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***FHASecure* Frequently Asked Questions for Housing Industry**

IMPORTANT DISCLAIMER

These **FAQs** have been modified to reflect that the term *FHASecure* applies to all conventional to FHA refinance transactions. The previous edition of **FAQs** indicated that only those borrowers who were delinquent due to the reset of their non-FHA ARMs were eligible for *FHASecure*, causing confusion in the industry.

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General

What is the expected impact of FHASecure? - [\(Top\)](#)

From 2007-2009, 2.3 million adjustable rate mortgages are expected to reset, nearly a quarter of which will be at risk of foreclosure. FHA believes that *FHASecure* will be able to assist approximately 80,000 borrowers who are delinquent due to their loan resetting, as well as 160,000 borrowers who are facing reset but are still current on their mortgage. By offering *FHASecure* and other refinancing programs, FHA could help 240,000 borrowers facing reset.

What is the value of the FHASecure program to lenders? - [\(Top\)](#)

Only FHA-approved lenders can originate *FHASecure* loans. *FHASecure* could benefit lenders by helping them avoid foreclosure expenses. Even if a lender takes a short payoff in order to originate an *FHASecure* loan, it is still less expensive than foreclosure and disposition of the property.

What advice should loan servicers/lenders give borrowers who are facing difficulty prior to ARM reset? How can FHA help borrowers who are delinquent prior to reset? - [\(Top\)](#)

Loan servicers and lenders can advise borrowers who are current on their non-FHA adjustable rate mortgage to consider refinancing to an FHA insured mortgage. For those borrowers who may owe more than their property is worth, lenders have the option of placing a second lien on the property that when combined with the first lien exceeds the property's value as well as FHA's geographical loan limits.

Although FHA cannot help borrowers who are delinquent prior to reset, there may be other options available. Many lenders have successfully provided loss mitigation assistance to borrowers, and a number of states are considering foreclosure avoidance programs. Lenders should provide information to borrowers on possible options, including contacting a HUD-approved housing counseling agency. To find a HUD-approved housing counseling agency, borrowers may call 1-800-569-4287 or visit www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm.

When can we start originating FHASecure loans? - [\(Top\)](#)

Applications may be taken starting September 5, 2007 thru December 31, 2008.

Eligibility and Underwriting Issues

How does FHA define reset? Does the definition include ARMs that reset at different time intervals (six months, annually)? - [\(Top\)](#)

FHA has purposely not defined reset because it understands that there are various reset periods associated with non-FHA adjustable rate mortgages. In the case of payment option ARMs, the ultimate 'reset' or 'recasting' of the loan to fully amortizing is an acceptable cause of default to qualify a borrower for *FHA Secure*.

Are interest-only non-FHA insured loans eligible for FHASecure? - [\(Top\)](#)

So long as the borrower is current on the mortgage payments, any type of conventional loan may be refinanced with *FHASecure*. However, if a borrower is delinquent, that delinquency must be the result of the payment shock of an interest rate reset or, in the case of an Option ARM, recasting of the mortgage to fully amortizing.

Under the FHASecure, are there restrictions on secondary financing, seasoning requirements for existing liens and/or a limit on the combined loan to value (CLTV) ratio? - [\(Top\)](#)

Except as noted in Mortgagee Letter 2007-11, *FHASecure* does not change FHA's underwriting requirements. Therefore, existing FHA policies regarding secondary financing are applicable: repayment terms of the second must not have a prepayment penalty or provide for a balloon payment before 10 years; any periodic payments due on the second

mortgage are due monthly and are essentially the same in dollar amount; and the first and second liens cannot exceed the borrower's reasonable ability to pay (HUD Handbook 4155.1 REV-5, paragraph 1-13 C 2 and 3). However, second mortgages that are deferred for no less than 36 months need not be considered in the qualifying ratios. As a reminder, the FHA insured mortgage must be in the first lien position.

Under *FHASecure*, there is no CLTV limit or a seasoning requirement for purchase money seconds. However, lenders are again reminded of existing FHA policy: if any portion of the funds of an equity line of credit in excess of \$1,000 was advanced within the past 12 months and was used for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in the new FHA mortgage (HUD Handbook 4155.1 REV-5, paragraph 1-11 A 2).

Will FHA adjust its Credit Watch termination policies for lenders who participate in *FHASecure* lending? - [\(Top\)](#)

FHASecure does not change FHA's underwriting guidelines, and FHA does not expect to see higher default and claim rates with these loans. As with all its programs, FHA will pull files in declining markets at a greater frequency as part of its normal risk management strategy.

Is there any leeway in FHA's definition of "current" in the six months prior to reset? Must borrowers be current on all obligations in the six months prior to reset? - [\(Top\)](#)

Borrowers must have paid their mortgage payment within the month due for the six months prior to reset, and must meet FHA's standard underwriting criteria as it relates to all other aspects of the loan.

Are there special underwriting requirements for the *FHASecure* program? Is there model language, i.e. for the underwriter's "remarks" regarding a borrower's inability to pay after reset? - [\(Top\)](#)

There is no model language for underwriters or special instructions for completing the Mortgage Credit Analysis Worksheet (MCAW) outside of what is already available regarding refinance transactions, which is located on page two of the MCAW. Furthermore, all borrowers being considered for *FHASecure* must meet FHA's standard underwriting criteria.

