refinance of an existing mortgage.

Eligibility: Like the regular Section 203(k) program, Streamlined (k) may be used for single-family housing sold by HUD. REO properties that have been designated by FHA's Management and Marketing contractor (M&M) as "insurable" with repair escrow ($5,000 or less in required repairs) or "uninsurable" (with more than $5,000 but no more than $35,000 in required repairs) are eligible for the Streamlined (k) program provided that the repairs qualify as eligible work items.

Homeowners may also use the Streamlined (k) program for mortgage refinance transactions including those in which the property is owned free and clear—but only if they are credit-qualifying "no cash out" refinance transactions with an appraisal. If the borrower has owned the property for less than a year, the acquisition cost must be used to determine the maximum mortgage amount (not the lowest sales price) within the last year.

Type of Assistance: The Streamlined (k) program provides loan insurance for discretionary improvements and repairs including:

- Repair/replacement and upgrade of roofs, gutters and downspouts, HVAC systems, plumbing and electrical systems, flooring, exterior decks, patios, and porches
- Minor remodeling, such as kitchens, which does not involve structural repairs
- Painting, both exterior and interior, and weatherization
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers, and microwave ovens
- Accessibility improvements for persons with disabilities
- Lead-based paint stabilization or abatement of lead-based paint hazards
- Repair/replacement/addition of exterior decks, patios, or porches
- Basement finishing and remodeling that does not involve structural repairs; and waterproofing
- Septic system and/or well repair or replacement.

FHA-insured loans of up to $35,000 may be used for improvements and repairs including painting, inside and out.

Work NOT eligible for financing under the Streamlined (k) includes:

- Major rehabilitation or major remodeling, such as the relocation of a load-bearing wall
- New construction (including room additions) or repair of structural damage
- Repair or improvement requiring a work schedule longer than six (6) months or rehabilitation activities that require more than two (2) payments per specialized contractor; and
- Projects that cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted.

Program Features: The previous minimum repair cost of $5,000 has been eliminated and replaced with a ceiling of $35,000. This revised amount recognizes the cost of making older homes more energy efficient. When the cost of repairs exceeds $15,000, the mortgagee must perform or obtain an inspection to determine that all listed repairs were completed.

Regulations for this program include a detailed list of responsibilities and requirements for both the borrower and the mortgagee with regard to appraisals, the estimating process, selecting and paying contractors, inspections, and certification that the work is completed properly.

ENERGY EFFICIENT MORTGAGES PROGRAM

The Energy Efficient Mortgages Program (EEM) helps homebuyers or homeowners save on utility bills by enabling them to finance the cost of adding energy-efficiency features to new or existing housing as part of their FHA-insured home purchase or refinancing mortgage. This program helps achieve national energy-efficiency goals (and reduce pollution) and provides better housing for people who might not otherwise be able to afford it.

Eligibility: Persons who meet the income requirements for FHA's standard Section 203(b) insurance and can make the monthly mortgage payments. The maximum mortgage limit for a single-family home is $160,950, plus the cost of the eligible energy-efficient improvements. (Exact limits may vary in different parts of the country.) Cooperative units are not eligible. Individual condominium units may be insured if they are in projects that have been approved by FHA or the Department of Veterans Affairs, or if they meet certain Fannie Mae guidelines.

Type of Assistance: Wrapping the cost of qualified energy-efficiency features into an FHA-insured home purchase or refinancing mortgage. With an EEM, the borrower does not need a separate loan for energy improvements when buying an existing home. This program may be used to make energy-efficient improvements in one- to four-unit existing and new homes.

Program Features:

- Improvements can be included in a borrower's mortgage only if their total cost is less than the dollar value of the energy that will be saved during their useful life.
- Loans can be for up to 5 percent of the property's value.
- Cost of the energy improvements and estimate of the energy savings must be determined by a Home Energy Rating System (HERS) or an energy consultant. Up to $200 of the cost of the energy inspection report may be included in the mortgage.
- EEM can be used with the FHA Section 203(k) rehabilitation program (see above) and generally follows that program's financing guidelines. For energy-efficient housing rehabilitation activities that do not also require buying or refinancing the property, borrowers may also consider HUD's Title I Home Improvement Loan program.
- FHA-approved lending institutions can make loans covered by EEM insurance. This insurance can also be attained through FHA's Section 203(h) program for mortgages made to victims of presidentially-declared disasters. The mortgage must comply with both requirements for Section 203(h) and EEM. However, the program is limited to one-unit detached houses.

