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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

September 5, 2008

MORTGAGEE LETTER 2008 - 23

TO: ALL APPROVED MORTGAGEES

SUBJECT: Revised Downpayment and Maximum Mortgage Requirements

The Housing and Economic Recovery Act of 2008 revised the National Housing Act to:

- Require that the mortgagor "shall have paid, in cash or its equivalent…an amount equal to not less than 3.5 percent of the appraised value of the property….";
- Eliminate the variable loan-to-value limits that were based on the combination of the property value and the average closing costs of the State where the property is located (also known as "downpayment simplification"); and
- Limit the total FHA-insured first mortgage to 100 percent of the appraised value, and require the inclusion of the upfront mortgage insurance premium (UFMIP) within that limit.

This mortgagee letter provides guidance to mortgagees regarding the revised downpayment and maximum mortgage requirements for single family mortgage to be insured by FHA. Please also note that this mortgagee letter rescinds, in their entirety, the following: ML 2003-01; 2000-44; and 98-29. These instructions also replace the maximum loan-to-value percentage charts on pages 1-7, 1-20, and 1-24 of handbook HUD-4155.1 REV-5, and page 4 of ML 2008-13.

Additional Information Regarding the Revised Downpayment/Maximum Mortgage Requirements and Downpayment/Mortgage Amount Calculation Examples:

- **Effective Date:** The revised downpayment requirement as described throughout this mortgagee letter takes effect with all new FHA case number assignments on or after January 1, 2009.

- **Closing costs:** Closing costs may not be used to help meet the minimum 3.5% downpayment requirement. Closing costs are not considered in the mortgage amount/downpayment calculation for purchase money mortgages.

- **LTV:** For purchase money mortgages, the LTV is 96.5 percent, i.e., the reciprocal of the 3.5 percent downpayment requirement. The examples that follow will use 96.5 percent and apply it to the lesser of the appraiser's estimate of value or the adjusted sales price. The examples do not include UFMIP or closing costs to be paid by the borrower.

- **<u>Premium pricing:</u>** FHA will continue to permit premium pricing, as described in paragraph 1-9J of handbook HUD 4155.1 REV-5, to pay the closing costs and prepaid expenses.

- **<u>Combined loan-to-value ratio (CLTV</u>**): When combined with the FHA first mortgage, government subordinate liens are not limited to 100 percent. When a unit of government or an instrumentality of one is offering downpayment and/or closing costs assistance in the form of secondary financing, the CLTV can exceed 100 percent of the appraised value. The guidance in paragraph 1-13 of handbook HUD 4155.1 REV-5 remains in effect

- **<u>Calculation of the maximum mortgage:</u>** The maximum mortgage is calculated by applying 96.5 percent to the *lesser* of either a) the appraiser's estimate of value or b) the contract price for the property minus any required adjustments.

  <u>Example 1</u>

Sales Price: $218,000	Appraiser's Estimate of Value: $220,000
Maximum Mortgage:	$218,000 x 96.5% = **$210,370**
Downpayment:	$218,000 – 210,370 = **$7630**

  The maximum mortgage shown does not include any upfront mortgage insurance premium, and the example does not consider any closing costs that must be paid by the borrower.

- **<u>Seller Concessions:</u>** Sellers are still permitted to provide financing concessions up to 6 percent of the sales price. Amounts exceeding six percent must be subtracted from the sales price (or value, if less) before applying the downpayment percentage multiplier. Other inducements to purchase, as described in the mortgage credit analysis handbook (HUD-4155.1 REV-5) must also be subtracted from the sales price or value, as appropriate, in calculating the maximum mortgage amount/downpayment. In such cases, the actual downpayment is increased by the amount of the inducement.

  <u>Example 2</u>

Sales Price: $218,000	Appraiser's Estimate of Value: $220,000
Gift Card worth $3000	Adjustment to Sales Price: $218,000 - $3000
Maximum Mortgage:	$215,000 x 96.5% = **$207,475**
Downpayment Calculation:	$218,000 - $207,475 = **$10,525**

  The calculation of the maximum mortgage requires that the gift card value, which was provided by the builder at closing, be subtracted from the sales price and, thus, the 96.5 percent applied to $215,000 rather than $218,000. The downpayment, of course, is calculated by subtracting the mortgage amount from the actual contract sales price.

- **<u>Specialty products with higher LTVs</u>:** Section 203(k), Section 203(h) for disaster victims, and FHA's Energy Efficient Mortgage (EEM) programs are not affected by the LTV limit. All existing policy guidance regarding the rehabilitation program under Section 203(k), including streamlined (k), mortgage insurance for disaster victims, and the EEM program remain in effect. (Please note that a separate mortgagee letter announcing higher EEM loan limits will be published.)

- **<u>Refinance transactions</u>**: Refinances, including FHASecure refinances, are not subject to the 3.5 percent downpayment requirement since there is no "downpayment" on a refinance. The LTV will be calculated, as it has been, by dividing the loan amount prior to adding the UFMIP by the appraiser's estimate of value. However, the loan amount, including the UFMIP, may not exceed 100 percent of the appraiser's estimate of value for all new case number assignments made on or after January 1, 2009; this will result in various refinancing products including rate-and-term, FHASecure (including refinances of both non-delinquent and delinquent mortgages), streamlined refinances, and cash-out refinances having possibly different LTVs before adding the upfront mortgage insurance premium.

  <u>Example 3</u>

  Appraiser's Estimate of Value: $220,000 UFMIP of 1.5%[1]
  Maximum Mortgage before adding UFMIP = **$216,749**
  Maximum Mortgage w/UFMIP = $216,749 + $3251 = **$220,000**
  LTV before UFMIP: $216,749/$220,000 = **98.52%**

  This example assumes that the borrower's payment of the existing first lien, closing costs, amount to establish a new escrow account, discount points, etc., yield an amount before adding the UFMIP of at least $216,749. Any shortfall would require payment in cash. If less is needed to extinguish the existing mortgage and pay associated transaction costs, a lower amount is required before adding the UFMIP. Cash-out and FHASecure refinances have lower LTVs as described in ML 2008-13.

  (The amount of mortgage before adding the UFMIP can be determined by adding the insurance premium percentage, in this example1.5%, to 100% and then dividing that result into the appraiser's estimate of value ($220,000/1.015 = $216,749 (rounded up)). The resulting amount substitutes for the "LTV ratio applied to appraised value" instructions in handbook HUD-4155.1, paragraphs 1-11A1 and 1-12B1.)

If you have any questions regarding this Mortgagee Letter, call 1-800-CALLFHA.

Sincerely,

[1] For illustrative purposes only. UFMIP percentages will vary.

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