SLIDE 1 – Government Insured FHA Program (Cover Page)

SLIDE 2

FHA Insured Loans

The Federal Housing Administration (FHA) is an agency of the Department of Housing and Urban Development (HUD). It does not lend money, but *insures* permanent long-term loans made by others.

The lender must be approved by the FHA, and the borrower must meet certain FHA qualifications. In addition, the property used to secure the loan must meet FHA standards. The FHA insures that the lender will not suffer significant loss in the case of borrower default.

SLIDE 3

Federal Housing Administration (FHA) was created in 1934 as part of National Housing Act to:

- Generate new jobs by increasing construction activity
- Stabilize mortgage market
- Promote financing, repair, improvement, and sale of real estate

SLIDE 4

Today, the FHA is part of Department of Housing and Urban Development (HUD)

- Primary function is insuring mortgage loans
- Compensates lenders for losses from borrower default
- Does not build homes or make loans

SLIDE 5

Mutual Mortgage Insurance Plan is FHA insurance program funded by premiums paid by FHA borrowers.

Direct endorsers - lenders authorized to handle entire underwriting process for FHA loans.

If FHA borrower defaults on loan:

- FHA reimburses lender for full amount of loss
- Borrower required to repay FHA

SLIDE 6

Distinguishing features of FHA loans:

- Less stringent qualifying standards.
- Borrowers with minimum decision credit score at or above 580 are eligible for maximum financing
    - 3.5% down payment
- Borrowers with minimum credit score between 500 and 579 – limited to 90% LTV
- Borrowers with minimum credit score of less than 500 are not eligible for FHA-insured mortgage financing
- Secondary financing restrictions.
- Maximum loan amounts set by local limits and by LTV rules
- Borrower must come up with min cash investment plus funds for
    - Closing costs
    - Discount points
    - Prepaids
- Mortgage insurance always required
- No pre-payment charges
- Property must be owner-occupied primary residence

SLIDE 7

FHA Insurance Premiums

Insurance premiums for FHA loans are either:

- MMI (mutual mortgage insurance premiums)
- MIP (mortgage insurance premiums)

For most programs, borrowers pay an upfront premium and annual premiums.

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FHA Insured Loans

FHA mortgage insurance

The FHA determines how much mortgage insurance must be provided and charges the borrower an appropriate mortgage insurance premium (MIP).

The initial premium is payable at closing or is added to the borrower's loan balance and financed. Further annual premiums are charged monthly. The amount of the premium varies according to the loan term and the applicable loan-to-value ratio.

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FHA Mortgage Insurance Premiums

Loan Amount	LTV	Annual premium
	Term > 15 Years	
<= $625,500 <= $625,500 Above $625,500 Above $625,500	<=95% >95% <=95% >95%	130 bps 135 bps 150 bps 155 bps
	Term <= to 15 Years	
Any Loan Amount <= $625,500 <= $625,500 Above $625,500 Above $625,500	<=78% <=90% >90% <=90% >90%	45 bps 45 bps 70 bps 70 bps 95 bps

SLIDE 10

Borrower default – The FHA reimburses the lender for losses due to default by the borrower, including costs of foreclosure.

Appraisal – The property must be appraised by an FHA-approved appraiser. The property must also meet the FHA's standards for type and quality of construction, neighborhood quality, and other features.

Maximum loan amount – The FHA has set maximum loan amounts for over 80 regions. Borrowers within a region are limited to the loan ceiling amount in effect for the region. In addition, the maximum loan amount is restricted by the loan-to-value ratios in effect.

SLIDE 11

Down payment requirement – The minimum down payment for an FHA-loan is based on the lower of the appraised value or the sales price. The present requirement for single-family residential loans is 3.5%.

Maximum loan term – Thirty years is the maximum length of the repayment period.

Prepayment privilege – The borrower has the right to pay off the loan at any time without penalty, provided the lender is given prior notice. The lender may charge up to 30 days' interest if the borrower provides less than 30 days' notice.

SLIDE 12

Assumability – Rules for assumability vary according to when the FHA-insured loan was originated and whether the original loan was for an investment property or an owner-occupied principal residence. Loans originated before December 1, 1986, are generally assumable without restriction.

Loans originated after December 1, 1986, require that the assumer show creditworthiness. Loans originated after December 15, 1989, may not be assumed unless the borrower fully qualifies.

Interest rate – The lender and borrower negotiate the interest rate on an FHA-loan without involvement of FHA.

SLIDE 13

Points, fees and costs – The lender may charge discount points, a 1% loan origination fee, and other such charges. These may be paid by buyer or seller.

However, if the seller pays more than 6% of the costs normally paid by a buyer, the FHA may regard these as sales concessions and lower the sales price on which the loan insurance amount is based. A pending change to this limit would lower it to the greater of 3% or $6,000.

SLIDE 14

Points, fees and costs –

In addition to Section 203(b) loan programs, FHA offers insurance coverage for other loan products.

Home improvement loans	Subsidized loans for low- and middle-income families
Loans for condominiums	Loans for multi-family projects
Graduated-payment loans	Adjustable-rate loans

SLIDE 15

Characteristics of FHA Loans

Typical FHA loan has a 30-year term, but borrower may have option for shorter term.

Other characteristics of an FHA loan:

- Required to have first lien position
- Competitive interest rates
- Lender charges an origination fee and may charge discount points
- Borrowers may use gift funds

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Borrowers may use gift funds from family member

- Child, parent or grandparent
- Spouse or domestic partner
- Legally adopted son or daughter
- Foster child
- Brother, stepbrother
- Sister, stepsister
- Aunt or uncle
- In laws

SLIDE 17

Distinguishing features of FHA loans, almost every FHA-insured loan has these characteristics:

- Less stringent qualifying standards.
- Borrowers with minimum decision credit score at or above 580 are eligible for maximum financing
- 3.5% down payment
- Borrowers with minimum credit score between 500 and 579
– limited to 90% LTV

SLIDE 18

- Borrowers with minimum credit score of less than 500 are not eligible for FHA-insured mortgage financing
- Secondary financing restrictions
- Maximum loan amounts set by local limits and by LTV rules
- Borrower must come up with minimum cash investment plus funds for closing costs, discount points, prepaids
- Mortgage Insurance is required for the life of the loan
- No prepayment charges
- Property must be owner-occupied

SLIDE 19

Income Analysis

- FHA underwriter determines applicant's monthly effective income.
- Effective income - gross income from all sources expected to continue for first 3 years of loan term.
- Underwriter also applies income ratios to determine adequacy of effective income:
  - Fixed payment to income ratio (generally 43%)
  - Housing expense to income ratio (generally 31%)

SLIDE 20

Ratios can be higher with justification from lender

- TOTAL Scorecard maximum qualifying ratios are 40/50
- Offers flexibility with compensating factors
  - Depending on credit scores