

MLO National Test Study Guide

The SAFE Act mandates that each applicant for licensure attend a minimum of 20 hours of education and pass both a national and state test.

There are two elements that make the national test challenging. First is the way the test questions are written. The test is made up of 100 questions; many of which are situational scenarios. You will need to access your knowledge and translate the questions in order to select the right answer. The questions can be tricky and they are interpretive in nature.

Second is the broad spectrum of subject matter that the test outline covers. You will be expected to understand content from a wide range of principles, terms, skills, laws and other mortgage related information.

This study guide is a summary of the most common topics covered by the national test. **It is in no way meant to be the comprehensive review needed to pass the test.** It is designed to help you quickly review some of the most essential elements found on the national test.

Federal Laws

The 15 different laws summarized here are divided into groups. You should study and understand them in these categories. The various laws overlap somewhat in order to provide an umbrella of protections for consumers.

When you study a federal law, always begin with the purpose of the law. By first understanding the essential objectives of the Act, the rules that follow will then make sense to you. The “why to” should always precede the “how to.” Knowing why you must do something will also make the performance of your obligations more conscious. This conceptual understanding is also what is necessary to pass the test.

Group 1: Early Disclosure Laws

RESPA Real Estate Settlement Procedures Act Regulation X Governed by HUD

Purpose:

- Create more efficient early disclosures to help consumers become better shoppers; which encourages competition amongst settlement service providers.
- Eliminate kickbacks and referral fees that unnecessarily increase the cost of closing.
- Reduce the amount homebuyers are required to place in escrow.

RESPA covers 1st and junior mortgage related transactions on residential real property designed as a principal dwelling on 1-4 family units.

- Includes: Purchases, refinances, lender app assumptions, home improvements, HELOCS, reverse mortgages, time shares with lien, MFG homes attached to property, construction loans used to purchase property by the first user.
- Does not cover: Cash sales, seller held mortgage, rental or business property, construction loans without permanent financing, conversions and homes with 25+ acres.

Reg. X Required Disclosures: By the originating party

At Application:

- GFE at application or within 3 business days of application with no costs other than the cost of a credit report.
- Servicing disclosure statement
- HUD Special Information Booklet (on purchase only)

Upon Referral:

- Affiliated Business Arrangement Disclosure (ABA) upon the referral of an affiliated settlement service provider.

At Closing:

- HUD-1 Settlement Statement (or one business day in advance if requested)

After Closing:

- Initial escrow statement (at closing or within 30 days after closing)
- Annual escrow statement
- Transfer of servicing statement (15 days before transfer)

Reg. X Prohibitions:

- 1) Limits the working escrow balance to \$50 above 1/6 of the annual premiums
- 2) Violations of Section 8 anti-kickback provisions fines up to \$10,000 and/or imprisonment up to one year.
- 3) Kickbacks in exchange for referral.

TILA Truth In Lending Act Reg. Z Governed by Federal Reserve Board (FED)

Part of the 1968 Consumer Credit Protection Act (CCPA)

Purpose: To promote the informed use of consumer credit by requiring early disclosure of the “Costs of Credit” as defined by Reg. Z.

TILA covers all credit transactions and requires a 3-day right to rescind the loan on refinances of primary residences.

Reg. Z Disclosures: The Truth In Lending disclosure (TIL) by the creditor; within 3 business days of the receipt of the application; and not less than 7 days before closing. The TIL expresses the cost of credit two ways:

- 1) As a dollar amount known as the “finance charge.”
- 2) As a percentage of the net loan amount known as the Annual Percentage Rate (APR).

Truth in Advertising:

- Requires the lender to conspicuously show the APR when advertising terms, payments or interest rates
- Requires advertisers to provide clear and accurate information
- Requires all applicable rates have equal prominence with teaser rates
- Prohibits representing a rate as “fixed” when it can change

Reg. Z – Prohibited Acts:

- Creditors and brokers from influencing appraisers.
- Servicers from failing to credit payment or pyramiding of late fees.

Redisclosure: When an APR becomes inaccurate by more than 1/8% (.125 bpts), creditor must redisclose the TIL, document consumer's receipt and wait 3 business days before closing the loan.

New Reg. Z Loan Definition “Higher Priced Mortgage”

Purpose: This new rate threshold defines a subprime loan and offers additional consumer protections by restricting certain practices on Higher Priced Mortgages (HPM).

