Final Transcript

HUD: FHA Single Family 101 for Housing Counselors
June 10, 2021/1:00 p.m. CDT

SPEAKERS

Virginia Holman
Esther Yamashiro

PRESENTATION

Moderator	Ladies and gentlemen, thank you for standing by. Welcome to the FHA Single Family 101 for Housing Counselors call. At this time, all participants are in a listen-only mode. Later, there will be a question and answer session and instructions will be given at that time. [Operator instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Virginia Holman. Please go ahead.

Virginia: Thank you very much. Welcome, everybody, to today's webinar to bring you up to date on FHA policies and procedures. As we see, homeownership bumping up, it becomes even more important for you to be current on the policies.

But before we start with the actual presentation, I'd like to go over some logistics. As the operator [audio skipping] a playback number along with a PowerPoint and a written transcript on HUD exchange. And this will be posted in about a week. It will be under the Training Webinar section. I did send out the PowerPoint this morning to everybody who had registered. They're also available in the Handout section in the control panel on the right hand side of your screen. You just need to click on the document name and the download will start.

Next slide. Because of the large number that we have, we will probably not be opening the lines for Q&A. But should we decide to do that, the operator will give you instructions on how to ask your questions or make your comments. There are some other ways we want you to ask your questions because they're very important to us. Again, the control panel on the right hand side of your screen has a box labeled Questions. If you just type your question in, we have staff that are monitoring those questions. You can ask of the webinar and actually any time in the future if you have a question or comment on this webinar or anything else, you can send that to housing.counseling@hud.gov and put the topic in the subject line so we can get it to the right person.

If you logged on to the webinar, you're going to receive a certificate of training from gotowebinar within about 48 hours. You're going to need to print it out and save it for your records. But unless you actually logged on to the webinar, you will not get that certificate.

One of the features on HUD exchange that we keep reminding people about is our training digest, which comes out weekly, usually on Monday's, and it's going to give you all the latest training that has been scheduled both by OHC and by our partners, so it's important for you to keep up with that. Most of that training is free, or if it's by some of our grantees, then you would get a scholarship, but that's an important site to bookmark and look at on a regular basis.

I'd like to turn it over to Jerry Mayer, the director of the Office of Outreach & Capacity Building in LHC. Jerry.

Jerry — Thank you, Ginger. Welcome, everybody, to those National Homeownership month presentation for housing counselors on FHA insured mortgage programs. FHA insured mortgages are great options for first time homebuyers and we hope today's presentation will help housing counselors learn more so they can in turn provide great advice to our HUD clients.

I want to thank Esther Yamashiro for bringing us this important information. Esther is a housing program officer from HUD's Office of Single Family Housing, and she is a nationally-recognized expert in FHA insured mortgage programs, and we're very grateful that she is with us today. And especially thank you to all the housing counselors who are joining us to learn more.

So now, without further ado, I'd like to turn the mic over to Esther.

Esther — Thank you Jerry. Good morning or good afternoon, depending on your location.

As Jerry stated, my name is Esther Yamashiro, the housing program officer, and I'm in the Santa Ana Homeownership Center, which is located in Santa Ana, California. On behalf of the Homeownership Center and the Office of Single Family Housing, I'd like to thank the Office of Housing Counseling for this opportunity to speak to you about single families during National Homeownership Month.

I'm going to be covering a lot of information. You may find some of it familiar, especially if you work with the diverse mortgaged loans. There will be ample time after the formal presentation for questions, so let's jump in.

So what is FHA? Well, the Federal Housing Administration, or FHA, is basically an insurance company. Granted, it's one of the largest mortgage insurers in the world. But still, at its heart, an insurance company.

Since its creation in 1934, FHA has insured over 50 million home mortgages and currently insures over 8 million homeowners. In FY2020, almost 680,000 purchase loans endorsed by FHA were to first time homebuyers.

When FHA was created in 1934, the national housing market was flat on its back. Only four out of ten households owned their homes. The typical mortgage term was 50% down with a three or five year term, and a balloon payment at the end of that. Think about that in relation to the current cost of housing today. Pretty daunting to say the least.

