

FHA OVERVIEW

| TERMS | DETAILS |
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| FEDERAL HOUSING ADMINISTRATION a/k/a FHA | Created in 1934 by Congress during the Great Depression with the passage of the National Housing Act. Purpose was to generate new jobs through increased construction activity, to exert a stabilizing influence on the mortgage market, and to promote the financing, repair, improvement, and sale of residential real estate nationwide. |
| FHA MORTGAGE INSURANCE a/k/a MIP | The Mutual Mortgage Insurance Plan –MMI, is funded with premiums paid by FHA borrowers. |
| UPFRONT MIP | The upfront mortgage insurance premium (UFMIP) is also called the one-time mortgage insurance premium (OTMIP). |
| DIRECT ENDORSEMENT LENDERS | Responsible for the entire lending process from application through closing. |
| THE ROLE OF FHA | To help people with low or moderate incomes buy homes. The program does not have income limitations, but it does have restriction on loan amounts. |
| SECTION 203(b) STANDARD FHA LOAN | The basic FHA mortgage insurance program. Can be used to purchase or refinance a residential property with up to four dwelling units. Must be the borrower’s principal residence. |
| SECTION 203 (k) REHABILITATION LOAN | Insures loans used to purchase (or refinance) and then rehabilitate “fixer-uppers”. |
| SECTION 234 (c) CONDOMINIUM UNITS | Covers the purchase or refinancing of individual condominium units. It works in tandem with other programs, such as 203 (b). |
| SECTION 251 ARMs | Provides mortgage insurance for adjustable-rate loans. It’s administered in conjunction with either the 203 (b) or the 203 (k) program. Can be used for a purchase, refinance, or rehab a principal residence with up to four units. Must have a 30-year term. |
| SECTION 255 REVERSE MORTGAGES a/k/a HOME EQUITY CONVERSION MORTGAGES HECM | Also known as reverse mortgages. Offers an elderly home owner a way to convert equity into income. These homeowners can convert the equity in their homes into either a source of monthly income or a line of credit. Repayment is not required as long as the property remains the owner’s principal residence. To qualify, a homeowner has to be at least 62 years old; the property may have up to four dwelling units or be a condominium unit. |
| OWNER-OCCUPANCY REQUIREMENT | FHA borrowers must intend to occupy the property they’re buying. |

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| <p style="text-align: center;">SECONDARY RESIDENCE</p> | <p>A secondary residence is a home the borrower occupies less than 30% of the time. FHA loans can be used to buy a secondary residence only if denial of the loan would cause undue hardship. Must be needed for employment-related reasons; it cannot be a vacation home. Borrower must show that there is no suitable rental housing in the area.</p> |
| <p style="text-align: center;">INVESTOR LOANS</p> | <p>FHA generally does not insure investor loans.</p> |
| <p style="text-align: center;">MINIMUM CASH INVESTMENT</p> | <p>New borrowers with a minimum FICO score of 580 are required to make a minimum down payment of 3.5%. New borrowers with a FICO score of less than 580 must make a minimum down payment of 10%.</p> |
| <p style="text-align: center;">SALES CONCESSIONS</p> | <p>FHA restricts sales concessions from the seller or other interested parties to 6% of the sales price. Seller contributions include:</p> <ul style="list-style-type: none"> ▪ Payments towards the borrower’s closing costs ▪ Prepaid expenses ▪ Mortgage interest ▪ UFMIP ▪ Discount points ▪ A buydown. |
| <p style="text-align: center;">INDUCEMENTS TO PURCHASE</p> | <p>FHA considers it to be an inducement to purchase if the seller:</p> <ul style="list-style-type: none"> ▪ Gives the buyer a decorating or repair allowance ▪ Pays for the buyer’s moving expenses ▪ Pays the buyer’s agent a larger commission than is customary in the local area ▪ Pays the real estate agent’s commission on the sale of the buyer’s current home ▪ Gives the buyer items of personal property other than those that are customarily included in the sale of the home <p>The total inducements to purchase is subtracted from the property’s sales price, on a dollar-for-dollar basis, before the LTV ratio is applied.</p> |
| <p style="text-align: center;">SECONDARY FINANCING</p> | <p>A loan secured by a second mortgage against the same property that is being purchased with a first mortgage. Can be used on an FHA loan if the primary and secondary loans don’t add up to more than the maximum loan amount for the transaction and the borrower qualifies for the combined payment.</p> |
| <p style="text-align: center;">SECONDARY FINANCING AND THE MINIMUM CASH INVESTMENT</p> | <p>FHA borrowers are not allowed to use secondary financing from the seller, another interested party, or an institutional lender to pay the required minimum cash investment. Exception: Secondary financing may be used to cover the minimum cash investment if provided by:</p> <ul style="list-style-type: none"> ▪ A member of the borrower’s family <ul style="list-style-type: none"> ○ Child ○ Parent ○ Grandparent |

