Mortgage Insurance Programs

Offered by: Federal Housing Administration (FHA)

Target Credit Union Participants: Credit unions providing mortgage loans to consumers.

Program Objectives: Its goal is to provide an adequate home financing system through insurance of mortgages, and to stabilize the mortgage market. FHA's mortgage insurance programs help low- and moderate-income families become homeowners by lowering some of the costs of their mortgage loans. FHA mortgage insurance encourages lenders to make loans to otherwise creditworthy borrowers and projects that might not be able to meet conventional underwriting requirements by protecting the lender against loan default on mortgages for properties that meet certain minimum requirements--including manufactured homes, single-family and multifamily properties, and some health-related facilities.

Credit Union Eligibility: Credit unions with a net worth greater than $250,000. All credit unions can participate in this program as originators or loan correspondents of mortgage loans. Loan correspondents partner with a sponsor financial institution that underwrites their loans. Since the sponsor credit union holds the borrower's mortgage loan, the borrower must fall within the sponsor's field of membership (per NCUA regulations). There is no minimum loan amount (or usage) set by FHA.

Program Features and Requirements: The benefits to the credit union when issuing FHA loans includes: maintaining a desired liquidity of assets (selling loans in the secondary market) and becoming eligible to participate as a Ginnie Mae issuer; minimizing credit and interest rate risks; providing additional services to members; simplifying marketing efforts since FHA loans are widely accepted by consumers (members) as the industry norm; and attracting more members.

Another benefit is that FHA now has an interactive system (FHA Connection) on the Internet that gives approved FHA lenders real-time access to several FHA systems for the purpose of originating loans. HUD does not charge for the use of the FHA Connection. FHA Connection transactions include: requesting and updating a case number, recording appraisal and mortgagor insurance information, reassigning appraisers, changing borrower information, requesting duplicate Mortgage Insurance Certificate; providing lenders a low-cost, on-line option for submitting delinquent data, providing a neighborhood watch system which allows the credit union to retrieve delinquency patterns by specific area, providing title approval information, and allowing lenders to view the status of receipt of the mortgage insurance premiums.

Refer to Page 3 for the description of the FHA mortgage programs.

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Type of Lenders: Credit unions can participate in the FHA programs as either a supervised mortgagee (lender) or as a loan correspondent. A credit union is classified as a supervised mortgagee (lender) if their accounts are insured by NCUA. Supervised mortgagees may originate, purchase, hold, service, sell FHA insured mortgages, and submit mortgages for FHA insurance endorsement in their own name. A loan correspondent (LC) does not necessarily need to be supervised (by NCUA). LC is a lender that has as its principal activity the origination of FHA-insured mortgages for the sale or transfer to its sponsor (other FHA approved lender that participates as a FHA supervised mortgagee). The sponsor performs the loan underwriting function on behalf of the LC and is responsible for the actions of the LC. The LC can not sell mortgages to any lender other than its sponsor. The LC may not hold, purchase, or service insured mortgages in its own portfolio. However, the LC is required to close the loan in its own name and submit it for insurance endorsement.

Lender approval is further divided into Title I and Title II functions. Title I authorization covers both manufactured homes and home improvements. A Title II authorization deals with single-family homes. More information can be obtained by calling: (202) 708-3976.

Program Cost: Credit union management should determine and document whether the FHA loan program meshes with the credit union's financial (e.g., liquidity, risk, expenses, and income) and operational goals prior to starting this program.

Contact: FHA provides information regarding training, programs, and other information on their website: http://www.hud.gov/fha.

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The **Section 184 Program** is designed to increase the availability of mortgage capital to land owned by Native Americans (tribes or reservations) and is restricted to Native American borrowers selecting home sites within an Indian area. Under the 184 Indian Loan Guarantee Program, HUD guarantees the home loan made by lenders to eligible Native American borrowers. Any Section 184 Guaranteed Loan, including the security given for the loan, may be sold or assigned by the lender to another financial institution. The borrower is required to pay a 1 percent loan guarantee fee at closing. Native American borrowers will work directly with lenders and their Tribe in order to apply for a housing loan. Lenders perform the necessary loan underwriting analysis and will coordinate the loan approval and commitment with HUD. Visit the Office of Native American Programs for more information at:
1999 Broadway, Suite 3390, Box 90, Denver, CO 80202 or call: Office Number (303) 675-1600 or 1-800-561-5913.

The **Section 203(b) Program** is the centerpiece of FHA's single-family insurance programs. Section 203(b) has several important features:

- Down payment requirements can be low.
- Many closing costs can be financed. FHA mortgage insurance is not free: borrowers pay an up-front insurance premium (which may be financed) at the time of purchase, as well as monthly premiums that are not financed, but instead are added to the regular mortgage payment.
- Some fees are limited. FHA rules impose limits on some of the fees that lenders may charge in making a loan. For example, the loan origination fee charged by the lender for the administrative cost of processing the loan may not exceed one percent of the amount of the mortgage.
- HUD sets limits on the amount that may be insured. To make sure that its programs serve low- and moderate-income people, FHA sets limits on the dollar value of the mortgage loan. The current limit ranges from $81,548 to $160,950. These figures vary over time and by place, depending on the cost of living and other factors (higher limits also exist for two- to four-family properties). Usually a Section 203(b) mortgage may be repaid in monthly payments over 10, 15, 20, 25, or 30 years.

The **Section 203(h)** Program provides mortgage insurance to protect lenders against the risk of default on loans to qualified disaster victims. Individuals are eligible for this program if their homes are located in an area that was designated by the President as a disaster area and if their homes were destroyed or damaged to such an extent that reconstruction or replacement is necessary. Insured loans may be used to finance the purchase or reconstruction of a one-family home that will be the principal residence of the homeowner. No down payment is required. The borrower is eligible for 100 percent financing, including closing costs. The borrower's application for mortgage insurance must be submitted to the lender within one year of the President's declaration of the disaster. Applications are made through an FHA-approved lending institution, who makes their requests through a provision known as "direct endorsement," which authorizes them to consider applications without submitting paperwork to HUD.

The **Section 203(k) program** is the FHA's primary program for the rehabilitation and repair of single-family properties. The program allows the borrower to purchase or refinance and rehabilitate a home that is at least one year old. A portion of the loan proceeds are used to pay the existing mortgage and remaining funds are placed in an escrow account and released as rehabilitation is completed.

The **Section 221(d) Program** provides mortgage insurance for loans of up to $31,000 for a single-family home (up to $36,000 in high cost areas). For a larger family with five or more persons, the limits are $36,000 or up to $42,000 in high-cost areas. Higher mortgage limits apply to two- to four-family housing. The maximum amount of the loan to the borrower is 97 percent of the appraised value plus closing costs.

The **Section 251 Program** is FHA's adjustable rate mortgage program. The initial interest rate on the mortgage will remain in effect from 12 to 18 months with a lifetime rate adjustment cap of 5 percent.