With *FHASecure* lenders can include delinquent payments in the mortgage amount but the Mortgagee Letter does not address servicing costs accrued by homeowners, for example the cost of inspections. Can lenders include these types of costs as well or does the homeowner have to pay them out of pocket? - [\(Top\)](#)

The items listed in the Mortgagee Letter are examples of what may be included in the new mortgage. Lenders may also include other reasonable and customary costs that are standard servicing practices and are included in all payoff statements.

Is there a maximum number of months of delinquent payments that a lender can roll into the new mortgage? - [\(Top\)](#)

No. Homeowners with sufficient equity in their property may include the entire delinquency into the first mortgage as long as doing so does not result in exceeding the maximum FHA loan-to-value ratios and the loan limits for the area.

Are payment option non-FHA ARMs eligible for refinancing under *FHASecure*? - [\(Top\)](#)

Yes. FHA understands that the payment option ARM products may not cause an immediate payment shock because the borrower may pay a minimal amount regardless of the interest rate reset. However, FHA recognizes that over time the interest rate resets contribute to the ultimate default when the loan reaches its recast trigger and becomes fully amortizing, requiring the borrower to make the entire principal and interest payments at the substantially higher interest rate. As a result, FHA believes that the Payment Option ARM product falls within the intent of the *FHASecure* program and is eligible.

Can FHA assist borrowers who are current on their mortgage but facing an ARM reset? - [\(Top\)](#)

Yes. *FHASecure* is available to all borrowers with non-FHA ARMs, current or delinquent and regardless of reset status. Lenders are permitted to offer a second mortgage to those

borrowers who are current but owe more than what their property is worth. This authority for secondary financing is only applicable for borrowers who are delinquent or current on their existing mortgages.

Can a non-owner occupant be added to the loan for the benefit of qualifying the occupants for FHA Secure? Allowing this would contradict FHA's refinance current guidelines. - [\(Top\)](#)

With the exception of cash-out refinance transactions, adding a non-occupant co-borrower does not contradict our requirements. In Mortgagee Letter 2005-43, which allows for up to 95% cash-out, we determined that the lender and borrower could not add additional borrower(s) to make the transaction qualify. For FHA Secure which is a lifeline to save the home and rate and term refinances, a non-occupant co-borrower could be added.

If we require a 6 months current mortgage history before the reset of the ARM, do we still need a 12 month history in the property before we can use FHA Secure? - [\(Top\)](#)

Though we believe this to be a rare occurrence, if the borrowers purchased their home less than a year ago with a non-FHA ARM, FHA Secure is available to them and only the 6 month payment history is applicable.

If the property was acquired less than 12 months ago, will the amount used for determining the loan to value be the current appraisal or the original sales price / acquisition cost? - [\(Top\)](#)

FHA anticipates that some values have fallen and will rely on the current appraisal without the need to see the original sales price or acquisition cost.

Regarding future resets, if the borrower anticipates they will not be able to handle the proposed increase, will this qualify for FHA Secure? - [\(Top\)](#)

Yes. All non-FHA ARMs, current or delinquent and regardless of reset status are eligible for refinancing under FHA Secure.

What's the status of GNMA securities for FHA Secure? - [\(Top\)](#)

Ginnie Mae issued an All Participants Memorandum on October 16, 2007 (APM 07-14) announcing the creation of a multiple-issuer pool type under the Ginnie Mae II Mortgage-backed Securities Program to accommodate FHA-insured mortgages originated in accordance with Mortgagee Letter 2007-11. For more information, please visit Ginnie Mae's website at www.ginniemae.gov

Should all FHA-insured mortgages with subordinate financing be placed into the custom pool Ginnie Mae announced in APM 07-14? - [\(Top\)](#)

No. If a lender is doing a refinance transaction that was permissible prior to FHA's issuance of Mortgagee Letter 2007-11, then those loans should be placed into one of Ginnie Mae's pool types that was available prior to APM 07-14. For example, up to 95% cash out refinance of a conventional mortgage with subordinate lien(s) that exceeds a CLTV of 97.75% should be placed into a regular Ginnie Mae pool type. Another example of when to place a mortgage into a regular Ginnie Mae pool type would be a rate and term refinance transaction with subordinate financing that does not exceed FHA's CLTV or geographical loan limits outlined in HUD Handbook 4155.1 REV-5, paragraph 1-13 C.

If a lender is doing a refinance transaction that is only permissible under the guidance provided in Mortgagee Letter 2007-11, then it should be placed in the custom pool type announced in APM 07-14.

Will there be marketing brochures on the FHA Secure program to provide to the public? - [\(Top\)](#)

Yes. FHA is currently developing Fact Sheets and promotional brochures for both lenders and consumers.

Where can I find the additional guidance on FHA Secure? - [\(Top\)](#)

Guidance was published in Mortgagee Letter 2007-11, which can be found on FHA's website www.fha.gov or www.hud.gov/offices/hsg/mltrmenu.cfm. The Mortgagee Letter permits consideration of delinquent borrowers and secondary financing by the lender. FHA

has not changed its other underwriting policies and borrowers must still meet standard FHA underwriting criteria.

Appraisal Issues

Will there be an increased emphasis on FHA review of appraisals? - [\(Top\)](#)

As noted in Mortgagee Letter 2007-11, FHA will be focusing more attention on reviewing appraisals in declining markets.

Will there be any changes to appraisal protocols since appraised values are declining? - [\(Top\)](#)

Mortgagee Letter 2007-11 reiterates FHA's existing guidance to mortgage lenders to ensure that appraisers are providing accurate property valuations. A declining market could be as small as a neighborhood or as large as an entire state, and no standard definition exists other than home prices are falling.



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