



from the
DESK OF DAVID H. STEVENS
Assistant Secretary for Housing/Federal Housing Administration Commissioner



The recovery of the nation's housing market presents the industry with many challenges and opportunities. As a mission-driven organization, FHA's goal is to provide sustainable homeownership options for qualified borrowers. Due to the economic downturn, FHA continues to experience an unprecedented surge in business which puts pressure not only on our infrastructure, but on our risk exposure as well. We must continually balance serving our mission while ensuring FHA operates in a safe and sound manner.

We realize there has been a lot of change coming from FHA lately. And, while neither the nature nor pace of change can be altered, we appreciate your partnership as you work to implement the changes introduced. We are here to support you as we continue working together to serve the nation's home buyers and renters.

We have been working hard to introduce thoughtful policies to the FHA to ensure that we remain well-positioned to provide access to homeownership over the long-term, while minimizing risks to the American taxpayer.

FHA recently announced a series of policy changes, and we are considering additional changes that will be introduced by the end of January. I would like to address those topics with you today, to give you a better understanding of our approach to managing risk while fulfilling the FHA's core mission.

Q: Secretary Donovan stated in testimony last week that FHA is drafting several new policies. What changes will you be making and when will they be introduced?

A: *The policies under consideration are intended to address the quality of the existing portfolio, improve the performance of future books of business and will help to return the capital reserve to above the legislated 2 percent level. It is paramount that we produce a balanced, comprehensive solution that supports homeownership and rental housing alike, providing people with the options they need to make good choices for their families.*

As we evaluate which policy options FHA may pursue, we are continually assessing the overall impact to capital, to our mission and to the housing market to ensure we strike a fair balance. We anticipate introducing policy changes to the market around the end of January, 2010. We cannot comment on implementation time lines until decisions have been reached on new policies or policy changes and the manner in which they will be introduced. However, as part of our process of exploring policy options, we will reach out to many industry players to better understand operational impacts in order to best assess a fair implementation time line.

LINKS

HUD.gov/fha

[HUD press releases](#)

[RESPA](#)

[HUD Secretary Shaun Donovan's Testimony before the House](#)

Q: In the November 30 Federal Register, HUD published proposed changes to FHA's approval process and oversight of lenders and third party originators. This proposed change will have significant impacts to mortgage brokers and lenders. Have you considered all the consequences?

A: *The intention of this proposed change is to transfer the responsibility of counter party risk to the institutions which have primary accountability for the loan quality of third party originators. Since lenders bear the overall risk of FHA endorsed loans, it should not be FHA's role to determine broker participation or manage counter party risk on behalf of the lender. Lenders are equipped with the operational expertise and procedures to evaluate counter party risk and also gain firsthand knowledge of a broker's loan quality during the underwriting process. This puts lenders in the best position to adequately and effectively manage this risk. This proposed change will expand opportunity for good quality mortgage brokers who are not yet FHA approved to participate in FHA lending.*

Although this seems like a major change, in reality, we are simply becoming more consistent with the risk management practices within the conventional marketplace and appropriately placing the component of risk management at the point of accountability. Since the proposed rule is out for comment, we are asking interested parties to provide us comments, questions, concerns or information through the public comment process. We value this feedback and it is the best way for us to carefully consider the various issues that may be raised. We realize the proposed changes may bring operational impacts to your organization, and as you read through the rule, we encourage you to use the comment period to inform us of any significant implementation concerns and any suggestions on how to overcome them.

Q: The new RESPA rule takes effect on January 1, 2010, and we still have questions about implementation. Where can we find answers?

A: *HUD provides a comprehensive set of frequently asked questions (FAQs) on our website (HUD.gov/RESPA). From the website, you can also download a copy of HUD's RESPA presentation designed to offer "plain English" explanations of many implementation issues.*

On January 1, 2010, HUD will require that lenders and mortgage brokers provide consumers with a standard Good Faith Estimate (GFE) that clearly discloses key loan terms and closing costs. Closing agents will also be required to provide borrowers a new HUD-1 Settlement Statement that clearly compares consumers' final and estimated costs. The new RESPA rule became effective on January 16, 2009, but provided a one-year transition period for the mortgage industry to incorporate these changes.

We have conducted a series of information sessions, webinars, conference calls and presentations to help the industry prepare for the RESPA changes. HUD will continue to work with the industry throughout 2010 to ensure consumers are provided with the meaningful protections intended in the new RESPA regulations and while making the transition as smooth as possible.

Q: We understand HUD is exercising restraint in enforcement of RESPA's new requirements for 120-days to FHA-approved lenders who demonstrate a good faith effort to comply. Does this mean we can still use the old forms?

A: *No. The idea that lenders, brokers and closing agents can delay implementing the new Good Faith Estimate and HUD-1 Settlement Statement beyond January 1, 2010, is incorrect. After January 1, the only circumstance where the old HUD-1 form can be used is when the most recent GFE the borrower received was issued in 2009 on an old form. There should be no confusion about when the mortgage industry must begin using the new forms. That date is January 1, 2010.*

In closing, I want to reiterate my commitment to work with you, as our industry partners, to address the many challenges and opportunities facing us today. Together we can restore faith in America's housing finance system as we find the best ways to serve the needs of America's home buyers and renters.