HPM New Threshold Index is called “Average Prime Offered Rate”

- First mortgage add 1.5% to index
- Second mortgage add 3.5 % to index

Subprime Prohibitions:

- 1) Relying on collateral for servicing the loan without regard to ability to repay.
- 2) Relying on income and assets without verification.
- 3) Imposing a prepayment penalty if payment changes in the first 4 years or on any loans longer than 24 months.
- 4) First mortgages without an escrow account.

HOEPA Home Ownership and Equity Protection Act Governed by the Federal Reserve

1994 Amendment to Reg. Z – Section 32 – High Cost Loans

Purpose: To establish lending prohibitions and require additional disclosure for certain “High Cost” loans.

Covers all closed-end transactions (does not cover HELOCs, reverse mortgages, etc.).

Three High Cost Thresholds (HOEPA):

- 1) 1st liens where APR exceeds US Treasury by more than 8%.
- 2) 2nd liens where APR exceeds US Treasury by more than 10%.
- 3) Total points and fees exceed the larger of \$579 or 8% of total loan amount.

Disclosures: On High Cost loans the lender must provide an additional 3-day cooling off period and send a disclosure stating:

- Consumer is not required to close the loan even though they've signed the application.
- The lender will have a mortgage on the home and the consumer could lose home if they fail to make payments.
- The loan amount, the payment, the APR and if it's a variable rate, the maximum monthly payment.

HOEPA Prohibitions:

- Balloon payments
- Negative amortization
- Default interest rates
- Repayment schedule that consolidates more than two payments
- Prepayment penalties on loans that can adjust in the first 4 years or on any loans longer than 24 months.
- Due on sale clause.
- Make a loan without regard to ability to repay.
- Refinance one HOEPA loan with another HOEPA loan within 12 months, unless it is clearly in borrower's best interest.
- Documenting a closed-end “High Cost” loan as an open-end loan.

Penalties for Violations: Consumer can recover all statutory and actual damages, court costs and attorney fees. A violation of a “High Cost” requirement may allow a consumer to rescind the loan for up to three years.

HPA Homeowner's Protection Act Governed by the federal reserve

Purpose: HPA provides for the termination of PMI.

HPA applies to conventional loans (ie: not VA, FHA or USDA).

Two methods for cancellation of PMI:

- 1) Automatic Termination; when mortgage balance is paid down to 78% of original value of property.

- 2) By Request; the borrower requests cancellation when the loan is scheduled to reach the 80% LTV threshold based upon the loan's initial schedule. The borrower must have a good pay history, the loan can not be a high risk loan, Evidence of a type established in advance that the value of the property has not declined below the original value and certification that the borrower's equity in the property is not subject to a subordinate lien.¹

Three Disclosure Requirements (HPA):

- 1) An initial escrow statement
- 2) Each annual escrow statement
- 3) Upon cancellation disclosing to consumer PMI has been canceled.

Group 2: The Fair Lending Laws

The Interagency Policy Statement on Discrimination in Lending – April 15, 1994

The various housing agencies became concerned that some prospective homebuyers and other borrowers may have been experiencing discriminatory treatment in their efforts to obtain loans. The 1992 Federal Reserve Bank of Boston study on lending discrimination, congressional hearings and agency investigations had indicated that race was a factor in some lending decisions.

As a result the Interagency Task Force on Fair Lending issued the following policy statement;

“Discrimination in lending on the basis of race and other prohibited factors is destructive, morally repugnant and against the law. It prevents those who are discriminated against from enjoying the benefits of access to credit. The Agencies will not tolerate lending discrimination in any form. Further, fair lending is not inconsistent with safe and sound operations. Lenders must continue to ensure that their lending practices are consistent with safe and sound operating policies.”

Applies to: All the lenders, including mortgage brokers, issuers of credit cards and other persons who extend credit.

Note: The Policy Statement refers only to ECOA and FHA; the two statutes that specifically prohibit discrimination in lending.

Reasons for issuing the Policy Statement:

- 1) To provide guidance about what the Agencies consider in determining if lending discrimination exists.
- 2) To provide a foundation for future interpretations and rulemaking by the Agencies.

ECOA Equal Credit Opportunity Act Reg. B

The Federal Reserve interprets and promulgated the rules of Reg. B.

Note: The Federal Trade Commission (FTC) administers compliance of Reg. B.

Purpose: To provide for the “Availability of Credit” to all credit worthy applicants without regard to any discriminatory factors on a prohibited basis.

