

NAR Regulatory Issue Summary

Overview of FHA Changes



National Association of REALTORS® Government Affairs Division
500 New Jersey Avenue, NW, Washington DC, 20001

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 FHA 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.

NAR Regulatory Issue Summary

Overview of FHA Changes



National Association of REALTORS® Government Affairs Division
500 New Jersey Avenue, NW, Washington DC, 20001

Summary of FHA Changes and Implementation Schedule

FHA Credit/Risk Management Action	Announcement	Announcement Date	Implementation Date
Upfront MIP increase to 2.25%	Mortgagee Letter	January 21, 2010	Spring 2010
Increase Annual Premium	Requires legislation	February 2010	
FICO Score and Down Payment Requirement	Federal Register	February 2010	Summer 2010
Seller Concessions	Federal Register	February 2010	Summer 2010
Neighborhood Watch	N/A	N/A	February 1, 2010
Credit Watch	Mortgagee Letter	January 21, 2010	Effective immediately
Enforce Indemnification	Federal Register	March 2010	Summer 2010
Increase Enforcement	Requires legislation		

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 it balances risk management with creating homeownership opportunities across the country.