FHA Fund Improvements

(February 11, 2013)

FHA Improvements to the Mutual Mortgage Insurance Fund (MMI)

Over the past four years, FHA has made several administrative changes to mitigate risk. FHA has increased mortgage insurance premiums (MIP), hired the agency's first Credit Risk Officer, implemented a credit score floor, required a greater downpayment for borrowers with lower credit scores, and adopted a series of measures to increase lender responsibility and enforcement.

Changes to Mortgage Insurance Premiums (MIP)

Mortgage insurance premiums (MIP) have been increased five times in the past four years. In April 2012, the upfront premium was increased to 1.75%. Beginning on April 1, 2013, the annual premium for new mortgages less than or equal to $625,500 and LTVs greater than 95% will be 1.35%. The annual premium for new mortgages greater than $625,500 with LTVs greater than 95% will be 1.55%. FHA also removed the automatic cancellation of the annual MIP for fixed-rate mortgages with LTVs greater than 90% at origination. These borrowers will have to pay the annual MIP for the life of the loan beginning June 3, 2013.

Credit Risk Officer

In October 2009, FHA hired the first Chief Risk Officer in the organization's history. On July 28, 2010, FHA received Congressional approval to formally establish the position and create a permanent risk management office within FHA. The Risk Officer is now Deputy Assistant Secretary of this office.

Credit Score Floor and Downpayments

Effective October 4, 2010, borrowers with a credit score below 500 are not eligible for FHA-insured mortgage financing. Borrowers with credit scores between 500 and 579 are limited to 90 percent LTV, which requires a 10% downpayment. On February 6, 2013, FHA issued a notice in the federal register to increase downpayments on loans above $625,500 from 3.5% to 5%.

Lender Responsibility and Enforcement

FHA has improved enforcement of HUD requirements for FHA-approved lenders. Over 1,600 lenders have withdrawn from FHA's program and FHA has imposed more than $13.8 million in civil money penalties and administrative payments for FHA-approved lenders. In January 2010, FHA expanded the Credit Watch Termination Initiative to evaluate lender underwriting and origination performance. Beginning in April 2013, approved lenders and applicants to FHA single-family programs, regardless of size, must have a net worth of $1 million plus 1% of total loan volume in excess of $25 million. FHA-approved mortgagees who underwrite loans must retain liability for all loans, regardless of origination via their retail operation or through their sponsored mortgage brokers. In January 2013, FHA announced plans to increase enforcement efforts for FHA-approved lenders that aggressively market to borrowers with previous foreclosures. Borrowers are not eligible for FHA-insured financing for at least three years after a foreclosure and require greater oversight in the underwriting process.

Enhanced and Expanded Note Sale Program

In FY 2012, FHA expanded its note sales program, the Distressed Asset Stabilization Program (DASP), to sell non-performing loans in pools to investors at a market-determined price via auction. The initiative expands the number of loans sold in each sale and helps reduce the inventory of vacant foreclosed properties in particularly hard-hit areas of the country.

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