U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

September 4, 2008

MORTGAGEE LETTER 2008-22

TO: ALL APPROVED MORTGAGEES

SUBJECT: Moratorium on Risk-Based Premiums for FHA Mortgage Insurance

The Housing and Economic Recovery Act of 2008 provides for a one-year moratorium on the implementation of FHA's risk-based premiums beginning October 1, 2008. Consequently, effective with new FHA case number assignments on or after that date, FHA will no longer base its mortgage insurance premiums on a combination of credit bureau score and loan-to-value ratio. The new premiums (upfront and annual) to be implemented for all loans for which a case number is assigned on or after October 1, 2008, are described below. Mortgagee Letter 2008-16 is rescinded in its entirety. Please note that certain parts of that mortgagee letter are retained and reiterated in the guidance that follows.

Upfront Premiums: FHA will charge an upfront premium in an amount equal to the following percentages of the mortgage:

- **Purchase Money Mortgages and Full-Credit Qualifying Refinances = 1.75 Percent**
- **Streamline Refinances (all types) = 1.50 Percent**
- **FHASecure (Delinquent Mortgagors) = 3.00 Percent.**

Annual Premiums: An annual premium, shown in basis points below, to be remitted on a monthly basis, will also be charged based on the initial loan-to-value ratio and length of the mortgage (except for FHASecure delinquent mortgages) according to the following schedule:

- **Purchase Money Mortgages, Full-Qualifying Refinances, and Streamline Refinances**:

LTV	Annual for Loans >15 Years)	LTV	Annual for Loans ≤ 15 Years
≤ 95	50	≤ 90	-None-
> 95	55	> 90	25

- **FHASecure (delinquent mortgagors):**

LTV	Annual (all loan terms)
≤ 95	50
> 95	55

Highlights Regarding FHA's Mortgage Insurance Premiums

- All loans to borrowers with a credit score must be risk-classified by FHA's TOTAL Mortgage Scorecard.
- Borrowers with decision credit scores below 500 and with loan-to-value ratios at or above 90 percent are not eligible for FHA-insured mortgage financing.
- Borrowers without credit bureau scores will need to be manually underwritten and deemed as eligible based on criteria described in Mortgagee Letter 2008-11.
- Eligibility for delinquent mortgagors under the FHASecure initiative is described in full in ML 2008-13.

Loan-to-Value

For insurance premium purposes and eligibility for FHA mortgage insurance, the loan-to-value ratio, computed to two decimals (e.g., 95.65), is calculated by dividing the mortgage amount prior to adding on any upfront mortgage insurance premium by the sales price or appraised value, whichever is less.

For refinance transactions, which often include closing costs in the loan amount, the LTV is determined by dividing the loan amount prior to adding on any upfront mortgage insurance premium by the appraiser's estimate of value.

"Decision Credit Score" Defined

If a credit score is available, it must be used to determine the decision credit score for the application and for eligibility for FHA-insured mortgage financing. A "decision credit score" is determined for each applicant according to the following rule: when three scores are available (one from each repository), the median (middle) value is used; when only two are available, the lesser of the two is chosen; when only one is available that score is used.

Multiple Borrowers. If more than one individual is applying for the mortgage, the lender must determine the decision credit score for each individual borrower and then select the lower (or lowest if more than two borrowers). That "decision" credit score is then used to determine whether the loan is eligible for FHA mortgage insurance. Applications where the decision credit score is below 500 are not eligible for FHA-insured financing *unless* the loan-to-value ratio is less than 90 percent. A transaction where one borrower had only "nontraditional credit" and the other had a decision credit bureau score under 500 would not be eligible for FHA mortgage insurance unless they had equity of 10 percent or more.

Non-Traditional Credit. For underwriting purposes, borrowers with non-traditional credit (or insufficient credit) must qualify based on the underwriting guidance described in Mortgagee Letter 2008-11. Please note that if TOTAL renders an "accept/approve" risk- classification, it can be relied on (subject to correct data) *except* in those situations where none of the owner-occupants of the property have credit bureau scores and the borrower(s) must be underwritten using the insufficient credit instructions in that mortgagee letter.

