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FHA Increases Down Payment For Some, Mortgage Insurance Premium For All

By Ilyce Glink | Jan 20, 2010

This morning, **Federal Housing Administration (FHA) Commissioner David Stevens** announced some big changes to the FHA loan program:

- Borrowers with credit scores of 580 or less would have to put 10 percent down in cash in order to qualify for an FHA loan. (This may not hurt that many people, since few lenders will even grant a loan to borrowers with a credit score of 580 or less at the moment, even though FHA permits it.)
- Borrowers with higher credit scores would be able to put down only 3.5 percent in cash on their purchase.
- FHA's mortgage insurance premium (known in the industry as "MI" versus "PMI" for private sector private mortgage insurance) will rise from 1.75 percent to 2.25 percent.
- FHA will ask Congress for approval to raise the annual mortgage insurance premium from its current .55 percent level.
- Sellers will only be allowed to give 3 percent to the buyer to defray closing costs, down from 6 percent.

The moves are being made to shore up FHA's flagging finances and help the agency avoid a nasty taxpayer bailout.

In last year's annual audit, it was revealed that FHA had fallen below the 2 percent capital reserves required by Congress. The current level of capital reserves is somewhere around .53 percent, according to the agency, down sharply from 3 percent in 2008.

"Striking the right balance between managing the FHA's risk, continuing to provide access to underserved communities, and supporting the nation's economic recovery is critically important," Stevens said in a statement.

FHA has become the only lender available for many Americans. Over the past few years, FHA has gone from insuring around 3 percent of loans to more than 25 percent - a level that Stevens called unhealthy for the mortgage market.

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