

THE TREND!

California	
Median Price-SFH	Date
\$278,900	01/11
\$305,020	12/10
\$284,600	01/10
Sales change Prior Month -8.6%	
Sales change Prior Year -2.0%	
Sacramento	
Median Price - SFH	Date
\$171,690	01/11
\$179,040	12/10
\$174,830	01/10
Sales change Prior Month -4.1%	
Sales change Prior Year -1.8%	
Source C.A.R. Research Dept.	

SACRAMENTO

Ph: 916.675.1177

Fx: 916.405.4470

BAY AREA

Ph: 510.344.0024

HOUSTON

Ph: 713.952.6092

Fx: 281.668.5002

FHA Changes Rules for Borrowers..

In our April 2010 article, vol22, we discussed the FHA program, and specific requirements by this agency in funding government insured loans, see it here <http://is.gd/fYqSY/vol22.pdf>. FHA has made several changes, and we shall review them in this article.

Gone are the days when FHA was meant for first time home buyers, and credit-challenged applicants. Moreover, as prices in California has collapsed, FHA loans which was once priced out of the state, has been quite useful for many borrowers.

Down Payments: Down payments are still considerably low at 3.5% of the purchase price.

Credit Score: The required FICO to get in the game has been reduced to 500, however, those with 580 or lower credit scores are required to make 10% down payment.

Insurance: This is where major changes has happened. Formerly, FHA required an upfront fee of 2.25% of the loan, which most borrowers ended up adding to the principal financing of the home. Currently, the upfront Mortgage Insurance Premium (MIP) is 1% of the loan payable at closing or added to the loan. Note that this is a non-refundable fee. Additionally, an annual MIP is charged, payable monthly; this cost has

increased. This has an inverse effect of effectively reducing the loan amount a borrower can qualify. For a 30 year loan, with 3.5% down payment, the amount is 1.55% of the loan, however, it is 1.50% if the borrower put down 5% or more. Those numbers used to be .90% and .85% respectively. If the term of the loan is 15 years or less and the down payment is 10% or greater, the MIP is only .25%, and cancelled once the borrower builds up equity of 22%. For a 30 year mortgage as stated earlier, the loan must be paid for at least five years, with 22% equity for the MIP to be cancelled.

Interest Rates: Note that interest rates for FHA loans are not regulated by the government, but a decision made by the lending firm, thus negotiated between the borrower and lender. Notably, interest rates on FHA loans are not strictly based on FICO scores as they are with conventional loans. Several mitigating factors affect FHA loan rates.

Seller Contribution: The seller of the home, for instance a home builder, or a lender in a short sale/ foreclosure can contribute up to 6% of the purchase price towards the buyer's closing cost, which may include such items like, insurance, discount points, rate buydowns, MIP

and prepaid taxes. However, note that the 6% may not be used for down payment.

Tax Returns: These are not necessarily a requirement for FHA loans, however, as an employee, you are required to produce your W2s for the previous two tax years. For those who own their businesses or self-employed, they will have to produce their tax returns for the previous two years.

FHA for "Underwater" Mortgages

This new program modifies the **Making Home Affordable** program, allowing FHA lenders to refinance loans that forgive at least 10% of a qualifying borrower's original mortgage principal. To qualify, applicants must owe at least 15% more than their houses is worth, be their primary residence, current in their mortgage, minimum credit score of 500, have a conventional or sub-prime loan. The applicant's current mortgage may not be an FHA loan, and must be completed between September 7, 2010 and December 2012. The catch is that, the forgiven debt will be reported as such, negatively affecting the borrower's FICO, and possible tax consequences (please check with a tax specialist.) For those who qualify, this a laudable deal.

Al Som-Any, MBA, Broker

