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SPECIAL POINTS OF INTEREST:

- **Buyers down payment of only 3.5%**
- **Your mortgage payment must be 31% or less of your income**
- **Your total debt or DTI must be less than 43% of income.**
- **Low FICOs are allowed**
- **2 years employment history**

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FHA, The Best Bet?

Last month in our article *Can Fannie and Freddie Waive Appraisals?,* we alluded to high LTV loans having FHA as the hope, we will discuss this issue in more detail in this first issue of the year.

The Federal Housing Administration is a housing loan insurer, making it less risky for lenders to provide mortgage to borrowers. They pay lenders claim in case of default by the borrower. As recently as 2006, FHA loans were only 4% of all mortgages issued, mainly because of the low ceiling of the maximum loan covered, and the arduous paperwork involved. It is now expected that FHA loans will account for 25% of all loans in 2009 if not more. The main reasons for the reversal is the implosion of the subprime mortgage market, with most lenders shying away from most residential mortgages, leaving a lot of room for government-backed loans. Moreover, the ceiling has been raised from a miserly $362,780 to $729,750, however, it is now $623,500, or 115% of the median home price in a metro or county.

While most first-time homebuyers will be using FHA, it is not limited to this market, if you have less than 10% to put down, FHA may be your best chance, especially if your FICO is also challenged.

FHA's 203(k) programs allows borrowers to buy homes that need repairs, with FHA loaning the funds needed for repairs.

FHA has become a moving target with several expected changes, but here is the current guidelines;

- Homebuyers need to put down only 3.5%
- Gifts, loan charity, or local government programs can be used towards the 3.5% requirement.
- Employment history of two years is required.
- Your mortgage payment must be 31% or less of your income
- Your total debt or DTI must be less than 43% of your income.
- FICO scores as low as 540 for lower loan amount.

Note that FHA mortgages could be more expensive that conventional ones, due to the required premium for mortgage insurance (PMI). But with reasonable interest rates, and decent home prices, they could be the best bet for some.

-Al Som-Anya, MBA, Broker

"Modify Loans", Sheila Bair Says

Loan modification, a process whereby a borrower's mortgage is altered either through interest rate, principal, length of repayment or other mechanisms has been difficult to come by. As we discussed in prior editions of ***Real***, most collectors of mortgage payments are simply servicers, not lenders.

Recently, most lenders are getting on board to help borrowers modify their loans, without insisting they be behind 60 or 90 days before agreeing to a modification. Fannie Mae, which has 18 million loans in its portfolio now allows "early workout" even if they have not been late. Under Fannie's new approach, borrowers will have a reduced payment for a trial period of normally four months. If the borrower makes their payments as agreed, the new terms could be made permanent.

Other lenders are becoming aggressive in working with borrowers, such as JP Morgan, BofA, Freddie Mac and recently Citibank. The FDIC head Sheila Bair, an advocate of modifications tells lenders to go deep to make the process meaningful. We can be of help!

Al Som-Anya