

FHA Proposed Changes

FHA announced proposed policy changes this week. Some proposals that may affect your borrower are:

Proposal: Reduce allowable seller concessions from 6% to 3%

Comment: If accepted, the estimated time frame for reduced seller contributions is early summer. This will make conventional loans just as favorable for good credit score borrowers.

Proposal: Update the combination of FICO scores and down payments for new borrowers. New borrowers will now be required to have a minimum FICO score of 580 to qualify for FHA's 3.5% down payment program. New borrowers with less than a 580 FICO score will be required to put down at least 10 percent

Comment: Although FHA has a minimum credit score threshold, very few lenders are accepting credit scores below 640, others at 620. However, on the manual underwrite side, which I still have a lender that writes these files; this will affect their loans under the down payment feature; for borrowers with a credit score below 580.

Proposal: Mortgage insurance premium (MIP) will be increased to build up capital reserves and bring back private lending. The first step will be to raise the up-front MIP by 50bps to 2.25% and request legislative authority to increase the maximum annual MIP that the FHA can charge. If this authority is granted, then the second step will be to shift some of the premium increase from the up-front MIP to the annual MIP

Comment: The changes in the mortgage insurance coverage may start as early as February. This high cost MI via FHA will not be the most cost effective for good credit score borrowers should make conventional products look more appetizing, provided they have 5% to put down. Also, this could affect the monthly payment and the debt to income ratio.

I hope you find this information helpful. With the tax credits expiring in April, as far as contracts are concerned, the potential to beat the clock on these changes are also vital to clinch the best of the best products.

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Working together building the dream of homeownership!