Prohibitions: ECOA prohibits credit grantors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status or age or to the fact that the consumer receives public assistance income.

Note: Applies to all credit transactions including consumer credit and business transactions.

Three Types of Illegal Discrimination:

- 1) Overt: Blatantly discriminates on a prohibited basis.
- 2) Disparate Treatment (individual): Treats individual applicants differently.
- 3) Disparate Treatment (group): Applying a policy uniformly that has a disproportionate effect on a protected group.

Reg. B Highlights:

- Cannot discourage an applicant from applying.
- Marital status shall only be married, unmarried or separated.
- May not require a co-applicant to be a spouse.
- Issues of sex, race, marital status and childbearing may not be considered.
- Consumer may withdraw an application.

¹ See www.federalreserve.gov/boarddocs/supmanual/cch/hpa.pdf for more.

Reg. B. Disclosures: 30/60/30 Rule

- 1) Notice of Action within 30 days
- 2) Request for reasons for denial and free credit report within 60 days
- 3) Reasons for denial within 30 days after request
- 4) Purpose of ECOA disclosure given at application

Enforcement Penalties - By private lawsuit or administrative action

Civil liability:

\$10,000 per violation in individual action

1% of net worth or \$500,000 in a class action suit

Reg. B requirements:

- 30 day notice of action
- Report credit in both spouses names
- Retain credit records and records of denial
- Collect information about race and other personal characteristics
- Provide copies of appraisal report

FHA Fair Housing Act Reg. B Governed by HUD

1968 Amendment of Section VIII of the Civil Rights Act

Purpose: To provide for fair housing; covers building, selling and rental plus any real estate related transaction.

Prohibitions: FHA makes it unlawful for any lender to discriminate based on; race, religion, color, national origin, handicap or familial status. Also, forbids the imposition of different requirements or more onerous terms that may have a disparate effect on different borrowers.

Note: Covers all real estate related transactions including builders, landlords, real estate agents and creditors.

Disclosures:

- 1) The Fair Lending Notice
- 2) Equal Housing Opportunity Logo or statement on advertising
- 3) Receipt of appraisal disclosure

Types of Discrimination prohibited by FHA:

- Redlining
- Excessively low appraisals
- Racially exclusive images
- Racial steering
- Discrimination against women
- Excessively burdensome standards or more onerous terms

HMDA Home Mortgage Disclosure Act Reg. C Federal Reserve

Purpose: To help determine if lenders are serving community housing needs, assist in identifying patterns of lending discrimination and enforce anti-discrimination practices.

Note: Applies to home purchases, home improvement and refinance loans.

HMDA is primarily a data collection statute that requires certain mortgage lenders and depositories to collect then report to the Fed annually their loan application characteristics.

CRA Community Reinvestment Act Reg. BB the Federal Reserve and FDIC

Purpose: To encourage state chartered banks and other depository institutions to help meet the needs of communities, including low to moderate income neighborhoods.

Requirements: Periodic exam evaluations of the bank's record of helping to meet the credit needs of its consumers within its community.

Group 3: Privacy Protection Laws

GLBA Gramm-Leach-Bliley Act FTC

Part of the Financial Modernization Act

Purpose: To institute provisions for protecting consumer's personal financial information held by financial institutions. The primary objective of GLBA is to prevent ID theft.

Applies to: Mortgage lenders, mortgage brokers, finance companies and other settlement service providers that collect, handle and store consumer's Nonpublic Personal Information, (NPI).

Two Rules apply to GLBA:

- 1) Privacy Rule: which governs the collection of NPI and the company's information "sharing policy."
 - Privacy Policy Notice given at application offering a consumer opt-out opportunity for sharing their NPI.
- 2) Safeguards Rule: requires lenders and brokers to develop a written information security plan, that includes:
 - Designating a company security officer to coordinate safeguards;
 - Identify information assets and assess risks;
 - Design and implement the company policy;
 - Select and contract with service providers to implement their own safeguard policies; and
 - Evaluate, maintain and amend policies in light of changes.

GBLA Safeguards Policy requires:

- Employee training to ensure awareness of security policies
- Physical safeguards, locking doors, windows, files and proper disposal
- The management of systems failures and consumer notification of a security breach

Note: Pretext calling is the illegal practice of gaining private information under false pretenses.

TSR Telemarketing Sales Rule FTC and FCC

Purpose: To protect the privacy of the home against unwanted intrusion by telemarketing and to restrict the practices of direct telephone marketing businesses.

