



REALTOR®/Lender Task Force

New Monthly MI Factors for FHA Insured Home Loans

At a time when most of us are hoping for the markets to return toward some sense of normalcy, HUD has again stepped in to weaken the return of a stronger market by making it more costly to use the FHA program to purchase a home.

On February 14, 2011 HUD issued Mortgagee Letter 11-10 announcing effective with new FHA case numbers assigned on or after April 18, 2011 HUD will increase the Annual Mortgage Insurance premiums by 25 basis points.

HUD is under the mandate of section 202 of the National Housing Act to ensure FHA's Mutual Mortgage Insurance Fund (MMIF) remains financially stable. Accordingly HUD believes increasing the Annual Mortgage Insurance premium will strengthen the MMIF and ensure FHA will continue its historic role of providing a home financing vehicle during times of economic volatility and its mission of helping underserved borrowers. While HUD points out there will be no increase to the Upfront Mortgage Insurance Premium (UFMIP), they anticipate this increase will have minimal impact on borrowers but will significantly strengthen the capital position of the MMIF. What HUD fails to point out in their Mortgagee Letter is anytime you increase the cost of mortgage insurance by 27.78% there will be significant hardships for the average consumer trying to buy a home in what we all know to be a less than booming market.

OLD MI FACTOR versus NEW MI FACTOR

Mortgage Insurance Premiums		
Loans > 15 years		
UFMIP = 100 bps	Annual Premium	
LTV	Through 4/17/2011	On/After 4/18/2011
≤ 95.00 percent	85 bps	110 bps
> 95.00 percent	90 bps	115 bps
Loans ≤ 15 years		
UFMIP = 100 bps	Annual Premium	
LTV	Through 4/17/2011	On/After 4/18/2011
≤ 90.00 percent	None	25 bps
> 90.00 percent	25 bps	50 bps

How will this negatively influence buyers and sellers in the real estate market? For the buyer on the ratio "bubble" the additional \$33 per month could be enough to disqualify them and thus hinder a seller from finding a buyer for an even longer period of time. Qualified buyers are an integral part of what is needed to help turn around the real estate market. HUD's change is being implemented right in the middle of the spring market and will perhaps serve to slow what everyone is hoping to be the best spring market in years. If HUD had instead implemented the increase in the Upfront Mortgage Insurance Premium (UFMIP) in the example above, the customer's monthly payment would have gone up by only \$2.13 and HUD would have gotten the MI premium increase funded at loan closing instead of waiting for monthly payments from the insured

Example of How Buyers will be Affected

borrower. The upfront funding would have put immediate funds in the FHA Mutual Mortgage Insurance Fund (MMIF) on every loan closing. Instead HUD has elected to collect an increased monthly payment thereby disqualifying a portion of the very buyers HUD is mandated to serve. If FHA's federal mandate is to provide a home financing vehicle during times of economic volatility and its mission is to help underserved borrowers, then ask yourself why is HUD enforcing a slow-down in the already depressed housing market by raising the monthly cost of buying a home?

Example of Annual Mortgage Insurance Premium Increase		
30 year Term		
Average Loan	>95.00 percent LTV	
	Oct-10	Apr-11
	90 bps	115 bps
Sales Price	\$163,000	\$163,000
Minimum Down payment (3.5%)	\$5,705	\$5,705
Mortgage Amount without UFMIP	\$157,295	\$157,295
FHA Annual MIP (monthly payment)	\$118	\$151
Increase in monthly payment	////////	\$33

Regardless of HUD's strategies that seem to create fewer opportunities in our market, as professional Realtors® and Lenders, we must continue to capitalize on our opportunities! Homeownership is the American Dream and we will always do our best to help fulfill that dream!
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