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FOR RELEASE
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FHA TAKES ADDITIONAL STEPS TO BOLSTER CAPITAL RESERVES

Continuing effort to help strengthen FHA's Mutual Mortgage Insurance Fund

WASHINGTON – As part of a broad effort to strengthen the Federal Housing Administration's (FHA) Mutual Mortgage Insurance Fund (MMI Fund), FHA Commissioner Carol Galante announced a series of changes to be issued this week that will allow the agency to better manage risk and further strengthen the health of the MMI Fund.

"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.”

Home Equity Conversion Mortgage Consolidation

As discussed in its Annual Report to Congress, FHA will consolidate its *Standard Fixed-Rate Home Equity Conversion Mortgage (HECM)* and *Saver Fixed Rate HECM* pricing options. This change will be effective for FHA case numbers assigned on or after April 1, 2013. 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 help sustain the program as a viable financial resource for aging homeowners, the HECM Fixed Rate Saver will be the only pricing option available to borrowers who seek a fixed interest rate mortgage. Using the HECM 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. Read FHA’s new [HECM Mortgagee Letter](#).

In addition to the HECM consolidation announced today, FHA will announce the following changes in the coming

days:

Changes to Mortgage Insurance Premiums

FHA will increase its annual mortgage insurance premium (MIP) for most new mortgages by 10 basis points or by 0.10 percent. FHA will increase premiums on jumbo mortgages (\$625,500 or larger) by 5 basis points or 0.05 percent, to the maximum authorized annual mortgage insurance premium. These premium increases exclude certain streamline refinance transactions.

FHA will also require most FHA borrowers to continue paying annual premiums for the life of their mortgage loan. Commencing in 2001, FHA cancelled required MIP on loans when the outstanding principal balance reached 78 percent of the original principal balance. However, FHA remains responsible for insuring 100 percent of the outstanding loan balance throughout the entire life of the loan, a term which often extends far beyond the cessation of these MIP payments. 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. Therefore,

FHA will once again collect premiums based upon the unpaid principal balance for the entire period for which FHA is entitled. This will permit FHA to retain significant revenue that is currently being forfeited prematurely.

Read FHA's new [MIP Mortgagee Letter](#)

Requiring Manual Underwriting on Loans with Decision Credit Scores below 620 & DTI Ratios over 43 Percent

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. Read FHA's new [DTI](#)

[Mortgage Letter](#).

Raising Down Payment on Loans above \$625,500

Through a Federal Register Notice to be published in the next several days, FHA will announce a proposed increased down payment requirement for mortgages with original principal balances above \$625,500. The minimum down payment for these mortgages will

increase from 3.5 to 5 percent. This change, coupled with the statutory maximum premiums charged for these loans, will help protect FHA and further facilitate its efforts to encourage higher levels of private market participation in the housing finance market.

Access to FHA after Foreclosure

FHA will step up its enforcement efforts for FHA-approved lenders with regard to aggressive marketing to borrowers with previous foreclosures and remind lenders of their duty to fully underwrite loan applications. New loans must meet all FHA guidelines.

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. This is simply not true and such misleading advertising will not be

tolerated.

Moreover, 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.

Continuing Effort to Improve Risk Management

The changes announced this week will further contribute to the efforts made throughout the Obama Administration's tenure to improve risk management at FHA and protect the Mutual Mortgage Insurance Fund. Because of these commitments, the changes made at FHA over the past four years have already added more than \$20 billion in value to the MMI Fund.

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HUD is working to strengthen the housing market to bolster*

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