



The Washington Post

FHA to toughen rules for borrowers

The Federal Housing Administration (FHA) is proposing raising minimum credit scores for borrowers who receive FHA-backed mortgages, increasing down payment requirements, and limiting the amount of money sellers can provide toward closing costs. The proposed changes are part of an effort to shore up the agency's finances, which have been hit with rising defaults to its mortgage insurance program.

MAKING SENSE OF THE STORY FOR CONSUMERS

- Historically, the FHA has played a critical role in propping up the housing market by insuring lenders against default after the mortgage market failed. Currently, the agency guarantees approximately 30 percent of all home loans and 20 percent of refinancings. In the past, the FHA has resisted raising down payments or insurance premiums, fearing it would be shutting out qualified borrowers and stunting the housing market's recovery.
- The FHA is hoping that the proposed changes, including requiring that borrowers bring more cash to the closing table, will ensure that borrowers are less likely to default on their loans. Officials at FHA have yet to determine how much cash will be required.
- Up-front cash can include down payments as well as other payments. Currently, FHA borrowers can put down as little as 3.5 percent. One lawmaker has introduced legislation that would require FHA borrowers to put down a minimum of 5 percent.
- The agency also currently allows sellers to provide up to 6 percent of the home's value toward closing costs or down payments. Secretary of Housing and Urban Development (HUD) Shaun Donovan has said he wants the maximum permissible level to be lowered to 3 percent, in line with industry norms.
- The FHA has decided "for the time being" to raise its minimum credit score requirements for new borrowers. The new requirements have yet to be determined. Presently, borrowers with credit scores as low as 500 may qualify for an FHA loan.

To read the full story, please click here:

<http://www.washingtonpost.com/wp-dyn/content/article/2009/12/02/AR2009120200025.html>