PROPERTY IMPROVEMENT LOAN INSURANCE (TITLE I)

Under Title I, HUD insures lenders against most losses on home improvement loans.

Eligibility: Qualified consumers seeking affordable home improvement loans.

Type of Assistance: Lending institutions make fixed-rate loans from their own funds to eligible borrowers to finance these improvements. The Title I program insures loans to finance the light or moderate rehabilitation of properties, as well as the construction of nonresidential buildings on the property.

Program Features: This program may be used to insure such loans for up to 20 years on either single- or multifamily properties. The maximum loan amount is $25,000 for improving a single-family home or for improving or building a nonresidential structure.

For improving a multifamily structure, the maximum loan amount is $12,000 per family unit, not to exceed a total of $60,000 for the structure. The interest rates are not subsidized by HUD, although some communities participate in local housing rehabilitation programs that provide reduced-rate property improvement loans through Title I lenders.

FHA insures private lenders against the risk of default for up to 90 percent of any single loan. The annual premium for this insurance is $1 per $100 of the amount advanced; although this fee may be charged to the borrower separately, it is sometimes covered by a higher interest charge.

Property improvement loans of up to $25,000 may be used for either single or multifamily properties.

HOUSING PROGRAMS FOR SPECIAL GROUPS

Good Neighbor Next Door Program

By offering a discount of 50 percent in the list price of a home to certain types of public servants, this program encourages them to contribute to community revitalization while becoming homeowners.

Eligibility: Law enforcement officers, pre-kindergarten through 12th grade teachers and firefighters/emergency medical technicians who want to purchase single-family homes located in revitalization areas which are listed exclusively for sales through the Good Neighbor Next Door Sales program for at least five days.

Type of Assistance: The selected bidder may purchase the property at a 50 percent discount from the list price. For example, if a HUD home is listed for $100,000, an officer or a teacher may buy it for $50,000. To make a HUD home even more affordable, the borrower may apply for an FHA-insured mortgage with a down payment of only $100 and FHA financing of closing costs.

Program Features: HUD requires the borrower to sign a second mortgage and note for amount of the discount. In return, the borrower must commit to occupying the property for 36 months as his or her sole residence. No interest or payments are required on the "silent second" so long as the borrower fulfills the three-year occupancy requirement. The number of available properties is limited and changes weekly.

FHA-insured loans help public servants purchase homes at deep discounts and also revitalize communities.

Indian Reservations and Other Restricted Lands

A family that purchases a home on an Indian reservation or other restricted land under this program can apply for financing through an FHA-approved lending institution such as a bank, savings and loan, or a mortgage company.

Eligibility: The borrower must meet standard FHA credit qualifications.

Type of Assistance: This program provides approximately 97 percent financing for an existing home, including a manufactured or mobile home that meets FHA requirements, or for new construction. The borrower may use a gift as down payment. Closing costs can be financed or covered by a gift, grant or secondary financing.

Program Features: The home must meet the property standards required by FHA, including those for water, sewer, and electrical systems. Prior to approving the loan, FHA will send an appraiser to determine the value of the home and see if it meets property standards for insurance. For new construction, FHA must approve the plans.

The loan on the property must have an FHA-approved lease in the borrower's name. A tribe may have its own policies for assigning or leasing land. Although the tribe is not a party to the mortgage, the program cannot operate without the tribe's active participation.

Other program requirements must be satisfied as well.

Home Equity Conversion Mortgage Program

The Home Equity Conversion Mortgage (HECM) program enables older homeowners to get a reverse mortgage—i.e., to withdraw some of the equity in their home in return for payments they may use according to their needs. The HECM insured reverse mortgage can enable an older home-owning family to stay in their home while using some of its built-up equity. FHA insures HECM loans to protect lenders against loss if amounts withdrawn exceed equity when the property is sold.

Eligibility: Homeowners who are 62 or older.

Type of Assistance: Monthly payments for life or a fixed term, or in a lump sum or through a credit line. The total income that an owner can receive through an HECM is the maximum claim amount, which is calculated by a formula including the age of the owner(s), the interest rate, and the appraised value of the home. For example, on the basis of a loan at recent interest rates, a 65-year-old could borrow up to 26 percent of the home's value, a 75-year-old could borrow up to 39 percent, and an 85-year-old could borrow up to 56 percent.