Note: With the 2003 amendments the TSR added the Do-Not-Call Registry giving consumers the right to opt-out of receiving telemarketing calls.

Note: Once listed on the Do-Not-Call Registry, the consumer now remains on the list forever (Used to be 3 years). and includes cell phones.

Requirements:

- Requires telemarketers to "scrub" their lists every 30 days and establishes internal company Do-Not-Call lists.
- Allows companies to re-contact "established customers" up to 18 months after last business transaction.
- Allows companies to re-contact consumers that responded to mail campaigns for up to 90 days after initial contact.

Exempt Entities: Charities, political organization and surveyors as long as they are not selling goods or services.

Violations of the TSR are considered an unfair and deceptive act and carry monetary civil penalties up to \$16,000 after February 9, 2009. (Previously was \$11,000.)

USAPA**USA PATRIOT Act****Office of Foreign Assets Control (OFAC)**

Purpose: To require financial institutions to institute a Customer Identification Program (CIP) to:

- Collect identifying information from applicants
- Verifies customers are who they say they are
- Maintain records of verification
- Determine if applicants appear on the terrorist list

Note: Introduced one week after the 9/11 attacks. Introduced changes to wire tap, money laundering, immigration and electronic communication rules.

Requirements and Restrictions: The Office of Foreign Assets Control maintains the Specially Designated Nationals and Blocked Entities (SDN list). Financial institutions are prohibited from dealing with SDN's and obligated to block and freeze payments and report such blocking to OFAC.

NFIA**National Flood Insurance Act****FEMA**

Purpose: Requires lenders to compel borrowers to purchase flood insurance when a home is deemed to be in a flood plain.

Note: National flood insurance is available for any property whose local government participates in flood plain management through NFIA.

Requires lenders to determine if the property improvements are in a "special flood hazard area." This process is called "flood certification," which checks the subject property against FEMA flood maps that show areas subject to 100-year floods.

FCRA**Fair Credit Reporting Act****FTC**

Purpose: To ensure that a consumer's credit records are kept confidential and that a person's consumer reports are accurate. FCRA established procedures for the correction of erroneous or inaccurate information within 30 days after a consumer requests an investigation of the accuracy of their personal credit file information.

FCRA states that: Borrowers have the right to:

- Dispute inaccuracies
- Be notified what credit information is being used against them
- Know what is in their credit file
- Receive their credit score once per year
- Receive a free report when denied credit
- Negative pay history and public records be removed after 7 years
- Bankruptcy information be removed after 10 years

FACTA**Fair and Accurate Credit Transactions Act****FTC**

A 2003 amendment to FCRA

Purpose: To update and amend FCRA in order to;

- Enhance the ability of consumers to combat ID theft
- Give consumers control regarding marketing solicitations they receive
- Increase the accuracy of consumer reports
- Allows consumers to apply a “credit freeze” when security is breached

Requirements for Users of Credit Reports:

- 1) Every user must have a “stated permissible purpose” for their use of a consumer report.
- 2) Expands the definition of “Adverse Action” to include denying of credit, insurance and employment or promotion.
- 3) To institute policies to verify a consumer’s identity when encountering a “fraud alert” on a consumer report.
- 4) To properly dispose of consumer credit information by burning, pulverizing or cross shredding of documents.
- 5) Establish reasonable measures to protect against unauthorized access to credit file information.
- 6) Provide a disclosure “Notice to the Home Loan Applicant” to each borrower including the consumer’s credit score, the reason codes and to make available to the consumer all information received from the CRA.

Note: FACTA established that every consumer can receive one free credit report per year, per credit repository. Must be available immediately if requested electronically or within 15 days by mail or telephone.

Note Well: FACTA was amended again in 2008 to include two new additional provisions:

- 1) **The Red Flags Rule**, which requires financial institutions to develop and implement a written Identify Theft Prevention Program designed to detect, prevent and mitigate ID theft. The program’s purpose is to detect and prevent ID theft and the program requires creditors;
 - To identify specific “Red Flags” relevant to their operation
 - Detect red flags as they occur
 - Respond appropriately when red flags are detected
- 2) **Address Discrepancy Rule:** this FACTA amendment requires all users of credit reports to establish policies and procedures they should employ when a CRA sends the user a notice of address discrepancy.

Loan Products

Traditional Loan Products refer generally to 30 year fixed rate loans underwritten according to Fannie Mae and Freddie Mac standards. These loans are called “conventional loans” or “conforming loans” because they conform to Fannie and Freddie guidelines.

