

FHA MODERNIZATION

TITLE I of DIVISION B of H.R. 3221 (HOUSING AND ECONOMIC RECOVERY ACT OF 2008) (House passed on 7/xx/08)

TOPIC	NATIONAL HOUSING ACT SEC.	HR 3221 PROVISION
Subtitle A – Building American Homeownership Act of 2008		
Downpayment Calculation	203(b)(2)(B)	Sec. 2112. Eliminates the existing percentage limitations and permits financing of up to 100% of the appraised value of the property.
Downpayment Assistance Restrictions	203(b)(9)	Sec. 2113. Includes language explicitly prohibiting the following sources from contributing funds to the mortgagor's cash investment: (i) the seller or any other person/entity that financially benefits from the transaction; and (ii) any third party/entity that is reimbursed by any of the parties in (i). This prohibition shall apply only to mortgages for which the mortgagee has issued credit approval for the borrower on or after October 1, 2008.
Maximum Mortgage Limit	203(b)(2)(A)	Sec. 2112. Permits FHA to insure (i) up to 115 percent of the median house price in the area for a 1-family residence; and in the case of a 2-, 3-, or 4-family residence, permits FHA to insure the percentage of such median price that bears the same ratio to such median price as <i>the dollar amount limitation under the sixth sentence of section 305(a)(2) of the Federal Home Loan Mortgage Corporation (FHLMC) Act</i> for a 2-, 3-, or 4-family residence, respectively, bears to the dollar amount limitation in effect for a 1-family residence; or (ii) 150% of <i>the dollar amount limitation under the sixth sentence of section 305(a)(2) of the FHLMC Act</i> for a residence of the applicable size. (= \$625,500) Increases the "floor" to 65% of <i>dollar amount limitation under the sixth sentence of section 305(a)(2) of the FHLMC Act</i> for a residence of the applicable size. (= \$217,050) Note: references above to the "dollar amount limitation under the sixth sentence of section 305(a)(2) of the FHLMC Act" mean the dollar amount limitations as amended by section 1124(b)(1) of subtitle B of title I of this Act (GSE Conforming Loan Limits): \$417K for a single-family residence.
Treatment of Up-Front Premiums	203(d)	Sec. 2112. Amends section 203(d) to prohibit the maximum amount of the mortgage to be increased by the amount of the mortgage insurance premium paid at the time of insurance, when the principal obligation to be insured equals 100% of the appraised value of the property.
Cash Investment Requirement	203(b)(9)	Sec. 2113. Requires a mortgagor to make a cash investment (<i>or equivalent to cash</i>) of not less than 3.5% of the appraised value of the property, or such larger amount as the Secretary may determine. Continues current statutory language allowing family members to contribute funds to the mortgagor's cash investment, if repayment is secured by lien, lien is subordinate to mortgage and total of principal and loan may not exceed 100% of appraised value of property, <i>plus any additional service charges, appraisal, inspection, and other fees in connection with the mortgage.</i>

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Mortgage Insurance Premiums	203(c)	<p>Sec. 2114. Amends current law to allow the Secretary to charge up-front premiums not to exceed 3.0 percent of the original insured principal obligation (not to exceed 2.75 percent with respect to first-time homebuyers who complete a counseling program).</p> <p>Does not change annual premium amounts.</p> <p>See also section 2133 of this bill: Beginning October 1, 2008, there is a 12-month moratorium on implementation of risk-based premiums as published in the <u>Federal Register</u> on May 13, 2008 (73 FR 27703).</p>
Moratorium on Implementation of Risk-based premiums		<p>Sec. 2133. For a period of 12 months beginning on October 1, 2008, HUD shall not take any action to implement or carry out risk-based premiums, as such planned implementation was set forth in the 5/13/2008 <u>Federal Register</u> notice. (73 FR 27703)</p>
Mutual Mortgage Insurance Fund (MMIF)	202 and 205; various technical changes throughout NHA	<p>Sec. 2118. All Single Family Title II programs will be placed in the Mutual Mortgage Insurance (MMI) fund. Explicitly states that the MMI fund is subject to the provisions of the Federal Credit Reform Act of 1990. Provides for an annual independent actuarial study of the fund.</p> <p>2 operational goals: minimizing default risk to the MMI Fund and homeowners by instituting, among other things, fraud prevention quality control screening not later than 18 months of passage of this Act; and meeting the needs of the borrowers the SF mortgage insurance program is designed to serve.</p> <p>Expands items to be included in annual independent actuarial study analyzing financial position of MMIF which Secretary is to provide to Congress.</p>
Condominiums	234 and 201(a)	<p>Sec. 2117. Establishes a new limitation on existing section 234(c). The insurance program will be limited in the future to take out financing for multifamily blanket mortgages on FHA insured section 234(d) condominium projects. Revises definition of mortgages that may be insured under 203(b) to include mortgages on condominium units, <i>including manufactured housing condominiums</i> under section 203.</p>
HECM for Purchase	255(m)	<p>Sec. 2122. New authority will allow seniors to purchase and obtain a HECM loan in a single transaction. The HECM for Purchase program can only be used for primary/principal residences and not for second homes or investment properties.</p>
HECM Maximum Loan Limit	255(g)	<p>Sec. 2122. Sets maximum benefits of insurance (claim), which is the GSE conforming limit (\$417,000).</p>
Waiver of Up-Front Premiums for Mortgages to Fund Long-Term Care Insurance	255(l)	<p>Sec. 2122. Waiver of Up-Front Premiums for Mortgages to Fund Long-Term Care Insurance, is deleted.</p>
HECM Counseling Requirements	255(d)(2)(B) 255(f)	<p>Sec. 2122. Mortgage must be executed by a mortgagor who received adequate counseling from an independent third party who is not compensated by or associated with a party connected to the transaction.</p> <p>The Secretary must provide or cause to be provided adequate counseling for the mortgagor as described in subsection (d)(2)(B). Such counseling shall be provided by counselors that meet qualification standards established by the Secretary.</p>

