DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR–5171–N–01]

Federal Housing Administration (FHA) Single Family Mortgage Insurance: Announcement of Planned Implementation of Risk-Based Premiums

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

ACTION: Notice.

SUMMARY: This notice applies to FHA single family mortgage insurance programs. This notice announces FHA's planned implementation of risk-based premiums, which are designed for mortgage lenders to offer borrowers an FHA-insured product that provides a range of mortgage insurance premium pricing, based on the risk the insurance contract represents.

DATES: *Comment Due Date:* October 22, 2007.

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 Seventh Street, SW., Room 10276, Washington, DC 20410–0500. Communications should refer to the above docket number and title.

Comment by Mail. Please note that due to security measures at all federal agencies, submission of comments by mail often results in delayed delivery.

Electronic Submission of Comments. HUD now accepts comments electronically, which interested persons may now submit through the Federal eRulemaking Portal at *http://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 for public viewing. Commenters should follow the instructions provided at *http://www.regulations.gov* to submit comments electronically.

No Facsimile Comments. Facsimile (FAX) comments are not acceptable. In all cases, communications must refer to the docket number and title.

Public Inspection of Public Comments. All comments and communications submitted will be available, without revision, for inspection and downloading at *http://www.regulations.gov*. Comments are also available for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the Regulations Division. Due to security measures at the HUD Headquarters building, please schedule an appointment to review the comments by calling the Regulations Division at (202) 708–3055 (this is not a toll-free number).

FOR FURTHER INFORMATION CONTACT: Margaret Burns, Director, Office of Single Family Program Development, Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410; telephone (202) 708–2121 (this is not a toll-free number). Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at (800) 877–8339.

SUPPLEMENTARY INFORMATION:

I. Risk-Based Premiums

This notice announces HUD's plan to implement risk-based premiums for FHA loans for which case numbers have been assigned on or after January 1, 2008. Section 203(c)(2) of the National Housing Act (12 U.S.C. 1709(c)(2)) establishes mortgage insurance premiums for most FHA single family programs. Such upfront and annual insurance premiums are set at levels not to exceed 2.25 percent and 0.50 percent (0.55 percent for mortgages involving an original principal obligation that is greater than 95 percent of the appraised value of the property), respectively, with a discount available on the upfront premiums for mortgagors who are first-time homebuyers and who successfully complete pre-purchase homeownership counseling approved by the Secretary.

By offering a range of premiums based on risk, FHA will be able to offer options to mortgagees serving borrowers who were previously underserved, or not served, by the conventional marketplace. Alternatively, FHA will also be able to offer options to mortgagees serving those borrowers wishing to lower their premiums by, for example, increasing their downpayment or by improving their credit scores. A range of premiums based on risk will also ensure the future financial soundness of FHA programs that are obligations of the Mutual Mortgage Insurance Fund (MMIF). Under risk-based premiums, however, no qualified borrower will be charged by the mortgage lender in excess of the current statutory upfront and annual mortgage insurance premium limits. Additionally, this notice, when issued in final, will replace FHA's Mortgagee Letter 00–38, which identifies the current mortgage insurance premiums for FHA's single family programs.

Risk-based premiums will utilize the following schedule for upfront mortgage insurance premium rates:

FHA SINGLE FAMILY MORTGAGE INSURANCE UPFRONT MORTGAGE INSURANCE PREMIUMS—EFFECTIVE AS OF JANUARY 1, 2008

[All premiums are specified in basis points (0.01%)]

	Minimum Downpayment [a] (%)	Decision Credit Score						
		850–680	679–640	639–600	599–560	559–500	499–300	None
Funds from Borrower or a Relative	10	75	100	125	150	175	175	200
	5	100	125	150	175	200	....	225
	3	125	150	175	200	225	....	....
Other Sources of Funds	3	175	200	[b] 225	....	....	....	....

a. Premiums are based on two categories of sources of funds: (1) The borrower's own funds or gifts from relatives and (2) any other acceptable source. See HUD Handbook 4155.1 for guidance on acceptable sources of funds.

b. A minimum decision credit score of 620 is required when downpayment funds come from a source other than the borrower or a relative of the borrower.

Notes:

1. Annual premium rates are: 50 basis points for loans with 5 and 10 percent downpayments; 55 basis points for loans with 3 percent downpayments; and 25 basis points for all loans with amortization terms of 15 years or less.

2. Downpayment percentage is determined by the base loan-to-value ratio (LTV). The ''base LTV'' is calculated by: (1) Dividing the base mortgage amount by the lesser of the sales price or appraised value of the property (for refinances, the base mortgage is divided by the appraised value of the property); (2) subtracting the result from 1 (one); and (3) multiplying by 100. ''Base mortgage amount'' is defined as the mortgage amount prior to adding any financed closing costs or upfront mortgage insurance.

3. Eligibility for the mortgage insurance premiums listed in the chart above is based on an applicant's decision credit score (FICO). A ''decision credit score'' is determined for each applicant according to the following guidelines: when three scores are available (one from each repository), the median (middle) value is used; when only two are available, the lesser of the two is chosen; when only one is available, then that score is used. If more than one individual is applying for the same mortgage, the lender should determine the decision credit score for each individual borrower and then average them to determine the final decision credit score for the application. That application ''decision'' credit score is then used to underwrite and determine if the mortgage is considered an acceptable risk.

4. Except as provided below, eligibility for these insurance premiums is dependent upon borrower acceptance by TOTAL (Technology Open to Approved Lenders). Therefore, all borrowers with valid credit scores must be scored by TOTAL.

5. Borrowers not scored by TOTAL or with insufficient trade lines to generate credit bureau scores are considered as ''none'' in the premium chart and are priced accordingly. Borrowers falling into cells with no premium price shown are not eligible for FHA-insured financing.

6. If TOTAL refers a loan for manual underwriting and the underwriter deems that there are sufficient compensating factors to create an acceptable risk to FHA, then the upfront insurance premium charge will be as shown on the premium chart.

7. These premiums apply to all purchase loans and to fully underwritten (non-streamline) refinance loans. Cash-out refinance loans must meet a minimum 5 percent equity requirement, based on the appraised value of the property.

8. Streamline refinance of an existing FHA loan for which a case number was assigned prior to January 1, 2008, will have an upfront premium of 100 basis points and an annual premium of 50 basis points.

9. First-time homebuyers who would otherwise pay an upfront premium of 225 basis points, but who complete pre-purchase homeownership counseling acceptable to the Secretary, will pay an upfront premium of no more than 200 basis points.

II. Solicitation of Public Comments

FHA welcomes comments on the risk-based premiums for a period of 30 days. The risk-based premiums are based on FHA insurance eligibility requirements as they exist at the time of publication of this notice. FHA's proposed rule on downpayment assistance, if issued in final, would affect the risk-based premiums proposal contained in this notice.

Any changes made to the risk-based premiums in response to public comment will be announced through publication of a subsequent notice in the **Federal Register**.

III. Findings and Certifications

Environmental Review

A Finding of No Significant Impact is not required for this notice. Under 24 CFR 50.19(b)(6), the subject matter of this notice is categorically excluded from the requirements of the National Environmental Policy Act (42 U.S.C. 4332 *et seq.*).

Dated: September 13, 2007.

Brian D. Montgomery,

Assistant Secretary for Housing—Federal Housing Commissioner.

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