While today's focus is single family housing, in addition to single family and the Office of Housing Counseling, FHA oversees 12,000 multifamily properties, more than 3700 resident care facilities, and over 100 hospitals. FHA's combined portfolio in unpaid principal balances is over $1.3 trillion. That's trillion with a T.

What you may not know is that FHA is the only government agency that primarily operates from its self-generated income. We collect mortgage insurance premiums from borrowers via lenders and services, and use this income to fund our operations for the benefit of our community by insuring lenders against potential losses due to foreclosure.

Next slide. So, why FHA? For those of you who may not be familiar with FHA's programs, let's take a look at why homeowners may want or need an FHA insured mortgage. FHA is known for its flexible qualifying – no minimum FICO score requirement and minimal down payment requirement. We also allow secondary financing and gifts. FHA also has property improvement, energy efficient and disaster recovery mortgage programs. [Indiscernible] mortgage loans are fully assumable, which may be an advantage down the road when rates eventually rise. I personally endorsed several loans under 3% in recent months. And, FHA's reverse mortgage or home equity conversion mortgage are beloved [indiscernible]. We'll cover all this in more detail in future slides.

Next slide. In addition to the policymaking that's done in headquarters, Single Family is administered in the field through four homeownership centers or HOC's located throughout the country. This chart shows the location of each HOC and the geographic areas they cover. These homeownership centers oversee endorsement, post-closing [indiscernible] control, lender monitoring, appraisal condominium and non-profit reviews, as well as real estate loan marketing and management oversight. The appropriate HOC is determined by the location of the subject property.

On the next few slides, we'll take a look at what kind of loans Single Family does, property and transaction types. Next slide.

So what qualifies as single family? Well, as its name implies, single family covers residential properties. Single family dwellings, plan unit development, condominiums, 2-4 units, and manufactured housing built prior to June 15, 1976. Condominium projects must be approved or individual units may be eligible under the single unit approval process.

Lenders must also be approved to do business with FHA, which requires completion of a test they take before being designated an unconditional direct endorsement lender. In keeping with our mission to create strong, sustainable, inclusive communities, our primary focus is, of course, owner occupied principal residences.

Second home loans may be made, but must be reviewed and receive approval by the jurisdictional HOC. Specific eligibility criteria must be met with regards to second homes. This loan is not intended for vacation home purposes. We also do a number of non-owner occupied loans to government entities and approved non-profit organizations in connection with their affordable housing programs.

Next slide. Our portfolio of loan programs looks like this: [indiscernible] mortgages. I guess you could call this our bread and butter product. We do purchases, refinances, property improvement and disaster loans. We also have a program for Hawaiian homeland and for properties on Indian lands.

Of course, HECM's, where Single Family and the Office of Housing Counseling primarily intersect. There is a separate test case for lenders who wish to participate in the HECM program.

We also have a Title 1 loan for home improvement and [indiscernible] loan for manufactured house. Title 1 is not handled by the HOC but out of an office in New York. Lenders must be specifically approved to participate in the Title 1 program.

Next slide.

Virginia Esther, I'm sorry to interrupt, but can you speak up just a little bit? The audience is having a hard time hearing you.

Esther Okay.

Virginia Thank you.

Esther So you want to purchase a house? Here are some features of our Forward purchase book mortgage. One of the most significant is lower FICO score requirements. A 580 FICO score will allow a down payment of as little as 3.5%. We will go as low as 500 FICO with a 10% minimum down payment. Conventional mortgages are typically looking for 680 minimum FICO score and 5% or 10% down, depending on that FICO score.

We allow eligible secondary financing for down payment, closing and prepaid costs. We also allow gifts for 100% of the down payment, closing and prepaid costs. Borrowers may actually get into a home without their own funds. Amazing.

Next slide. On the refinance side, our rate and term refinance will go to 97.75% LTV. We have a simple refinance for existing FHA loans also to 97.75% LTV. We'll go cash out to 80%.

Our streamlined refinance program is also for existing FHA loans. The streamlined refinance requires less documentation than a rate and term or simple refinance, and the majority of borrowers do not have to credit qualify. A satisfactory mortgage payment history is required.

Next slide. So, on the repair, rehab and remodel front, we have our 203K loan. There are two types of 203K loans. First, the limited program, which allows up to $35,000 in minor, non-structural repairs. Examples of common limited work: kitchen remodels, painting, new carpet. Remember, these are non-structural items.

