



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

April 28, 2011

Mortgagee Letter 2011-19

TO: ALL APPROVED MORTGAGEES

**SUBJECT: Financing of Transaction Costs for Real Estate Owned Properties (REO)
Purchased under FHA \$100 Down Sales Incentive**

This Mortgagee Letter provides Federal Housing Administration (FHA) guidance regarding the financing of homebuyer transaction costs for homebuyers who acquire HUD Real Estate Owned (REO) single-family properties under a specially-authorized sales incentive that requires only a \$100 minimum cash investment. Homebuyer acquisition costs that may be financed for eligible homebuyers are limited to Upfront Mortgage Insurance Premiums (UFMIP).

Background

Provisions of 12 USC 1715n(c) authorize the Secretary to insure mortgages financing HUD single-family REO sales without regard to any eligibility limitation or requirement in the National Housing Act (e.g., section 203 LTV and cash investment requirements). To effectively market and dispose of the Department's REO properties, FHA Homeownership Centers (HOCs) have been given discretionary authority to utilize various marketing tools as prescribed in several Housing Notices and the Single Family Property Disposition Handbook 4310.5, REV-2. One of those tools allows HUD to sell single-family REO properties to FHA-qualified homebuyers with a minimum cash investment of only \$100 plus closing costs and pre-pays that may not be included in the mortgage. This minimum cash investment is lower than the standard FHA requirement, as detailed under Mortgagee Letter 2008-23, "Revised Downpayment and Maximum Mortgage Requirements."

This Mortgagee Letter does not impact FHA financing policies and requirements for the Good Neighbor Next Door (GNND) Program, which are governed by Mortgagee Letter 00-27, "Appraising and Financing HUD Real Estate Owned (REO) Properties with FHA-Insured Financing – Single Family Loan Production."

Eligible/Ineligible Financing Costs

Buyers who have been approved by FHA to acquire HUD REO properties under an authorized \$100 minimum cash investment initiative may finance the cost of the UFMIP through their FHA-insured loan product provided the total mortgage amount including the UFMIP does not exceed 100 percent of the 'as is' appraised value. Approved borrowers acquiring HUD REO properties under any such initiative are not eligible to finance prepaid expenses and financing/closing costs through their FHA-insured mortgage.

Example

The current appraisal used to determine the original listing price is \$100,000. After 90 days, FHA reduces the listing price of the unsold unit to \$90,000. FHA accepts a bid from an eligible homebuyer for \$95,000. The homebuyer qualifies for both FHA financing and participation in the \$100 down payment program. Closing costs and prepayments equal \$2,375 and the UFMIP is \$949 {(1.0 percent of the (\$95,000 - \$100))}.

In this example, the maximum FHA loan amount the homebuyer can receive is \$95,849 (\$94,900 in remaining principal, plus UFMIP (\$94,900 x 1.0%, or \$949). If the homebuyer receives no other subsidies, cash at settlement required from the homebuyer is \$2,475 (\$100 down payment + \$2,375 in closing and prepayment costs) in order to purchase the property.

If you have any questions regarding this Mortgage Letter, please call the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

Robert C. Ryan
Acting Assistant Secretary for Housing –
Federal Housing Commissioner

Paperwork Reduction Act

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