2017 Homes Within Reach Conference

FHA Update

December 5, 2017

Presented by:

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Philadelphia Homeownership Center
Department of Housing and Urban Development
Agenda

Who We Serve

FHA’s Mutual Mortgage Insurance Fund

Product and Program Updates

Process and Technology Updates
Who We Serve and How We Serve Them
Currently, FHA-insured loans are one of every five mortgage originations annually in the United States.

In FY2017:

- FHA endorsed 1,246,440 forward mortgages
- Average loan size was $201,337
- Borrowers’ average credit score was 676
Historical FHA Forward Mortgage Endorsement Activity

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
FY 2017 FHA Forward Endorsement Concentration by State

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
Average Borrower Credit Score for FHA-Endorsed Mortgages

NOTE: Borrower credit score data was not collected prior to 2005 and does not include Streamline Refinance mortgages.
Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
FHA Single Family Housing Borrower Characteristics

FHA Single Family Housing serves the average individual and family.

In FY 2017:

- First time homebuyers – 82.2 percent
- Minority homebuyers – 33.3 percent
- Seniors – more than 55,000
Historical Purchase Mortgage Activity and FHA First-Time Homebuyer Share

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
Racial Composition of FHA Forward Endorsed Mortgages

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
FHA HECM Endorsements Activity

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
Composition of FHA HECM Borrowers

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017

Endorsement Fiscal Year

Single Male  Single Female  Multiple  Not Disclosed
Key Features of FHA-Insured Mortgages

• 3.5 percent minimum statutory downpayment requirement

• 3.5 percent downpayment assistance can come from borrowers’ family, employer, governmental entities, and others

• Streamline Refinance opportunity

• Permit Non-Occupying Co-borrower

• Assumable
203(k) – Purchase or Refinance with Rehabilitation

- Purchase and rehabilitate with one up to 30 year mortgage loan.

- Renovation funds are escrowed so work can be done after closing.

- Modernize, add rooms, new heating or roof, energy improvements, or other real property needs.

- Limited 203(k) for non-structural work up to $35,000; no consultant required.

- Loan amount is based on cost of repairs in combination with as-rehabilitated value.
HUD Real-Estate Owned

- After many FHA foreclosures, lender files a claim and conveys property to HUD.

- HUD pays contractors to manage and sell properties.

- Properties are usually bid out first to owner occupants, then to investors. A non-profit may have “first look” rights in some places.

- Revitalization Areas: 30–50 percent discounts for government, nonprofits, teachers, police, and emergency responders.

- List price is based on appraised value and declines over time for unsold properties.
HUD Home Store [www.hudhomestore](http://www.hudhomestore)
Approved Lenders by Business Category

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
FHA’s Mutual Mortgage Insurance Fund (MMIF)
Mutual Mortgage Insurance Fund (FY 2017)

- MMI Fund Balance: $50.1 billion
- Core Business Operations Cash Flow: $2,454 million
- Claims and Property Expenses Paid: $15.9 billion
- Revenues: $18.3 billion

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
Historical Serious Delinquency Rates for FHA Mortgages

Source: Federal Housing Administration Annual Report to Congress, November 15, 2017
Product and Program Updates
Condominium Project Approvals

• October 26, 2016, Mortgagee Letter 2016-15 implements condominium project approval owner occupancy requirements.
  — Specific conditions where Existing Projects can be approved when owner occupancy is as low as 35 percent.

• Condominium Project proposed rule published September 28, 2016.

• Temporary condominium project approval policy extended with August 30, 2017 Mortgagee Letter 2017-13.
Previously FHA had two types of loan modifications, now there’s only one.

- Previously, we had a Standard Loan Modification that targeted a 10 percent reduction in PITI.
- We also had FHA-HAMP Modifications that targeted a 20 percent reduction in PITI.
- Because the 10 percent Standard Modification re-defaulted at more than twice the rate for FHA-HAMP, we eliminated the Standard Loan Modification that targets a 10 percent PITI reduction.