Program Features: Borrowers may choose one of five payment options:

- Tenure, which gives the borrower a monthly payment from the lender for as long as the borrower lives and continues to occupy the home as a principal residence
- Term, which gives the borrower monthly payments for a fixed period selected by the borrower
- Line of credit, which allows the borrower to make withdrawals up to a maximum amount, at times and in amounts of the borrower's choosing
- Modified tenure, which combines the tenure option with a line of credit
- Modified term, which combines the term option with a line of credit.

The borrower remains the owner of the home and may sell it and move at any time, keeping the sales proceeds that exceed the mortgage balance. A borrower cannot be forced to sell the home to pay off the mortgage, even if the mortgage balance grows to exceed the value of the property. An HECM loan need not be repaid until the borrower moves, sells, or dies. When the loan comes due, if it exceeds the value of the property, the borrower (or the heirs) will owe no more than the value of the property. FHA insurance will cover any balance due the lender.

Two mortgage insurance premiums are collected to pay for an HECM: an up-front premium (2 percent of the home's value), which can be financed by the lender, and a monthly premium (which equals 0.5 percent per year of the mortgage balance). The lender's loan origination charge can vary, but the HECM will finance only up to $1,800 in such charges. Borrowers may be charged appraisal and inspection fees set by HUD; these charges can also be financed.

A borrower cannot be forced to sell the home to pay off the mortgage, even if the mortgage balance grows to exceed the value of the property.

Because older persons can be vulnerable to fraudulent practices, the program requires them to receive free counseling from a HUD-approved reverse mortgage counseling agency before applying for a reverse mortgage.

Single-Family Mortgage Insurance for Disaster Victims (Section 203(h))

Through this program, FHA insures mortgages made by qualified lenders to disaster victims who have lost their homes and are rebuilding or buying another. The program is designed to make it easier for these residents to get mortgages and become homeowners or re-establish themselves as homeowners.

Eligibility: Homeowners qualify for this program if their homes are located in an area that was designated by the President as a disaster area and if their homes were destroyed or damaged to such an extent that reconstruction or replacement is necessary.

Type of Assistance: This program provides mortgage insurance to protect lenders against the risk of default on mortgages to qualified disaster victims. Insured mortgages may be used to finance the purchase or reconstruction of a one-family home that will be the principal residence of the homeowner.

Program Features: Like the basic FHA mortgage insurance program it resembles (Section 203(b)), Section 203(h) offers features that make homeownership easier:

- No down payment is required. The borrower is eligible for 100 percent financing. Closing costs and prepaid expenses must be paid by the borrower in cash or through premium pricing, or by the seller, subject to a 6 percent limitation on seller concessions.

- The borrower must pay for FHA mortgage insurance. The mortgagee collects from the borrower an up-front insurance premium (which may be financed) at the time of purchase, as well as monthly premiums that are not financed, but instead are added to the regular mortgage payment.
- FHA rules impose limits on some of the fees that lenders may charge in making a mortgage. For example, the lender's mortgage origination charge for the administrative cost of processing the mortgage may not exceed one point—that is, one percent of the amount of the mortgage excluding any financed up-front mortgage insurance premium. FHA also sets property appraisal and inspection fees.
- To ensure that the program serves low- and moderate-income people, HUD sets limits on the dollar value of the mortgage that may be insured. The current FHA mortgage limit on insurance for disaster victims ranges from $172,632 to $312,895. These figures vary over time and by place, depending on the cost of living and other factors (higher limits also exist for two- to four-family properties).

Housing Counseling Program

The Housing Counseling Assistance Program offered by the US Department of Housing and Urban Development enables anyone who currently rents or owns housing to receive the counseling needed to make rent or mortgage payments and to be a generally responsible tenant or owner. The counseling is provided by HUD-approved housing counseling agencies.

The goals of the program are:

- Improve the quality of renter and homeowner education
- Develop a reliable stream of funding and resources for counseling agencies
- Enhance coordination among local housing providers.

HUD intends to create a new expectation among mortgage lenders and insurers, homebuilders, real estate brokers, nonprofit organizations, and government agencies that counseling will become an integral part of services for potential renters and homebuyers.

MYTHS AND FACTS ABOUT FHA MORTGAGES

Myth: FHA-insured mortgages are available only to low-income borrowers.

Fact: FHA does not have income requirements. Any qualified borrower may obtain an FHA-insured loan. Mortgage ceilings apply in certain parts of the country, however.

Myth: FHA is only for first-time homebuyers.

Fact: FHA offers mortgage products for first-time homebuyers, those with less than perfect credit, and those interested in small down payments. FHA even has products for current homeowners interested in refinancing, reverse mortgages, and offers protection against foreclosure.

