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FHA Fees Set to Change

The Senate recently voted in favor of legislation, which awaits the signature of President Obama, allowing the Federal Housing Administration to increase the fees that are in conjunction with its guaranteed backed loans. The approved legislation will provide the opportunity for the FHA to create yearly revenue of \$3.6 billion.

In the past qualified FHA borrowers were only required to put 3 percent down on a home as opposed to the 20 percent down most private lenders require. In order to qualify for an FHA loan two fees are mandatory; a loan origination fee, which is currently 2.25% of the loan due at closing, and an annual fee of .55% of the loan spread throughout the borrowers monthly payments.

Under the new legislation the 3 percent down payment is set to increase to 10 percent down for borrowers with a Fair Isaac Corporation (FICO) score of 580 or less, and the annual fee of .55% will increase to a maximum of 1.55%.

In response to the recently passed legislation Mortgage Bankers Association Chairman Robert Story Jr. said "While premium increases are never ideal, this bill was necessary to help improve the strength and stability of FHA's single family programs." Story goes on to say "We are encouraged that FHA Commissioner [David] Stevens has indicated he may not need to raise premiums to the maximum, and we believe that that a small increase in the annual premium, coupled with a decrease in FHA's upfront premium [calculated in the chart below, from the FHA], will help stabilize FHA while lowering closing costs for many borrowers."

