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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-5680-N-01]

Federal Housing Administration (FHA) Risk Management Initiatives: Changes to Maximum Loan-to-Value Financing Solicitation of Comment

AGENCY: Office of the Assistant Secretary for Housing—Federal Housing Commissioner, HUD.

ACTION: Notice.

SUMMARY: This proposed notice would make changes to the loan-to-value (LTV) financing available to qualified borrowers of FHA-insured loans. This notice proposes to set a 95 percent maximum LTV for FHA-insured loans over $625,500, with certain exemptions. FHA's annual Fiscal Year 2012 report to Congress on the financial status of the FHA Mutual Mortgage Insurance Fund (MMIF, or Fund), reported a decline from Fiscal Year 2011 in the Fund's statutorily mandated capital reserve ratio and cited FHA's decision to continue taking steps to improve the MMIF's short- and long-term outlook. HUD has determined that this proposed change to the LTV requirements is necessary to improve the health of the MMIF, while ensuring continued access to mortgage credit for American families.

DATES: Comment Due Date: **[Insert date 30 days after date of publication in the FEDERAL REGISTER]**.

ADDRESSES: Interested persons are invited to submit comments regarding this notice to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street, SW, Room 10276, Washington, DC 20410-0500. Communications must refer to the above docket number and title. There are two methods for submitting public comments. All submissions must refer to the above docket number and title.

1. Submission of Comments by Mail. Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street, SW, Room 10276, Washington, DC 20410-0500.

2. Electronic Submission of Comments. Interested persons may submit comments electronically through the Federal eRulemaking Portal at www.regulations.gov. HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the www.regulations.gov website can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that site to submit comments electronically.

Note: To receive consideration as public comments, comments must be submitted through one of the two methods specified above. Again, all submissions must refer to the docket number and title of the rule. *No Facsimile Comments.* Facsimile (FAX) comments are not acceptable.

Public Inspection of Public Comments. All properly submitted comments and communications submitted to HUD will be available for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the Regulations Division at 202-708-3055 (this is not a toll-free number). Individuals with speech or hearing impairments may access this number via TTY by calling the toll-free Federal Relay Service at 800-877-8339. Copies of all comments submitted are available for inspection and downloading at www.regulations.gov.

FOR FURTHER INFORMATION CONTACT: Karin Hill, Director, Office of Single Family Program Development, Office of Housing, Department of Housing and Urban Development, 451 7th Street, SW, Room 9278, Washington, DC, 20410; telephone number 202-708-4308 (this is not a toll-free number). Persons with hearing or speech impairments may access this number via TTY by calling the toll-free Federal Relay Service at 800- 877-8339.

SUPPLEMENTARY INFORMATION:

I. Background

During times of economic volatility, the FHA has maintained its countercyclical influence, supporting the private sector when access to housing finance capital is otherwise constrained. FHA played this role in the recent housing crisis, and the volume of FHA insurance increased rapidly during the housing crisis as private sources of mortgage finance retreated from the market. However, the growth of the MMIF portfolio over the period of time during the housing crisis has contributed significantly to the projected losses to, and a corresponding decrease in the financial soundness of, the Fund. Consistent with the Secretary's responsibility under the National Housing Act (12 U.S.C. 1701 et seq.) to ensure that the MMIF remains financially sound, FHA has taken a number of steps to improve the health of the Fund, while ensuring continued access to mortgage credit for American families.

FHA's annual Fiscal Year 2012 report to Congress on the financial status of the MMIF reported a decline in the Fund's statutory capital reserve ratio and cited FHA's plans to continue taking action to improve the Fund's financial soundness.[1] The report estimated that

[1] U.S. Department of Housing and Urban Development, Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund, Fiscal Year 2012. (Fiscal 2012 Report) See http://portal.hud.gov/hudportal/documents/huddoc?id=F12MMIFundRepCong111612.pdf

implementing a number of changes to FHA policy since 2009 has improved the economic value of the Fund by at least $20 billion.[2]

II. This Notice – Proposed Changes to Maximum LTV for Loans in Excess of $625,500

Although the steps taken since 2009 have had a positive effect on the financial soundness of the Fund, the projected levels of default, foreclosure, and claims within the existing MMIF portfolio and a number of predicted economic factors have resulted in a lower statutory capital reserve ratio for the MMIF for Fiscal Year 2012 compared to Fiscal Year 2011. In order to further protect the financial soundness of the MMIF, FHA must be vigilant in monitoring the performance of the portfolio, and adjust its standards to effectively manage financial risk. As a result, FHA has been continually evaluating its portfolio to identify and respond to risks in ways that benefit the Fund and, ultimately, consumers and taxpayers. During its evaluation, FHA has determined that the MMIF is subject to greater risk when FHA insures loan amounts in excess of $625,500. In response to this risk, the maximum LTV will be limited to 95 percent for loans in excess of $625,500.[3] LTV limits do not include the addition of the Up-Front Mortgage Insurance Premium (UFMIP).[4]

Certain FHA-insured loans will be exempted from this notice. Loans made pursuant to the FHA Streamline Refinance without an appraisal program, which has no LTV calculation, and the 203(k) Rehabilitation Mortgage Insurance Program, which utilizes two different LTV

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[2] Id. at 52.
[3] Id. at 17. The FHA Actuarial Report advises that the majority of FHA endorsements have historically had LTV ratios above 95 percent.
[4] HUD Handbook 4.155.2, (Lender's Guide to the Single Family Mortgage Insurance Process) at Chapter 7, pertaining to Mortgage Insurance Premiums, notes that in most of the FHA mortgage insurance programs, FHA collects an UFMIP and an annual insurance premium, which is collected in monthly installments. The total FHA-insured first mortgage on a property is limited to 100 percent of the appraised value and the UFMIP is required to be included within that limit. However, the UFMIP is otherwise not considered when determining compliance with statutory loan limits or LTV limits in accordance with Section 203(d) of the National Housing Act. See http://portal.hud.gov/FHA-Handbooks/collections/current/print/4155-2_7.pdf

calculations in addition to the cost of improvements, are exempted. The Secretary may, as he deems necessary, exempt from this notice loans from other programs by publishing a Federal Register notice for comment.

III. Solicitation of Public Comments

FHA welcomes comments on the proposals set forth in this notice, including whether there may be additional FHA programs that should be exempted from this notice, for a period of 30 calendar days. FHA also welcomes comments on the economic effects in the proposals set forth in this notice. All comments will be considered in the development of the Federal Register notice that will follow this proposed notice and that will establish the maximum LTV for loans over a specified amount. The final notice will address any significant issues raised by the public comments, and may include changes to the LTV requirements proposed in this notice. The final notice will also announce the effective date for the LTV requirements.

IV. Environmental Review

This notice involves discretionary establishment and review of loan limits which do not constitute a development decision affecting the physical condition of specific project areas or building sites. Accordingly, under 24 CFR 50.19(c)(6), this notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321).

Date: January 30, 2013

Carol J. Galante,
Assistant Secretary for
Housing- Federal Housing Commissioner

[5680-N-01]

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