



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

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MEMORANDUM FOR: Office of Housing Homeownership Center Directors
Office of Community Planning and Development Field Office
Directors

FROM: Brian D. Montgomery, Assistant Secretary for Housing -
Federal Housing Commissioner, H
BDM
Pamela H. Patenaude, Assistant Secretary for Community
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SUBJECT: Cross-Selling FHA

On May 30, 2006, Assistant Secretary for Housing-Federal Housing Commissioner Brian D. Montgomery and Assistant Secretary for Community Planning and Development Pamela H. Patenaude met to discuss how the Office of Housing-Federal Housing Administration (FHA) and the Office of Community Planning and Development (CPD) could be better partners in expanding affordable homeownership opportunities. The downpayment and other assistance made available by CPD, and the flexible underwriting associated with FHA mortgage insurance, made natural allies for in those communities where affordable housing is lacking.

Our goal was to examine the barriers, both perceived and real, to using FHA mortgage insurance in conjunction with CPD's HOME program, and also determine how HUD can "cross-sell" the combined benefits of HOME and FHA. Since that time, FHA and CPD staff met to examine what jointly could be achieved administratively and how the results of these discussions could be best disseminated to our field offices and Homeownership Centers.

As a first step, we are pleased to announce that an issue that may have limited the use of FHA-insured mortgage financing in conjunction with CPD's HOME program has been successfully resolved. Before our respective staffs met in May 2006 there was a belief that a provision of the HOME program would not be acceptable to FHA. Specifically, it was understood that FHA prohibited a downpayment assistance provider from using second mortgage liens or grant agreements which stated that the downpayment assistance provider is entitled to excess proceeds at foreclosure in the event a third party's bid exceeds the FHA-insured first mortgage amount.

However, after researching this issue, it was determined that FHA regulations would not prohibit HOME downpayment assistance in conjunction with FHA-insured financing under such a scenario.

Therefore, CPD proposed the following language be included within the HOME downpayment assistant providers' second mortgage lien or grant agreement behind the FHA-insured first mortgage:

“The HOME program restrictions on the property shall terminate upon foreclosure, transfer in lieu of foreclosure or assignment of the FHA insured mortgage to HUD. To the extent that there are any proceeds from the foreclosure or other sale of the property by HUD remaining after the HUD insured loan is paid, the remaining proceeds shall be paid to [insert the name of the participating jurisdiction].”

FHA does not object to the excess proceeds clause being a part of any second mortgage lien or grant agreement provided that all other FHA requirements are met.

The FHA Homeownership Centers (HOC) have also been advised of this development, and that this perceived barrier to expanding affordable housing opportunities using the combination of FHA financing and HOME funds has been eliminated. In addition, the Program Support Division in each HOC will provide technical assistance to CPD as well as the recipients of HOME funds at their request.

We look forward to issuing additional joint memorandum alerting our respective staffs of further improvements in the way in which HUD can expand homeownership opportunities.