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FHASecure Gives Homeowners a Second Chance

By Anna DeSimone

FROM 2007 TO 2009, AN ESTimated 2.3 million adjustable-rate mortgages held by America's homeowners are schedule for a "rate reset." Those increases in monthly housing costs are expected to drive more than a half million homeowners into foreclosure.

President Bush recently announced steps to help homeowners having difficulty paying their mortgages. The most significant initiative is a new Federal Housing Administration program called "FHASecure," a temporary program that will run from Sept. 5, 2007, through Dec. 31, 2008. FHA believes that FHASecure will be able to assist approximately 80,000 borrowers delinquent on mortgage payments due to their loans resetting to higher rates, as well as 160,000 borrowers who are facing resets but are still current on their mortgage. At present, borrowers with interest-only, fixed-rate non-FHA mortgages or such mortgages with buydown features incorporated into the interest rate or payment options are not eligible.

The being refinanced under the program must be a non-FHA adjustable-rate mortgage that has an interest rate reset.

The mortgagor's payment history on the non-FHA ARM must show that they were current during the six months prior to the change in interest rate.

Mortgage lenders must determine that the reset of the non-FHA ARM monthly payments caused the mortgagor's inability to make the monthly payments and that the borrower has sufficient income and resources to make the monthly payments under the new FHA mortgage.

There are other restrictions, as well. The maximum loan-to-value ratio allowed in states with average transaction closings costs at or below 2.1 percent of the home sales price is:

- 98.75 percent for properties with appraised values equal to or less than $50,000;
- 97.65 percent for properties with appraised values in excess of $50,000 up to $125,000; and
- 97.15 percent for properties with appraised values in excess of $125,000.

In states with average closings costs above 2.1 percent of sales price, the loan-to-value caps are:

- 98.75 percent for properties with appraised values equal to or less than $50,000; and
- 97.75 percent for properties with appraised values in excess of $50,000.

FHASecure allows the inclusion of the existing first lien, any purchase money second mortgage, closing costs, prepaid expenses, discount points, prepayment penalties and late charges. FHA will also permit back payments (principal, interest, taxes and insurance) to be added into the new loan amount under qualifying conditions. If the new maximum FHA loan is not enough to pay off the existing first lien, closing costs and arrearages, the lender may execute a second lien at closing to pay the difference. The combined amount of the FHASecure first mortgage and any subordinate non-FHA-insured lien may exceed the maximum mortgage amounts and LTV ratios for the geographic area.

The mortgagee's responsibility is to properly review the appraisal and determine that the appraised value used to support the mortgage is accurate and adequately supported. If a property is located in a declining market, the appraiser must provide an explanation in the "Market Conditions" section of the appraisal report that includes relevant information in support of the conclusions relating to trends in property values and supply-and-demand dynamics. The appraiser also must provide a description of the prevalence and impact of sales and financing concessions and/or down payment assistance in the home's market area. Other areas of discussion may include days on market, list-to-sale price ratios and availability of financing. ■

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