The guidance in Mortgagee Letter 2008-11 regarding 'thin-file' credit reports was intended to give lenders the option to also use non-traditional credit sources should they have a minimum trade line requirement to use a credit bureau score.

<u>Refinancing Delinquent Loans into FHASecure</u>

For borrowers refinancing **delinquent** non-FHA ARMs the upfront mortgage insurance premium (UFMIP) is set at **3.00** percent of the base loan amount (loan amount excluding UFMIP) regardless of the loan-to-value (LTV) ratio. The loan-to-value will determine the annual premium.

Automated underwriting systems will provide lenders with a feedback message that will inform them of the premium to be charged without recognizing that the loan being refinanced is delinquent. Therefore, the feedback message providing the premium message will caution lenders that if the loan being refinanced is delinquent, then the premium is **3.00** percent for the UFMIP and .**55** percent for annual premium when LTV ratio greater than 95 percent; if the LTV ratio is equal to or less than 95 percent, the annual premium is 0.50 percent.

Borrowers who refinance their delinquent non-FHA ARM loan into *FHASecure* and subsequently wish to refinance to another FHA-insured mortgage must use a refinance product that requires full qualifying, e.g., a rate and term refinance. Once the FHA-to-FHA full qualifying refinance is insured, these borrowers will be able to take advantage of FHA's Streamline Refinance program.

<u>Underwriting Rules When Using FHA's TOTAL Mortgage Scorecard</u>

If TOTAL renders a refer risk classification or triggers a review rule, the mortgagee's Direct Endorsement underwriter must determine whether the borrower qualifies for the mortgage using the basic underwriting and eligibility requirements outlined in Mortgagee Letter 2004-47 (TOTAL Mortgage Scorecard User Guide) and handbook HUD-4155.1 REV-5.

Review Rules for FHA's TOTAL Mortgage Scorecard include excessive payment-to-income ratios and debt-to-income ratios; and from the credit files, a previous mortgage foreclosure within 3 years, a bankruptcy discharged within 2 years and late mortgage payments. TOTAL will refer the application for underwriting analysis if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months shows:

- 3 or more late payments of greater than 30 days; or
- 1 or more late payments of 60 days plus one or more 30-day late payments; or
- 1 payment greater than 90 days late

The Refer decision from TOTAL suggests that, absent additional factors that can be documented by the underwriter, the credit risk of the loan may be too great for FHA to insure. Such mortgages, which may exhibit other risk-layering characteristics beyond credit bureau score and LTV, are to be approved solely on the underwriter's judgment of the likelihood of successful and sustained homeownership.

If the underwriter approves a loan for which non-credit review rules are triggered, i.e., excessive payment-to-income ratios and debt-to-income ratios, the borrower will pay the mortgage insurance premium based on the LTV ratio and term of mortgage in years.

<u>First-Time Homebuyer with HUD-Approved Pre-Purchase Counseling</u>

The Housing and Economic Recovery Act also provides for a reduction of the upfront premium from 3.00 to 2.75 percent for first-time homebuyers (as defined below) who complete HUD-approved pre-purchase counseling. However, since no premium for purchase money mortgages will exceed 1.75 percent through September 30, 2009, there will be no reduction in the upfront premium for counseled first-time homebuyers. Nevertheless, we are repeating the instructions of what constitutes acceptable pre-purchase counseling below.

A first-time homebuyer is an individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase (closing date) of the property. A first-time homebuyer includes any individual that has only owned with a former spouse while married and also includes an individual who has only owned a principal residence not permanently affixed to a permanent foundation, or a property that was not in compliance with State, local, or model building codes and cannot be brought into compliance for less than the cost of constructing a permanent structure. If any of the occupant-owners on the mortgage meet this definition, then the mortgage is considered as having been made to a first-time homebuyer.

