

TEN THINGS YOU NEED TO KNOW ABOUT FHA

"Government is like a baby. An alimentary canal with a big appetite at one end and no sense of responsibility at the other."

—Ronald Reagan



By JAMES HENNESSY

Much of the time we cannot help but agree with former President Reagan's statement about the nature of government. But sometimes the government will surprise us by doing something right. Not often, mind you, but sometimes. FHA is positioning itself as an institution of importance for the first time in 20 years, and enlightened, energetic mortgage originators are well-poised to be the beneficiaries, along with their borrowers, and by extension, America itself.

"Guvvies" were hugely popular from the 1940's through the 80's, but fell by the wayside as low downpayment conventional alternatives arrived on the scene complete with reduced paperwork requirements. Today, originators who intend to establish themselves in their markets going forward simply *must* learn about FHA if they are to stay viable and relevant. The good news is that government loans aren't as difficult as you might have been led to believe, and there are a lot of experts willing to help you get your feet wet.

Among them is Leslie Peterson, a *M.O.M.* contributor and one of the nation's leading FHA authorities. Leslie is in the business of training people on FHA programs and addressing questions and concerns on her Web site, www.MortgageCurrentcy.com, an online newsletter that addresses the wonderful world of Freddie, Fannie, FHA, VA and other agencies. She helped establish the following 10 things originators should know about FHA:

1. FHA is by far the best loan available in today's market. "There are so many reasons this is true," Peterson said. "Contrary to popular opinion, FHA is now for everyone, not just the low income borrower." This is an essential point. With the new loan limits, FHA is relevant to a much wider spectrum of your prospects. "There are no income limits," she explained. "Rates and terms are great.

FHA's 97 percent LTV carries over to the new FHA-jumbos (until year end). The new conforming jumbos have all kinds of limitations and are not nearly as workable nor as attractive. FHA has them beat, hands down." The predicted "boomlet" in loan production is threatened by the limitations she mentions on Freddie and Fannie "jumbo conforming" programs, but FHA may be the white knight here, offering a host of refinance alternatives to people in current conventional jumbo loans who desire a lower monthly payment—a potentially huge market for originators.

2. You cannot originate FHA loans unless you work for an FHA approved company. While this is true, it's not a deal-breaker. Not only are FHA approved companies out there to originate loans for, getting approval is neither rocket science nor onerous. "It takes a minimum \$63,000 net worth, annually audited financials, an FHA-acceptable quality control plan, and more," Peterson said. "It shouldn't be entered into lightly." It is very important to note that HUD is all over the issue of non-approved originators. Their recent Policy Alert explicitly states that non-approved persons or entities cannot be paid for origination services without running the risk of violating RESPA.

3. FHA is a great loan for the borrower. "FHA is one of the few loans left that is still assumable, subject to qualifying," she said. "It's the only loan that allows the borrower to do a 'streamlined refinance' to a lower rate with no appraisal and no qualifying." She also points out that the rates are advantageous, there are no prepayment penalties, and FHA mortgage insurance is no more expensive than with comparable conventional high-LTV mortgages. These are powerful features and benefits to discuss with borrowers, more than overshadowing any negative perceptions that may linger from previous eras.

4. There is no reduction in LTV for properties in declining areas. FHA has the GSE's beat here. Both Fannie and Freddie feature a five percent LTV hit for prop-

erties deemed to be in declining areas. And with so many areas experiencing negative property appreciation, this is another huge factor in FHA's favor.

5. FHA offers a true 95 percent cash-out refinance along with other attractive refinance products. "I still can't believe it myself," Peterson said. "It's for fully qualifying occupants who have occupied and made all house payments on time for the last 12 months. What's incredible is that you can refinance any type of underlying loan, even a subprime." Subprime refi candidates aren't hard to find either. The government and the press will become your allies here, touting any viable alternatives to subprime hell, especially for borrowers struggling to make payments in the face of adjustments. You will have many inquiries on positive refinance alternatives, and as Peterson said, "This is the best refinance available anywhere." Score one for the government.