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Funding for HECM Counseling	255(l)	Sec. 2122. 255(m) redesignated as new 255(l) and amended to provide that Secretary will use a portion of mortgage insurance premiums to fund counseling and disclosure activities required under subsection (f), including counseling for those homeowners who elect not to take out a home equity conversion loan.
Independence of HECM Mortgage Originators	255(n)	Sec. 2122. New subsection 255(n) requires mortgagee to maintain and demonstrate independence from participation with other financial or insurance products offered to mortgagor, and may not require mortgagor to purchase other financial or insurance products as a condition of obtaining HECM.
Prohibition Against Requirements to Purchase Additional Products as a Condition for HECM Eligibility	255(o)	Sec. 2122. New subsection 255(o) prohibits mortgagee or any other party from requiring mortgagor or any other party to purchase insurance, an annuity, or other additional product as a requirement or condition of eligibility for a HECM insured by the Secretary, <i>except for title insurance, hazard, flood, or other peril insurance, or other products that are customary and normal, as determined by the Secretary.</i>
Study to Determine Consumer Protections and Underwriting Standards for HECMs	255(p)	Sec. 2122. New subsection 255(p) requires the Secretary to conduct study to determine appropriate consumer protections and underwriting standards to ensure that purchase of any additional products by a consumer is appropriate for the consumer.
Limits on HECM origination fees	255(r)	<p>Sec. 2122. New subsection limits the HECM origination fees to 2.0 percent of the maximum claim amount of the mortgage, up to a maximum claim amount of \$200,000 plus 1% of any portion of the maximum claim amount that is greater than \$200,000, unless adjusted thereafter based on an analysis of: (A) costs to mortgagors; and (B) the impact on the reverse mortgage market.</p> <p>Subject to a maximum origination fee of \$6,000, except that such maximum limit shall be adjusted in accordance with the annual percentage increase in the Consumer Price Index of the Bureau of Labor Statistics of the Department of Labor in increments of \$500 only when the percentage increase in such index, when applied to the maximum origination fee, produce dollar increases that exceed \$500.</p> <p>Requires GAO to conduct a study regarding HECM insurance premiums.</p>
HECM for Co-operative Housing	255(b)(4)	<p>Sec. 2122. Allows co-operatives to be insured under the HECM program. In 2000, the American Homeownership and Economic Opportunity Act amended the HECM program to permit housing cooperatives to be insured under the HECM program. However, there were technical problems with the amended language, and the proposed language is intended to fix those technical problems.</p> <p>Amendment to 255(b)(4) also clarifies requirements on reverse mortgages for seniors who own permanent foundation homes on leased land.</p>
Cooperative Housing Developments	203(n)	Sec. 2121. Amends the definition of 'mortgage' in section 203(n) to clarify that cooperative development mortgages may be insured under section 203(b) of the National Housing Act.

