

## FHA Update #2

This information has been taken from The Federal Register FL-5171-N-02

HUD has made a significant change to FHA by implementing risk-based insurance premiums. **Up until now, FHA charged a 1.5% Up Front Mortgage Insurance Premium and a .5% monthly mortgage insurance**, now those amounts will be dependent on a borrower's loan to value and credit score. This policy will be implemented for all case numbers issued after July 14, 2008. I have included some highlights of the Notice and a chart as to how the new premiums will affect your clients. For more information about these and other changes occurring with FHA go to [www.HUD.gov](http://www.HUD.gov)

### FHA Single Family Mortgage Insurance: *Implementation of Risk-Based Premiums*

#### SUMMARY:

FHA will implement risk-based premiums for most FHA single family mortgage insurance programs, enabling mortgage lenders to offer a borrower FHA-insured financing with a range of mortgage insurance premiums based on the risk of that individual borrower.

This follows a September 20, 2007 notice that solicited public comment on the proposal to implement risk-based premiums. In this notice, FHA advised that, by offering a range of premiums based on risk, it would be able to offer options to...

- (1) HUD Lenders serving borrowers who were previously underserved, or not served, by the conventional marketplace;
- (2) HUD Lenders serving those borrowers wishing to lower their premiums by, for example, increasing their down payment or by improving their credit scores.

FHA is implementing risk-based premiums in support of its mission to promote homeownership among first-time and minority homebuyers. While the conventional market regularly uses risk-based premiums to price insurance risk, FHA, to date, continues to charge a one-size-fits-all premium to mortgagees, resulting in lower-risk borrowers paying a higher premium than necessitated by their risk, and higher-risk borrowers paying a lower premium relative to their risk.

The criteria that FHA proposes to use for risk-based premiums – credit scores and LTV ratios – are strongly associated with claim rates and have become the primary risk factors used in conventional market pricing of mortgage credit risk. FHA has a legitimate business basis for charging higher premiums to higher-risk borrowers. Indeed, it has a business imperative, because the current FHA method of average-risk pricing is no longer sustainable.

*The risk-based premium rates apply to all mortgages insured by FHA except FHA's Reverse Mortgage and the 223(e), 238(c), 247 and 248.*

<b>New Upfront and Annual Mortgage Insurance Premiums (Loan Terms GREATER THAN 15 years) Effective as of July 14, 2008</b>							
<b>Decision Credit Score (FICO)</b>							
	<b>850-680</b>	<b>679-640</b>	<b>639-600</b>	<b>599-560</b>	<b>559-500</b>	<b>499-300</b>	<b>NON-TRADITIONAL</b>
<b>LTV</b>	<b>Upfront/Monthly</b>	<b>Upfront/Monthly</b>	<b>Upfront/Monthly</b>	<b>Upfront/Monthly</b>	<b>Upfront/Monthly</b>	<b>Upfront/Monthly</b>	<b>Upfront/Monthly</b>
<b>≤ 90.00</b>	1.25%/ .50%	1.25%/ .50%	1.25%/ .50%	1.50%/ .50%	1.75%/ .50%	1.75%/ .50%	1.50%/ .50%
<b>90.01-95.00</b>	1.25%/ .50%	1.25%/ .50%	1.50%/ .50%	1.75%/ .50%	2.00%/ .50%	n/a	1.75%/ .50%
<b>&gt; 95</b>	1.25%/ .55%	1.50%/ .55%	1.75%/ .55%	2.00%/ .55%	2.25% <sup>a</sup> / .55%	n/a	2.00%/ .55%
a. A first-time homebuyer, with HUD-approved counseling, will pay only 2.00% for the upfront mortgage insurance premiums.							

## Notes

- Eligibility for the mortgage insurance premiums listed in the chart above is **based on an applicant's decision credit score**.  
 A "decision credit score" is determined for each applicant according to the following guidelines:
  - When three scores are available (one from each national consumer reporting agency: Equifax, TransUnion, and Experian®), the middle value is used;
  - When only two are available, the lesser of the two is chosen;
  - When only one is available, then that score is used.
 If more than one individual is applying for the same mortgage, the lender should determine the decision credit score for each individual borrower and then use the lowest score to determine the final decision credit score for the application.
- The borrower must be run through TOTAL (FHA's Automated Underwriting System) and accepted. If the Borrowers not scored by TOTAL because there is insufficient trade lines to generate credit bureau scores will fall in the "non-traditional" column in the premium chart and are priced accordingly. Borrowers falling into cells with no premium price shown are not eligible for FHA-insured financing. Note that a minimum decision credit score of 500 will be required for FHA-insured mortgages with an LTV ratio in excess of 90 percent.
- If TOTAL refers a loan for manual underwriting and the underwriter deems that there are sufficient compensating factors to create an acceptable risk to FHA, then the upfront insurance premium charge will be as shown on the premium chart.
- These premiums apply to all purchase loans and to fully underwritten (non-streamline) refinance loans.
- Streamline refinance of an existing FHA loan for which a case number was assigned prior to July 14, 2008, will have an upfront premium of 1.00% and an annual premium of .50%.

<b>New Upfront Mortgage and Annual Mortgage Insurance Premiums</b>							
<b>Loan Terms of 15 Years or Fewer</b>							
<i>Effective as of July 14, 2008</i>							
<b>Decision Credit Score (FICO)</b>							
	<b>850-680</b>	<b>679-640</b>	<b>639-600</b>	<b>599-560</b>	<b>559-500</b>	<b>499-300</b>	<b>NON-TRADITION AL</b>
<b>LTV</b>	<b>Upfront/Mont hly</b>	<b>Upfront/Mont hly</b>	<b>Upfront/Mont hly</b>	<b>Upfront/Mont hly</b>	<b>Upfront/Mont hly</b>	<b>Upfront/Mont hly</b>	<b>Upfront/Mont hly</b>
<b>≤ 90.0 0</b>	1.00%/0.0%	1.00%/0.0%	1.25%/0.0%	1.50%/0.0%	1.75%/0.0%	1.75%/0.0%	1.50%/0.0%
<b>90.0 1- 95.0 0</b>	1.00%/.25%	1.25%/.25%	1.50%/.25%	1.75%/.25%	2.00%/.25%	n/a	1.75%/.25%
<b>&gt; 95</b>	1.25%/.25%	1.50%/.255	1.75%/.25%	2.00%/.25%	2.00%/.25%	n/a	2.00%/.25%

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