6. FHA is for owner-occupants only. FHA requires its borrowers to move in within 60 days of closing and stay put for a minimum of one year. No exceptions. It is critically important for originators to know that the government is serious about this. Violations are subject to formal and swift foreclosure, not the slap on the wrist of times past.

7. FHA is a government program through and through, but it pays for itself and is not funded through tax-payer dollars. As Peterson observed, "It's not a subsidy, it's not a drag on the economy, and it's not a giveaway program. It's good for the country." How important is that feature of the program? Very important, actually, for the image and wellbeing of our entire industry. A generation ago, residential finance suffered a substantial blow to its image and self esteem with the S&L bailout, and this current crisis is far worse, reaching much deeper into the bedrock of the American economy. Nations are affected by this one, as they bought high-yielding mortgage securities that have become worthless because the underlying mortgages were not paid back. We will not know the complete impact of this unfortunate episode for years to come, but we know that the business of originating mortgages has suffered an enormous black eye. More emphasis on programs that are helping fix the mess without smacking of a government bailout is very good for the country as a whole and the industry in particular.


8. FHA is very lenient with borrower credit issues. How does that sound in the midst of the current "flight to quality?" Lenient does not mean credit issues aren't, well, issues, but they are willing to look at credit that sends other lenders into fits of hysterical laughter. "Depending on the risk level of the entire file," Peterson explained, "the automated underwriting systems will take credit scores in the high 550 to 600 range." She points out that some lenders impose their own minimum credit

scores for FHA loans they make, however. It's important to note that "FHA allows all alternative credit, nominal credit, and is very lenient in its bankruptcy rules."

9. FHA is full doc only. Stated income is a thing of the past—get over it. "Light doc" is also not in FHA's vocabulary, apart from saying "no." Expect your garden variety FHA loan file to be as much as twice as thick as a conventional loan, so that's not part of the good news from a workflow standpoint. Part of the good news is that the additional documentation is what makes the looser credit parameters and generous downpayment requirements feasible, and the additional documentation is handled largely through your LOS system. So while there is a bit of heavy lifting, you'll more than make up for it in increased fundings.

10. The new loan limits are set to expire after December 31, 2008. Unless extended by congress, the FHA loan limits will revert back to their previous levels, which is to say they will not be workable for the nation's many high-cost areas. "Those levels mean a floor based on 48 percent (temporarily 65 percent) and a ceiling based on 87 percent (temporarily 175 percent) of Freddie Mac limits," Peterson said. "For all of those areas in-between, the limits go to 95 percent (temporarily 125 percent) of the median home value. In other words, there will be a whole lot of the country that won't be able to use FHA again." But take heart. If the response is as large to the temporary rules as it should be, congress should be moved to extend the changes to allow as many people as possible to refinance, which was the point of the whole exercise in the first place.

Originators who are already doing FHA know this, but as Leslie Peterson cautions, "The FHA program is filled with government-type rules, exceptions to the rules, and exceptions to the exceptions. It's not an easy program to learn, nor is it easy to keep up on. If you are going to be involved in FHA, you need to stay updated." Being the government, they think and act in ways normal people don't always understand. When they get the word out, it is sometimes in verbiage that is long on "administrivia" and short on clarity, so you will need to be prepared to spend some time trying to figure it all out.

Look to resources like your NAMB-affiliated local chapter in addition to the national, publications like *M.O.M.*, as well as informational sites such as www.MortgageCurrency.com and, of course, www.hud.gov to stay up on changes and enhancements. It's a new day for "guvvies," and as originators in the past have learned, it can be a great way to make a living. 

JAMES HENNESSY has over 25 years experience in the mortgage industry and is managing director of Strategic Vantage Marketing & Public Relations. San Diego, Calif., 858/793-0950, e-mail: jameshjr@aol.com