# FHA Looks to Shore Up Finances with New MIP Changes

By: Jann Swanson | Wed, Jan 30 2013, 3:15 PM

Federal Housing Administration Commissioner Carol Galante has just announced several **significant changes to FHA requirements, processes, and fees** in an ongoing effort by the agency to shore up its Mutual Mortgage Insurance Fund (MMI Fund.) The first change - the consolidation of FHA's Standard Fixed-Rate Home Equity Conversion Mortgage (HECM) with its Saver Fixed Rate HECM - was officially announced today. HECM is commonly referred to as a reverse mortgage and is available only to homeowners over the age of 62.

FHA said that the Fixed Rate Standard HECM pricing option currently represents a large majority of the loans insured through FHA's HECM program and is responsible for placing significant stress on the MMI Fund. To preserve the program as a financial option for aging homeowners FHA will make the HECM Fixed Rate Saver the only pricing option available to borrowers who seek a fixed interest rate mortgage. Using the Fixed Rate Saver for fixed rate mortgages will significantly lower the borrower's upfront closing costs while permitting a smaller pay out than the HECM Fixed Rate Standard product, thereby reducing risks to the Mutual Mortgage Insurance Fund. This change will be effective for FHA case numbers assigned on or after April 1, 2013.

**Other changes** for which official announcements will be forthcoming over the next few days are:

- An increase in **annual mortgage insurance premiums** (MIP) on most mortgages by 10 basis points or 0.10 percent. Premiums on jumbo mortgages with balances of $625,000 or larger will increase by 5 basis points or 0.05 percent. This will bring jumbo mortgage premiums up to the maximum premium authorized by Congress. These premium increases exclude certain streamline refinance transactions.
- FHA will r**everse its existing policy** of cancelling MIP on loans when the outstanding principal balances reached 78 percent of the original balance. Because FHA remains obligated to insure 100 percent of the outstanding loan balance for the life of the loan, homeowners will now be required to maintain principal payments over that period as well. FHA's Office of Risk Management and Regulatory Affairs estimates that the MMI Fund has foregone billions of dollars in premium revenue on mortgages endorsed from 2010 through 2012 because of this automatic cancellation policy.
- FHA will require lenders to **manually underwrite loans** for which borrowers have a decision credit score below 620 and a total debt-to-income (DTI) ratio greater than 43 percent. Lenders will be required to document compensating factors that support the underwriting decision to approve loans where these parameters are exceeded, using FHA manual underwriting and compensating factor guidelines.
- FHA will propose an **increase in the minimum down payments** for jumbo loans from 3.5 to 5 percent. The proposal will be published in the *Federal Register* within the next few days.
- FHA will **step up its enforcement efforts** for FHA-approved lenders with regard to aggressive marketing to borrowers with previous foreclosures. Borrowers are currently able to access FHA-insured financing no sooner than three years after they have experienced a foreclosure, but only if they have re-established good credit and qualify for an FHA loan in accordance with FHA's fully documented underwriting requirements. It has come to FHA's attention that a few lenders are inappropriately advertising and soliciting borrowers with the false pretense that they can somehow "automatically" qualify for an FHA-insured mortgage three years after their foreclosure. FHA will work with other federal agencies to address such false advertising by non-FHA-approved entities.
- Finally, as discussed in its Annual Report to Congress, FHA is also committed to structuring a **new housing counseling initiative** that would apply to a number of borrower classifications, including borrowers with previous foreclosures.

"These are essential and appropriate measures to manage and protect FHA's single-family insurance programs" said Galante. "In addition to protecting the MMI Fund, these changes will encourage the return of private capital to the housing market, and make sure FHA remains a vital source of affordable and sustainable mortgage financing for future generations of American homebuyers."

Here is the full document provided by HUD.

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