

A Price Worth Paying

Buyers will be pinched by FHA's new rules. **By Robert Freedman**

No one likes it when changes to mortgage underwriting make it harder for working households to secure safe and affordable home financing.

But in the case of the FHA's tightened lending requirements announced in late January, the end may justify the means. The policy changes are designed to shore up the FHA's capital reserves and help the agency do a better job of managing risk.

"These changes, while serious, are reasonable," says John Anderson, CRS®, GRI, a 30-year real estate veteran who chairs the NATIONAL ASSOCIATION OF REALTORS® Federal Housing Policy Committee. "I think the FHA is doing the right thing."

Nonetheless, Anderson, broker-owner of Twin Oaks Realty Inc. in Crystal, Minn., acknowledges that many households will be adversely affected. Buyers will have to either spend more to secure financing or scale down what they buy.

Among other things, the FHA is raising its up-front mortgage insurance premium to 2.25 percent from 1.75 percent, boosting the minimum down payment to 10 percent for borrowers with a credit score of 580 and below (it stays at 3.5 percent for everyone else), and reducing permissible seller concessions from 6 percent to 3 percent.

The FHA also will seek legislation to raise the annual mortgage insurance premium to a level above the current cap of 0.55 percent. The agency already has authority to institute the other changes.

"Striking the right balance between managing the FHA's risk, continuing to provide access to underserved communities, and supporting the nation's economic recovery is critically important," FHA Commissioner David Stevens said in a statement.

Anderson, looking at his own market in Minnesota where the median home price is under \$200,000, says the impact of the changes will be subtle. For many first-time buyers, including younger

households that haven't had a chance to develop much of a credit history, the credit-score floor will be a hurdle because the minimum 10 percent down payment will simply be out of reach unless they can get help from elsewhere, like family. "But even mom and dad are stretched these days," he says.

The reduced seller concessions will hurt, too, because these funds typically help buyers take care of closing costs like title insurance and the mortgage origination fee. "With that now limited to 3 percent, buyers might have to come up with another 1 percent of the mortgage amount," Anderson says.

The higher up-front mortgage insurance premium won't affect the amount of cash buyers will need to raise, as that can be financed. But it will affect how much house they can afford, and could increase their monthly payments by \$50 to \$100. "That extra cost can have a big impact," he says.

Yet Anderson thinks these hurdles are a reasonable price to pay to ensure a healthier FHA, which today commands about 40 percent of the mortgage market nationally and far more than that in regions like the Midwest, with a strong tradition of using FHA-insured loans.

What would be worse, he says, is for the FHA to imperil its financial health.

"Over the last couple of years I would have been out of business without the FHA," he says.

"They say they're trying to strike the right balance and I think they are." ■

Timing

- The up-front mortgage insurance premium increase goes into effect April 5.
- Proposals to reduce seller concessions and increase the credit score requirement were expected to be posted in the Federal Register in February. A comments period, likely of 60-90 days, would follow.
- An increase in the annual mortgage insurance premium will require congressional action.