Note: Conventional loans often are referred to as “A-Paper” loans because these loans have tightly restricted underwriting guidelines and only “A” credit borrowers will qualify.

Non-Traditional Products are generally those not fixed for 30 years and have product features designed to meet the unique qualifying needs of various borrowers.

Home Equity Lines of Credit (HELOCs)

- Revolving lines of credit designed for expected repeated transactions where the home serves as collateral.
- APR based on interest rate alone and **does not reflect fees and costs.**
- Most often based on a variable rate with no set adjustment period – floats with the index plus a margin.
- TILA grants 3 days rescission
- Can be 1st or 2nd mortgage - referred to as HLTV when in 1st position and HCLTV when in 2nd position.

Home Equity Loan: Most often this term is used to describe a closed-end second mortgage. A Home Equity Loan (HEL) is used by a homeowner when they decide to use the equity in their home for home improvement or debt consolidation but want to keep their existing first mortgage, want a fixed rate and need no repeated access to equity.

Reverse Mortgage: Reverse Annuity Mortgage (RAM)

- Designed to help seniors (minimum age 62) with substantial equity but lack sufficient income to live.
- Primarily insured by FHA, called HECM or a Home Equity Conversion Mortgage. HECM’s carry mortgage insurance (MI).
- Interest occurs monthly and compounds over time.
- Primary residence only.
- No monthly payments, no income or credit qualification.
- Seniors must receive HUD approved counseling.
- Owner can receive lump sum, line of credit or monthly payments (tenure).
- Heirs have option to pay off loan and keep house.
- Heirs will never owe more than the value of home at settlement.
- Amount at settlement includes principal debt, closing costs and accrued interest.

Interest Only Option (IO):

- 30 year contract with option to pay interest only in early years
- Fixed available, most often an ARM product.
- After IO period, loan is recast to P&I over remaining term.

Payment Option ARM (POA): POAs allow the borrower to choose between several payment options each month.

- 1) The regular P&I payment is normally based on a 30 or 40 year amortization
- 2) The Interest Only payment (IO)
- 3) Minimum payment, typically not covering all interest due (Negative Amortization)

Features include:

- Low introductory rate for 1, 2 or 6 months with first year payments based on intro rate.
- May have monthly payment cap at adjustment but does not apply to recast (Neg. Am).
- Lender can end option payments at certain LTV’s (110%, 125%).
- Normally carries Prepayment Penalties (PPP).
- Loan is recast with full P&I payments for remaining term.

Growing Equity Mortgage (GEM): Designed to accelerate loan, the monthly payments increase in first several years and increases are applied to principal.

Bi-Weekly Mortgage: Borrower contracts to pay 26 half payments annually which is one half of a regular P&I payment every two weeks resulting in the payment of one extra payment per year. Designed to accelerate the loan payoff to approximately 23 years.

Graduated Payment Mortgage (GPM):

- A mortgage with low initial monthly payments that graduate over a specific time from (3, 5, 7 years) and at predetermined annual increases.
- Can have Negative Amortization early and overall cost of loan is higher in exchange for lower payments early.

Shared Appreciation Mortgage (SAM):

- A SAM is a mortgage in which the lender shares in the future appreciated value of the property in exchange for agreeing to an interest rate lower than the prevailing rate.
- The share of the appreciated value, which is typically determined at the sale of the property, is called “contingent interest.”

Adjustable Rate Mortgages (ARM): ARMs are loans designed to provide a lower interest rate than a fixed-rate alternative in exchange for a shorter fixed period. ARMs are typically 30 year amortizing contracts.

A one-year Arm adjusts annually based upon the movement of the index the ARM is tied to.

Various Indices:

LIBOR – London Interbank Offered Rate; British Banker’s Association. Banks borrow from other banks.

T-Bill – Short term (1 year) based upon US Treasury Securities.

COFI (FED) – Federal Cost of Funds Index; Sum of monthly average of T-Bill.

COSI – Cost of Savings Index; Golden West's Cost of Savings Index.

Prime Rate – Prime Lending Rate, Federal Reserve, preferred rate charged to prime customer.

MTA – Moving Treasury Average – Based on averaging 12 previous months T-Bill averages.

CODI – Certificate Of Deposit Index – 12 most recent averages of CD’s

CMT – Constant Maturity Treasury – Treasury securities adjusted to constant maturities.

11th district COFI – Monthly weighted average cost of funds, 11 district insured institutions.