Our standard program is a minimum of $5,000 in repairs up to raising the current structure to the foundation and putting up a new one. I reviewed a loan early in my career with the Homeownership Center in which the borrower purchased a single family which was, for lack of a better word, trashed. Graffiti all over the walls; bare concrete floors. It was dark, dingy and hideous. The borrower had it raised to the foundation and put up four units in its place. It is likely they will never have to make their own mortgage payment with the rents they receive. What a great opportunity that was.

The standard program requires a consultant who oversees the work. A standard K will cover structural alterations, modernization, health and safety issues. One thing it won't cover is putting in a new pool, but it will cover the costs of repairing an existing pool.

Next is our energy efficient mortgage or EEM, which allows the financing of energy efficient upgrades to the loan, both purchase and refinance. An energy rater is required on this one. The energy rate will go through the property and provide a list and cost estimate of all the potential energy upgrades to the property along with the potential savings. The borrower then decides which ones they want to include.

The program allows for debt to income flexibilities due to the energy efficiencies. The lower cost of energies, utilizes, translate to more income, which can be devoted to the mortgage payment. An EEM can be used in conjunction with the 203K loan.

Finally, we have our weatherization program which covers minor repairs completed within 30 days of closing. Thermostats and insulations are some examples of weatherization items.

All the programs on this slide allow the costs of the repair, rehab or remodel to be financed into the loan and can be done at the time of purchase or subsequent refinance.

Next slide. Did you know FHA had a disaster loan? It is a loan specifically designed to assist those impacted in presidentially-declared major disaster areas or PDMDA's. There must be a presidential declaration which can be found on the FEMA website.

Some of the advantages of this program are: it allows relocation to anywhere in the US. The borrowers do not have to remain in the disaster area to use this program. Borrowers who are eligible are eligible for 100% financing and there are qualifying flexibilities. Let's face it, these folks have literally lost everything.

They're not required to already have had an FHA loan. In fact, they don't even have to have owned the home that they lost. They could be renters who lost their home due to the disaster and be eligible to use this program. They must apply for their new mortgage within one year of the disaster declaration.

Now there's no special approval required of the lender. For practical purposes, this program mirrors the 203B program, which is our Forward Mortgage program and is subject to UFMIP, annual MIP and maximum loan limits set by FHA.

Next slide. So remember when I said, we are at our heart an insurance company and insurance means premiums. So, here's the first one. The upfront mortgage insurance premium, commonly referred to as UFMIP on Forward mortgages is, for the most part, 1.75% of the base loan amount. There are a few exceptions. Hawaiian homelands can be as high as 3.8% depending on the term of the loan and if financed into the loan amount. And loans on Indian lands do not have an upfront premium.

Next slide. So on the previous slide I said most loans have an upfront premium, with a few exceptions. For the majority of loans that do, this is a quick look at calculating the UFMIP. The base loan amount cannot exceed the LTV limit for the program. The borrower may choose to pay the premium at closing instead of financing it in the loan amount. It's rare, but not unheard of. But the entire amount of the whole valid portion of the premium must either be financed or paid at close. It's all or nothing. Finally, the base loan amount cannot exceed the maximum loan limit published for the county.

Next slide. So in addition to the UFMIP, most borrowers will pay an annual premium which is collected monthly as part of their impound account payment. The premium factor is dependent on several data points as shown on this table and the duration of the payment is non-negotiable. There is no way to remove the premium prior to the end of the prescribed duration period except by paying off the loan.

And Hawaiian homeland borrowers are exempt from the annual premium. But remember, they have that 3.8% UFMIP, so there's always a tradeoff.

Next slide. So that was Forward mortgages. Not we move into HECM's. So whether you perform HECM counseling or not, I'm sure most of you have heard of FHA's Home Equity Conversion Mortgage, at least in passing. The HECM program came out of the Reagan era and FHA began endorsing loans in 1989, the first being to Marjorie Mason of Fairway, Kansas through the James B. Nudder Company.

In FY2020, FHA endorsed 41,859 HECM loans totaling over $16 billion in maximum claim amounts. It may interest you to know that the very first reverse mortgage was made in 1961. Of course, it was a private party loan. The banker wanted to help the widow of his high school coach stay in her home after her husband's passing. Doesn't that sound familiar?

So the basic eligibility criteria requires all borrowers must be 62 years of age or older. They must occupy the property as their primary residence and they must complete HECM counseling with a HUD approved housing counselor.

Next slide. Let me caveat that last statement about counseling. Almost all HECM loans require the borrower to be counseled by a HUD approved housing counselor. Non-borrower spouses, attorneys in fact, and conservators also require counseling. The only exception is in the case of HECM to HECM refinances. The borrower and loan must meet certain eligibility criteria in order to waive counseling.

Now, I just want to pause here for a quick minute and share that personally I am personally invested in the HECM program. I believe in it and I put my mother in one, actually. It afforded her a good life after my dad passed away.

Next slide. So why is counseling necessary? I’ve been asked this a lot. Why do HECM loans require counseling and other FHA loans do not?

Well, HECM loans are a different mindset from Forward mortgages. It's a licensing [ph] balance loan. There's that whole nonrecourse thing. There are no impounds for taxes and insurance. We run across a lot of borrowers who may be familiar with FHA Forward mortgages and they mistakenly assume that their HECM has an impound account. That's what they're used to.

Borrowers, the property has to be their primary residence for the life of the loan. That's not the case in Forward mortgages.

Maximum claim amount and principal limit versus loan amount. HECM's have a whole other language to them. The borrower needs a complete understanding of their rights and responsibilities with regards to a HECM loan. During my tenure as the HECM SME for the HOC Processing & Underwriting division, I responded to many inquiries which came down to the borrower not having a complete understanding of their HECM loan. Well maybe they just forgot.

That's where the Office of Housing Counseling and housing counselors come in. We know there are prescribed standards for the HECM counseling session. But let's take a quick look at the other side of the coin.

On the next couple of slides, I'd like to share some of the common questions HOC staff are frequently asked by HECM borrowers, even after counseling. HECM counselors, I know you cover all this in your sessions. So, one of the most common inquiries, I'd say this is THE most common inquiry we get is regarding the Life Expectancy Set Aside or LISA. As most of you may be aware, a LISA is not the same as an impound account. And not all HECM's have a LISA. Remember, in the Forward world, all FHA loans have an impound account. It's not a choice. In the HECM world, a borrower may choose to have a LISA or more often is required to have one due to financial assessment outcomes.

But not all HECM's have a LISA. Common reasons for one are credit related or cash flow issues. The borrower may have an unsatisfactory property charge payment history or be short of meeting the residential income requirements. We want to make sure the HECM loan is sustainable for the borrower and not just a short-term band aid. And the bottom line is, the LISA has a direct impact on the amount of funds available to the borrower.

Next slide. So here's some other common questions and concerns that the HOC hears about. The first one is why can't a counselor be transferred to a new case? Remember, waiving counseling means certain eligibility requirements must be met.

Under what circumstances would a counselor not issue a certificate? This was a really interesting question we bounced around, but we immediately referred the caller back to the housing counselor.

Why does the borrower need a LISA? Well we went over this in the last slide. HECM's can sometimes take a lot to close, depending on the individual transaction. We receive calls about borrowers who stop meeting certain obligations which impacts their eligibility if the process goes on too long. Now I know that's not on you, counselors, and in the end it precludes the HECM math from working for the borrower. So we see that one often.

Next slide. So, as with all FHA loans there is mortgage insurance. The UFMIP for HECM loans is 2% of the maximum claim amount. Now, for those who are unfamiliar, the maximum claim amount or MCA is the lesser of the sales price if it's a purchased loan, appraised value or the national loan limit. The national loan limit is currently $822,375. That's regardless of location or number of units. The annual premium is a half percent of the outstanding principal limit and is accrued monthly.

Next slide. So on this slide I've listed several links I hope you'll find helpful to you. The first one is the Single Family Housing Policy Handbook 4000.1. We are awaiting the highly, highly anticipated section on HECM's. The current HECM handbook, 4235.1 is old enough to vote and drink.

The next link is for Single Family training events. This link will take you to an archive of previously recorded training webinars to view at your leisure. Let me just caveat that. These webinars are strictly related to single family.

The next is how to subscribe to the FHA Info Bulletin. Now, this publication announces ML's, mortgagee letters; policy clarifications; important dates; upcoming training; job postings for all of FHA, not just Single Family. It's a great resource and way to stay current with changes, and I highly recommend subscribing to this email, if you haven't already done so.

The last link is Mortgagee Letter 2021-05. Last but certainly not least, ML2021-05 is the most recent extension of foreclosure and eviction moratoriums, which are set to expire on June 30, 2021. This ML also includes the forbearance application deadline also 6/30. It also includes all COVID related loss mitigation options. I imagine as the deadline gets closer, housing counselors will experience an increase in requests for assistance.

Next slide. So the FHA Resource Center, this is how you get in touch with Single Family to get questions answered. The FAQ knowledge base is available 24/7. You can also email us 24/7 at answers@hud.gov. You can call 1-800-callfha, which is 800-225-5342. If the call center can't provide you with the information you need, they'll escalate your message to the jurisdictional HOC and appropriate division. The average response time has been significantly under 24 hours, even during the pandemic while staff worked from home.

Next slide. And so that concludes the formal presentation. I know it was a lot of information in a short amount of time. If you have any questions regarding anything I've spoken about today, I'd be happy to try and answer them for you at this time.

Virginia: If you have questions, please put them in the question box and we will let Esther know what the questions are.

There are a couple already in, Esther. One is, "Please describe how mobile or manufactured homes are financed. Unless they be on the homeowner's land, is there any support for mobile in parks?"

Esther: Manufactured homes must be affixed to a permanent foundation and they have to be taxed as real estate. So, generally it's a mobile home, it's a manufactured home and it's placed on a permanent foundation, acceptable to HUD and it's usually on a person's property.

Now, you do have occasion to see manufactured homes which are in fact in condominium regimes, which could imply parks, per se, but again, they have to be affixed to a permanent foundation and be taxed as real estate.

Virginia Last year OHC did offer a webinar on manufactured housing, so this is a really good opportunity to go to our webinar archives and search for that if you want more information on mobile homes.

Esther Yes, that's great.

Virginia This is an interesting question, wondering whether the pandemic disaster declaration would qualify for this financing.

Esther The disaster loan implies that the property has to be destroyed or – basically they can't be able to live in the property, their property had been destroyed. So I would have to say no off the top of my head.

Virginia That seems reasonable. Does a person need to already have an FHA loan in order to apply for a 203K limited repair loan?

Esther No. They can purchase a home and use 203K. As long as the work they want to do is non-structural, they can get a 203K purchase loan. Same goes for our standard K program. They can use it to purchase the property and make their model repairs or rehab. But they can do it with a purchase or they can refinance into a 203K refinance. They don't already have to have an FHA loan to take advantage of that program.

Virginia Here's one. "Are non-profits able to use the 203K?"

Esther As far as I know, we don't restrict that, but I'm not going to say that with 100% certainty. I would like to confirm that with the non-profit group. I've never run across that. They're usually just buying some habitable unit, but I do not recall off the top of my head any restrictions to that.

Virginia We can clarify that. I know in the past non-profits used the 203K a great deal, but we'll post that question.

Here's one that really doesn't apply to your webinar, but the question that we're getting a whole lot is the certification requirement deadline going to be extended beyond 8/1/21 and the answer to that is no, unfortunately.

You did mention that the 203K can be used for a house that has no loan but needs repairs, so it would essentially be another refinance, I believe.

"Will 203K address lead based paint abatement?"

Esther It could. Yes.

Virginia "Can a person already with a mortgage apply for the disaster loan where their home has been totally destroyed but yet they still owe on it?"

Esther Yes. In California, we get those folks in the fires, they lost their homes, so you assume they have a mortgage on it and if they have a mortgage they have insurance. So insurance would presumably take care of the mortgage on the house that was destroyed and they can then use the disaster loan, it's the 203H, to get a new house. As long as it's in a presidentially declared major disaster area and they apply for that new mortgage within a year of that disaster declaration.

And the mortgage on that house that they lost, that was destroyed, does not have to be an FHA loan. Nor do they have had to own the house. They could be a renter, too.

Virginia This is similar. "If there's no mortgage on a home, can the person still get a 203K?"

Esther Yes.

Virginia Okay. As I said at the beginning, the audio is being recorded and we will be posting a replay number, the PowerPoint and a written transcript of the webinar on our archives section. That will be in about a week. So you'll have those three resources to help you review all of this information.

I think at this point we've had all the questions that have been asked, but if anybody has another question, please send it in to us, stick it in the question box. "Will the transcript include the questions asked?" Yes, if we just answered them verbally, it will be included. Yes.

"Can you purchase with HECM?"

Esther Yes.

Virginia "What is the interest rate on a 203K loan?"

Esther FHA does not administer the interest rates, so that's going to be negotiable with the borrower and the lender. I couldn't tell you if there is a cost premium for a 203K loan on the secondary market or anything like that. So that would be between the borrower and the lender.

Virginia "I was under the impression that the lower credit score for FHA Single Family was 620. You had mentioned there's no minimum requirement. Could you please confirm?

Esther We will go as low as 580 to maximum financing, which means the borrower can have a 580 decision FICO score and put 3.5% down on their purchase. Now we will go as low as 500, so 500-579 decision FICO and the borrower has to put 10% down. We won't go under 500, but I think the 620, the common perception of the 620 FICO is lending industry generated. A lot of them won't go below 620. It's a risk decision for lenders. But FHA will go 580 to maximum financing.

Virginia Someone is asking where they can find the list of FHA qualified lenders.

Esther If you go to the hud.gov website, in the Search box type in FHA Approved Lenders, you can find a lender. I think they break it out by state and then you can narrow your search down from there.

Virginia Okay. "Can you use the 203K to replace an older manufactured home with a new unit?"

Esther Yes.

Virginia Okay. But it still needs to meet all the requirements of permanently affixed and all that?

Esther Permanently affixed, taxes, real estate, exactly. It has to meet all of our requirements. But yes, you can.

Virginia Okay. "With a disaster loan, is an existing mortgage paid off?"

Esther That's the job of the insurance on the home, I would imagine.

Virginia Okay. Well, you've all put in some really good questions. It will be in the transcript if we've discussed them. If your question wasn't answered, just send it to housing.counseling@hud.gov and put FHA Loan in the subject line and we'll get it to Esther or someone else that can help answer the question.

"Can you only use FHA if you're not a first time homebuyer?"

Esther No. I mean, generally speaking, no. If you qualify for a conventional mortgage, of course you're able to use [talking over each other 63:27].

Virginia You don't always have to be a first time homebuyer. Okay.

Esther Right. FHA is not restricted to first time homebuyers.

Virginia Okay. Somebody was wondering about the permanent foundation information. As I said, we have the webinar that we gave last year on manufactured housing. If you go to our webinar section on the HUD exchange and search for manufactured housing in the archives, you'll be able to find the resources for all of that.

Esther I just want to say, we also have our manufactured housing requirement in the 4000.1 available at that link in the presentation, too.

Virginia Great. Then all the other resources that Esther gave in terms of being the FAQ's and the FHA's resources, too.

We were talking about the archives and something that's a nice feature of our archives, if you go in and look at a webinar that's of interest to you, you can actually get credit for taking that. You'll open that webinar and it will have a green button and it will go into your HUD exchange record. You have to log in to FHA or HUD exchange, but it's a good way to get credit for this training.

And just before you go, just to give us some feedback. Again, our favorite question box. Was the webinar useful to you, to help your clients? Are you going to share the information? And just any other comments that you might have that we can pass on to Esther and the other organizers.

Our basic resources – HUDexchange.info/counseling will get you to our HUD exchange page which has a whole lot of information. If you have not looked around in it, go visit it. Many of your questions will be answered.

If you still need to take the certification exam, you'll get the training and testing at HUDhousingcounselors.com. And again, we're not going to extend the August 1st deadline for that certification. I've mentioned sending questions and comments on any topic to housing.counseling@hud.gov. And if you have not subscribed to our newsletter, you can go to HUD exchange and find a place to subscribe to that.

Again, thank you for attending. We hope you learned a lot and have gotten the resources to answer your many questions. Again, thank you for attending. As I said, in about a week you'll get the PowerPoint, the transcript and the replay number will be posted on the HUD exchange. Thank you very much.

Moderator Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Teleconferencing Service. You may now disconnect. Speakers, please hold for transfer.