Pre-purchase counseling must be obtained from a HUD-approved housing counseling agency, a participating agency of a HUD-approved housing counseling intermediary or a state Housing Finance Agency receiving HUD housing counseling grant funds, *and* the counseling <u>must</u> occur prior to execution of the sales agreement. With this requirement, it is FHA's intent to encourage borrowers to participate in meaningful counseling prior to the decision to purchase a home, not to create an incentive or burden for lenders to have borrowers re-execute the sales contract in order to receive a reduced premium.

The counseling may be completed up to one year before the homebuyer signs a purchase agreement (executes a sales contract) for the subject property. It must be one-on-one, face-to-face counseling unless a hardship can be demonstrated, and then the counseling may be conducted one-on-one over the telephone. The counseling must consist of, but is not limited to:

- Budgeting and credit, including an analysis of the household's unique financial/credit situation;
- Assessing homeownership readiness, including an evaluation of home and monthly payment affordability;
- Development of a written action plan outlining the steps the household and the counselor will take to help the household meet their goals;
- Financing a home, including a discussion of alternative types of mortgage loans/features and special financing products, common lending documents, and steps in the loan application, approval, and closing processes;
- Shopping for a home, including understanding the professionals involved in the process; and
- Maintaining a home, including preventive maintenance, taxes, and insurance;

Even if group sessions or homebuyer education classes cover the topics above, they do not meet the level of one-on-one counseling needed to receive the reduced mortgage insurance premium. To find a list of housing counseling agencies, please visit the Department's website at http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm.

Programs Covered by Insurance Premiums Shown Above

The upfront and annual premiums and the requirements described in this mortgagee letter apply to those forward mortgages insured under FHA's Mutual Mortgage Insurance (MMI) fund; the Section 203(k) rehabilitation mortgage insurance program; and individual condominium units insured under Section 234(c). These premiums do not apply to mortgages insured under Title I of the National Housing Act, nor to reverse mortgages under FHA's Home Equity Conversion Mortgage (HECM). These premiums also do not apply to Section 223(e)(declining neighborhoods), Section 238(c)(Military Impact areas in Georgia and New York), Section 247 (Hawaiian Homelands), and Section 248 (Indian Reservations).

Refinance Transactions

The mortgage insurance premium for refinance transactions will depend on the type of refinance (e.g., rate-and-term; streamlined FHA-to-FHA refinance; or FHASecure delinquent), the loan-to-value ratio, and the term of the mortgage.

Full Qualifying Refinances (e.g., rate-and-term; *FHASecure* refinance of a conventional mortgage not presently delinquent; cash-out refinances; any that require complete underwriting except delinquent loans being refinanced under *FHASecure*). These refinances are subject to the same mortgage insurance premiums as purchase money mortgages shown above.

Streamline Refinances. The mortgage insurance premiums charged are based on the loan-to-value ratio (either the calculated LTV based on the existing mortgage, or a new LTV based on a new FHA-appraisal) and the term of the mortgage.

Borrowers who refinanced their delinquent non-FHA ARM into an *FHASecure* mortgage are not eligible to streamline refinance their *FHASecure* mortgage. The refinance transaction subsequent to the *FHASecure* mortgage must be a full qualifying refinance.

Previous Case Number. To determine the case number of the loan being refinanced, lenders may use the Case Query screen in FHA Connection using the borrower's name, address and/or social security number.

Future Changes to the Risk-based Premium Schedule

It is FHA's intent to make any subsequent changes to the premium schedule only on an annual basis and make them effective at the beginning of the fiscal year. FHA's fiscal year begins October 1 and ends September 30.

Systems

Lenders are reminded of the importance of data integrity to ensure that the appropriate premium is charged and that the data submitted to TOTAL and FHA Connection is accurate. Also, system edits will prevent lenders from streamline refinancing *FHASecure* loans that were previously delinquent non-FHA ARM loans.

If you should have any questions concerning this Mortgagee Letter, call 1-800-CALLFHA.

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner