



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

MORTGAGEE LETTER 2006-04

January 27, 2006

TO: ALL APPROVED MORTGAGEES

SUBJECT: Revised Borrower's Closing Costs Guidelines

This Mortgagee Letter rescinds paragraph 5-2 of handbook HUD 4000.2, REV-3. This paragraph lists closing costs and other fees that may be collected from the borrower. This amendment is part of FHA's efforts to align its business process with industry practice and is effective for all mortgages endorsed for FHA-insurance on or after the date of this Mortgagee Letter.

Mortgagees may charge and collect from mortgagors those customary and reasonable costs necessary to close the mortgage. Except for discount points, these fees may also be used to meet the homebuyer's minimum investment requirement. Due to existing requirements, mortgagors may not pay a tax service fee, and may not be charged an origination fee greater than one percent on forward mortgages (plus the supplemental origination fee on Section 203(k) rehabilitation mortgages), nor more than two percent on FHA's Home Equity Conversion Mortgages. Mortgagees are also reminded that aggregate charges may not violate FHA's tiered pricing rules.

The seller's maximum contribution to the homebuyer's actual closing, prepaid expenses, discount points, and other financing concessions remains at 6 percent of the sales price. Seller contributions in excess of 6 percent will continue to require a dollar-for-dollar reduction to the mortgage.

This change also eliminates geographic disparities for those lenders operating within the jurisdiction of more than one Homeownership Center (HOC) such as the costs of inspection fees. However, FHA will not allow "mark-ups," i.e., charging a fee to the mortgagor for an amount greater than that charged the mortgagee by the service provider; only the actual cost for the service may be charged the mortgagor.

FHA believes that by no longer prescribing borrower's paid closing costs, a significant impediment to the use of its programs has been eliminated. FHA-approved mortgagees advised us that sellers sometimes balked at accepting a sales contract from a homebuyer wishing to use FHA-insured financing because it's guidelines differ from standard practice and do not consider regional variations. The unintended consequence was that the homebuyer was then forced into a less suitable and often more expensive mortgage product. Please note that all fees and charges must comply with Federal and State disclosure laws and other applicable laws and regulations.

If you have any questions regarding this Mortgage Letter, please contact your local Homeownership Center (HOC) in Atlanta (888) 696-4687, Denver (800) 543-9378, Philadelphia (800) 440-8647, or Santa Ana (888) 827-5605.

Sincerely,

Brian D. Montgomery
Assistant secretary for Housing-
Federal Housing Commissioner