

FHA Loan Changes

Changes Effective April 5, 2010

The FHA changes are coming on April 5th. These changes should help them start rebuilding some of their reserves that have taken a hit in the last couple years due to the deterioration of the conventional markets and overall retraction. The main comment that HUD has tried to make is that it is positioning itself to "manage its risk while continuing to support the nation's housing market"

The changes are effective with case numbers assigned starting April 5, 2010.

One widely speculated change wasn't made -- the increase of the FHA minimum down payment. As we had heard last year, FHA was considering an increase to 5.00%, but fortunately that did not happen. So homebuyers can still buy with as little as 3.5% down. There were, however a few changes put in place, including:

- An increase in Upfront MIP from 1.75 percent to 2.25 percent (An increase of \$2,500 on a \$500K loan amount)
- A reduction in maximum seller contributions from 6 percent to 3 percent
- A Congressional request to increase monthly mortgage insurance premiums. While we do not have the details on the amount, they are expected to increase a little.

FHA's new guidelines institute a minimum FICO requirement of 580 to make the minimum 3.5% down payment, requiring 10 percent for any applicant whose credit score falls below that level. This will not affect many borrowers as lenders typically require a 600 credit score for FHA loans currently.

Market Update:

As we have discussed for some time, the overwhelming view of the market direction is an increase in rates from their current levels. The most recent opinions we have heard have been that the 30 yr mortgage rates would rise to the 5.50% to 5.60% range. Based on the rates below, that would be an increase of almost 1.00% from their current levels. So now is definitely the time to take advantage of the market.

Market Rate: 30 Year Fixed with 1.00 Origination Fee

Up to \$417,000 at 4.75%
Up to \$567,500 at 4.875%
FHA Up to \$567,500 at 5.00%

5 Year ARM with 1.00 Origination Fee

Up to \$567,500 at 4.00%
FHA Up to \$567,500 at 3.375

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