Borrowers needed more payment relief to have sustainable loan modifications.
Loss Mitigation Option Priority

**Repayment Plan/Workout Tools**
- Informal Forbearance
- Formal Forbearance

**Home Retention Options:**
- Special Forbearance - Unemployment
- FHA’s Home Affordable Modification Program (FHA-HAMP)
- Disaster Loan Modification (properties in PDMDAs; employment in PDMDAs)

**Home Disposition Options:**
- Preforeclosure Sale (PFS)
- Deed-In-Lieu of Foreclosure

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The Loan Modification that is independent of FHA-HAMP as a standalone option was eliminated from FHA’s Home Retention Priority Order (effective 3/1/2017)
Process and Technology Updates
What is the SF Handbook?
## Benefits of the SF Handbook

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<th>Consolidated</th>
<th>Consistent</th>
<th>Logical</th>
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<td>Hundreds of policy documents are consolidated into a single-source document</td>
<td>All topics are standardized in format, style, and terminology</td>
<td>Topics follow the logical flow of the stakeholder’s process and how they do business with FHA</td>
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Loan Review System

• Implemented May 15, 2017

• Interaction between lenders and FHA on the majority of Quality Control processes for Title II mortgages:
  — Post-Endorsement Loan Reviews
  — Unconditional DE Authority Test Cases
  — Lender Monitoring Reviews
  — Lender Self-Reporting of Fraud

• Implements Loan Quality Assessment Methodology (Defect Taxonomy)
## Loan Quality Assessment Methodology (Defect Taxonomy)

This Taxonomy represents an evolution in FHA’s approach to Quality Assurance.

<table>
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<th>Pre-Taxonomy Approach to QA</th>
<th>Taxonomy</th>
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<td>The majority of current defect codes focus on causes, often leading to multiple codes all describing a small piece of a single fundamental issue (e.g., borrower income not being sufficient).</td>
<td>The <strong>coding of defects</strong> is standardized within a limited number of defect categories, allowing FHA to capture greater detail on the fundamental issues impacting a loan’s quality. Although there are significantly fewer defects, each defect employs between 15-30 “reason codes” to capture rich detail about why a defect occurred.</td>
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**Two potential levels of findings for each defect - Unacceptable and Deficient,¹** providing only a limited ability to analyze the scope of defects solely on the basis of the finding reported.

Subdivision of each existing findings level, creating four tiers of defects, allowing FHA to capture greater detail on the scope of the defect.

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**Much of the detail of the sources and causes of defects is captured only in loan reviewer’s notes, which prevents data analysis on why defects are occurring at the aggregate level.**

The sources and causes of defects are captured as part of the **Basis of Ratings code**, allowing FHA to analyze the reason why defects are occurring at the aggregate level.

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¹The terms “Unacceptable” and “Deficient” refer solely to the code names used by FHA in its previous QA systems and practice and should not be extrapolated to any other context or for any other purpose. Because these terms could be open to a variety of interpretations and do not provide the level of specificity desired by FHA, they are being replaced under the Taxonomy with Tier labels. **With LRS implementing the Defect Taxonomy, the terms “Unacceptable” and “Deficient” have been reintroduced.**
Planned Effort - eCase Binder

**Current State**
- Only LI Lenders are able to submit eCase Binders when a binder is requested; some still submit paper.
- Costly to receive, handle, and store.
- Current capability/functionality of eCase Binder provides limited ability to navigate and search the files efficiently.

**Future State**
- Enhance submission process - upload files vs. interface.
- Enhance functionality for improved ease of use:
  - Indexing
  - Navigation
- Ability to append/update binders.
- Link appraisal documents (EAD/binder).
- Submission history.

**Implementation Strategy**
- Phased implementation for both LI and non-LI Lenders.

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Long-term strategy is to eliminate the use of paper binders for all lenders.
## FHA Resource Center

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<tr>
<th>Option</th>
<th>Point of Contact</th>
<th>Hours Available</th>
<th>Comments</th>
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<tbody>
<tr>
<td>FHA Knowledge Base – FAQs</td>
<td><a href="http://www.hud.gov/answers">www.hud.gov/answers</a></td>
<td>24/7/365</td>
<td>Knowledge Base web page includes option to email questions.</td>
</tr>
<tr>
<td>Email</td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>1-800-CALL-FHA (1-800-225-5342)</td>
<td>8:00 AM to 8:00 PM Eastern M-F</td>
<td>Voicemail is available after hours or during extended wait periods.</td>
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Thank you for joining us today!