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Discretionary Action	203(s)/ 202(e)	Sec. 2116. Requires the Secretary to provide prompt notice of discretionary action taken to suspend or revoke the approval of any mortgagee to participate in any mortgage insurance. Substance of provision not changed. Provision moved to more logical location in section 202.
Borrower Protections & Counseling Requirements	106(c) of the 1968 HUD Act	<p>Sec. 2127. In the list of homeowners eligible to receive homeownership counseling, it shall include homeowners with a significant reduction in income due to divorce or death and a significant increase in basic expenses due to a divorce, unexpected medical expenses, significant property damage, or a significant increase in property damage. Removes first-time homebuyer and +97% appraised value requirements. Adds requirement that the annual income of the homeowner is no greater than the annual income established by the Secretary as being of low- or moderate-income.</p> <p>Sec. 2128. Requires the Secretary to establish and conduct a demonstration program to test the effectiveness of alternative forms of pre-purchase homeownership counseling for eligible homebuyers.</p>
Information Regarding Early Defaults and Foreclosures		Sec. 2125. Requires the Secretary and FHA, in consultation with industry, the Neighborhood Reinvestment Corporation, and other entities involved in foreclosure prevention activities to: (1) develop and implement a plan to improve FHA's loss mitigation process; and (2) report such plan to the Senate Banking and House Financial Services Committees.
Automated Process for Borrowers w/out Sufficient Credit History – Pilot Program	257	Sec. 2124. Permits the Secretary to establish a process for providing alternative credit rating information for mortgagors who have insufficient credit history for determining their creditworthiness. The Secretary may limit the program to first-time homebuyers, or to MSAs significantly affected by subprime borrowers. The number of mortgages would be limited to 5% of the aggregate number of mortgages insured by the Secretary under title II. The program would sunset after 5 years.
Energy Efficient Mortgages	106(a)(2) of the 1992 Energy Policy Act	Sec. 2123. Increases the limits of cost-effective energy efficiency improvements. Adds a limitation on the number of energy efficient mortgages that may be insured by the Secretary.
Fraud Protections		Sec. 2129. 18 U.S.C. 1014 imposes a \$1million fine or 30 year prison term for fraudulent statements made on loan and credit applications. Adds the Federal Housing Administration to the list of agencies covered by section 1014.
Use of FHA Savings		Sec. 2126. Authorizes to be appropriated for each of FYs 2009 through 2013, \$25 million to HUD for increasing funding for the purpose of improving technology, processes, program performance, eliminating fraud, and for providing appropriate staffing in connection with the title II mortgage insurance programs. The funds shall be provided from the negative credit subsidy; HUD must, through rulemaking, make a determination that premiums charged ensure compliance with capital ratios under 205(f) of the NHA and safety and soundness requirements. HUD must conduct a study to obtain recommendations on how best to update and modernize technologies and processes.
Limitation on MIP Increases		Sec. 2130. For the period between the date of enactment of the Act until 10/1/09, prevents the Secretary from increasing the multifamily mortgage insurance premiums above the limits as of 10/01/06 unless the Secretary determines that a positive credit subsidy will result if premiums are not increased. Permits the Secretary to increase rates only after 30-day notice is given to the Senate Banking and House Financial Services Committees, and a notice is published in the FR of such an increase. The Secretary may waive the 30-day notice requirement if the Secretary determines that waiting 30 days would cause substantial damage to the solvency of the multifamily housing programs.

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Repeals		Repeals sections 203(i)(housing in outlying areas), 203(o) and (p) (temporary economic conditions in Indian areas), 203(q) (Allegheny Reservation), 222 (mortgages for servicemen), 237 (special mortgage insurance assistance), and 245 (graduated payment and indexed mortgages).
Subtitle B – The FHA Manufactured Housing Loan Modernization Act of 2008		
Insurance Coverage	2(a)	Sec. 2143. Eliminates portfolio cap to permit claim payments, regardless of lender's overall volume of business.
Maximum Mortgage Amount	2(b)(1)	Sec. 2145. Maximum Mortgage Amounts raised to: \$25,090 for repair/improvements \$69,678 unit \$92,904 unit and lot \$23,226 lot only Index to adjust limits in future, as costs increase.
Limitation on Manufactured Housing Loans	2(b)(8)	Sec. 2144. Requires FHA to use a loan-by-loan process for insuring manufactured housing.
Insurance Premium	2(f)	Sec. 2146. Premiums for manufactured housing are as follows: Up Front Single Premium not to exceed 2.25%. Annual Premiums not to exceed 1.0%. Premium charges to be established in an amount sufficient to maintain negative credit subsidy, and may be increased by the Secretary as necessary to maintain a negative credit subsidy.
Underwriting Criteria	2(b)(10)	Sec. 2148. Requires the Secretary to establish such underwriting criteria for loans in connection with manufactured housing as may be necessary to ensure the financial soundness of the manufactured housing program.
Prohibition Against Kickbacks and Unearned Fees	10	Sec. 2149. Provides that, with certain exceptions, the provisions of sections 3, 8, 16, 17, 18, and 19 of the Real Estate Settlement Procedures Act (RESPA) shall apply to the sale of a manufactured home financed with an FHA-insured loan or extension of credit, as well as to services rendered in connection with such sales. Gives the Secretary the authority to prohibit acts or practices in connection with loans or extensions of credit that the Secretary finds to be unfair, deceptive, or otherwise not in the interests of the borrower.
Leasehold Requirements	2(b)(11)	Sec. 2150. No insurance shall be granted to any financial institution made for the purposes of insuring a manufactured home to be situated in a manufactured home community pursuant to a lease unless such lease: (1) expires not less than 3 years after the origination date of the obligation; (2) is renewable upon the expiration of the original 3-year term by successive 1-year terms; and (3) requires the lessor to provide the lessee written notice of the termination of the lease not less than 180 days prior to the expiration of the current lease term in the event the lessee is required to move due to the closing of the manufactured home community.