Myth: FHA mortgage products are only for small houses.

Fact: FHA products are for houses or condominium units of any size. FHA-insured mortgages do have specified dollar ranges, based on the median house price in a given geographic area.

Myth: FHA appraisals are more difficult than other appraisals.

Fact: As with most conventional mortgages, the lender orders the appraisal for FHA loans. Lenders may use only appraisals from appraisers on the approved FHA roster, but the process typically takes no longer than if the homebuyer were using a conventional mortgage.

Myth: FHA processing is more complicated than processing conventional loans.

Fact: FHA has made significant improvements in its loan origination process in the last several years to eliminate unnecessary delays and problems for homebuyers and sellers. The improvements include adopting conventional appraisal principles and eliminating minor and cosmetic repair requirements that delayed loan closings and sometimes prevented sales altogether.

FHA also permits the seller and buyer to negotiate fees to be paid by each party. In the past, sales sometimes did not take place because FHA's rules precluded the buyer from paying certain fees, which sellers were unwilling to pay.

Myth: Processing takes longer for FHA mortgages than for conventional mortgage products.

Fact: Processing an FHA loan typically takes no longer than processing a conventional mortgage. There are no additional or special requirements.

Myth: Every lender offers FHA mortgage products.

Fact: Only lenders approved by FHA can offer FHA mortgage products. Lenders may partner with Direct Endorsed lenders to offer an FHA product, but the Direct Endorsed lender is responsible for maintaining the relationship with FHA.

Myth: Every FHA-approved lender offers every product.

Fact: Lenders can be approved as Title I lenders (for home improvement loans) or Title II lenders (for home purchases, refinances, and reverse mortgages). Not every lender serves as both a Title I and Title II lender.

Myth: There are not enough FHA-approved lenders.

Fact: More than 8,000 lenders and mortgage brokers have originated FHA loans. Once you know the type of loan needed, use the FHA Lender Search Engine at **www.fha.gov** to find FHA-approved lenders in your area.

During this process, your client should check on a lender's reputation and experience in processing FHA loans. If you work in a real estate firm, consider your in-house lender because many are extremely knowledgeable about FHA programs.

Myth: FHA interest rates are higher than for conventional mortgage products.

Fact: FHA-insured loans offer competitive interest rates because the loans are insured by the Federal government. FHA does not provide the financing or determine the interest rates on the mortgages it insures. As with any mortgage product, the homebuyer should compare mortgages from several different lenders.

In recent years FHA has improved many procedures to eliminate delays and problems for homebuyers and sellers.

Myth: Mortgage insurance premiums are higher with FHA insured mortgages.

Fact: FHA mortgage insurance rates are competitive with the best conventional mortgages in the industry.

LINKS AND CONTACTS

REALTORS® Website

http://www.realtor.org/government_affairs/fha_resources

FHA Contacts

You can find more information about FHA programs at **www.fha.gov** or by calling **1.800.CALL.FHA (225.5342)**.

To find a HUD-approved housing counseling agency call **1.800.569.4287** or visit **www.hud.gov** and click on "Talk to a housing counselor" under "At Your Service."

As part of the HECM program, HUD has provided for free reverse mortgage counseling (with training for the counselors) for persons considering using such an instrument, in addition to a toll-free information line (**800) CALL-FHA (800-225-5342)**.

FHA Loan Limits

http://www.fhaoutreach.com/

Find FHA Lenders

http://locator.fha.gov

HUD Home Ownership Centers

U.S. Department of Housing and Urban Development
Atlanta Homeownership Center
Five Points Plaza
40 Marietta Street
Atlanta, GA 30303-2806

U.S. Department of Housing and Urban Development
Denver Homeownership Center
UMB Plaza Building
1670 Broadway
Denver, CO 80202-4801

U.S. Department of Housing and Urban Development
Philadelphia Homeownership Center
The Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107-3389

U.S. Department of Housing and Urban Development
Santa Ana Homeownership Center
Santa Ana Federal Building
34 Civic Center Plaza, Room 7015
Santa Ana, CA 92701-4003

INDEX

NOTES

NOTES

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The Federal Housing Administration (FHA)—*which is part of the U.S. Department of Housing and Urban Development—has been helping people become homeowners since 1934. FHA insures the loans, so lenders can offer you a better deal. FHA offers loans with low down payments that are easier to qualify for and can cost less than conventional loans. For more information, please visit www.fha.gov.*

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