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| | <ul style="list-style-type: none"> ○ Borrower's spouse <p>A borrower 60 years or older may cover the minimum cash investment with secondary financing from:</p> <ul style="list-style-type: none"> ▪ A relative ▪ A close friend ▪ An employer ▪ A charitable organization <p>The total financing cannot exceed the property's value plus prepaid expenses.</p> |
| ASSUMPTIONS | Older FHA loans – closed before December 1989 – can be assumed by anyone, unless the seller wants to be released from liability. |
| FHA INSURANCE PREMIUMS | <p>UFMIP is 1.00% of the base loan amount. Can be paid in cash by the buyer or seller or financed.</p> <p>Annual MIP is 0.25%, 0.85% or 0.90% of the loan balance, depending on the loan term and LTV. No annual premium charged if loan term is equal to or less than 15 years and equal to or less than 90% LTV</p> <ul style="list-style-type: none"> ▪ On loan terms over 15 years, annual MIP is automatically canceled when the LTV reaches 78%, as long as it has been paid for 5 years. ▪ On loan terms 15 years or less, the annual MIP is automatically canceled when the LTV reaches 78% - if the 78% is reached early, the borrower may request cancellation. |
| UNDERWRITING STANDARDS | Less strict than Fannie Mae and Freddie Mac. Lenders need to consider a loan applicant's credit report and scores when available. Score cannot be lower than 500 unless LTV is under 90%. If two people apply, lowest credit score is used. |
| EFFECTIVE INCOME | Total amount of income from all sources that can be expected to continue for the first three years of the loan term. |
| FIXED PAYMENTS | <p>Include:</p> <ul style="list-style-type: none"> ▪ Proposed monthly housing expense <ul style="list-style-type: none"> ○ PITI ○ 1/12 of the annual MIP ○ Any association dues ▪ Recurring charges <ul style="list-style-type: none"> ○ Monthly payments on any debt with 10 or more payments |
| DEBT TO INCOME RATIO | <p>Should not exceed 43%</p> <p>Note: See compensating factors</p> |

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| <p>HOUSING EXPENSE TO INCOME RATIO</p> | <p>Should not exceed 31%</p> <p>Note: See compensating factors</p> |
| <p>COMPENSATING FACTORS</p> | <p>An applicant whose income ratios exceed these ratio limits may still qualify for an FHA loan if compensating factors reduce the risk of default.</p> |
| <p>ASSETS REQUIRED FOR CLOSING</p> | <p>Borrower must have enough cash to cover:</p> <ul style="list-style-type: none"> ▪ minimum cash investment ▪ prepaid expenses ▪ any borrower-paid discount points ▪ UPMIP ▪ Any other closing costs |
| <p>ALLOWABLE SOURCES FOR CASH REQUIREMENT</p> | <ul style="list-style-type: none"> ▪ Gift funds from: <ul style="list-style-type: none"> ○ employer ○ labor union ○ relative ○ close friend ○ charitable organization ○ government agency ▪ Secondary financing ▪ Unsecured loan from a family member ▪ Loan from an independent 3rd party |