ARM Features

Payment Cap is a pre-set limit a payment can increase regardless of how high the rate adjusts – Negative Amortization.

Adjustment Period - known as the adjustment interval, is the period of time between adjustments.

Adjustment Cap - known also as the interim cap, is the maximum amount a rate can adjust in any one adjustment period.

Lifetime Cap - is the limit an ARM can adjust to over the life of the loan term.

Margin - the yield or spread added to the index, when totaled equals the note rate or “Fully Indexed Rate.”

Note Rate - sometimes referred to as the computed rate, is the contract interest rate when the lender’s margin is added to the index. The margin plus the index equals the “Fully Indexed Rate.”

Hybrid ARMs – 30 year Amortization

1/1, 3/1, 5/1, 7/1, 10/1 which carry an initial fixed period than adjusts annually thereafter.

Subprime ARMs

2/28 - has a 2-year fixed period after which the rate floats based on the index plus margin.

3/27 - has a 3-year fixed period after which the rate begins to float based on the index plus the margin.

Note: These subprime ARMs are designed as temporary loans that allow the borrower to correct credit issues than refinance to more favorable terms. The inherent risks are two-fold:

- 1) the initial fixed rate is called the “Introductory Rate” or teaser rate after which time, the rate will float every 1, 3 or 6 months and the rate will climb quickly.
- 2) Often with no “Caps” the monthly payment can skyrocket and may also have pre-payment penalties, which can trap a borrower into a costly mortgage.

360/180 - Two definitions:

- 1) 360/180 Balloon loan; has a 30-year payment with a 15-year “call.”
- 2) 360/180 Combo-Loan, often used to purchase a home above 80% LTV to avoid PMI. The first is 30 years at 80%LTV and the second is for 15 years at 15% LTV. Sometimes referred to as a “Piggyback.”

5/25 Balloon Mortgage:

Typically the rate is fixed for a period of 5 years and then converts to a new fixed rate for the remaining 25 years.

Note that converting to the new rate is permitted only if the prescribed conditions are met, and if not the loan is due and payable as a balloon to the lender.

Government Sponsored Mortgage Loans

Veterans Administration

VA = Guaranteed - Debt Ratio: 41% total debt ratio Purchases and Refinances

Entitlement is \$36,000, VA will guarantee 4 times = \$144,000

Current loan amount including funding fee is \$417,000 at 100% LTV. Requires Certificate of Eligibility.

Funding Fees: 0% down, first time use = 2.15% funding fee

Funding Fees:

- 0% down, first time use = 2.15% funding fee
- 5% down, first time use = 1.5% funding fee
- 10% down, first time use = 1.25% funding fee
- 0% down, second time use = 3.35% funding fee
- 5% down, second time use = 1.5% funding fee
- 10%+ down, second time use = 1.25% funding fee

If buyer was in reserves only (no active duty) funding fee will vary.

If National Guard, funding fee 2.4%.

Note: If victim was wounded on duty or the spouse of a deceased veteran, killed on duty, funding fee waived.

USDA Rural Development Guaranteed Housing Program

USDA = Guaranteed - Debt Ratio – 29/41

Income limit, based on areas median income - Loan amount set based upon appraisal value

3.5% guarantee fee, can be financed – 103.5% LTV - non-refundable

Mainly purchase

FHA Federal Housing Administration HUD

For manually underwritten mortgages where the Direct Endorsement (DE) underwriter must make the credit decision, the qualifying ratios are 31% and 43%.

For those borrowers who qualify under FHA's Energy Efficient Homes (EEH) the "stretch ratios" are increased to 33% and 45%.

Handbook 4155.1: 4.F.2.a-c

Loan limits vary. The FHA base loan amount is currently \$271,050. Check your county's FHA loan limits at

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

NOTE: These limits are established by a specific amount published by FHA every year. Loan amounts can be higher in areas where housing costs are above national norms. For exact figures on the specific area where you originate loans, check <https://entp.hud.gov/idapp/html/hicostlook.cfm>

Minimum down payment is 3.5% (Based on credit reports. Can be as much as 10%.)

UFMIP – For cases assigned on or after April 5, 2010, FHA will charge UFMIP of:

Purchase Money Mortgage and Full Credit Qualifying Refinance = 2.25%

Streamline Refinance (all types) = 2.25%

Hope for Homeowners (H4H) = 2.00%

Home Equity Conversion Mortgages (HECM) used for purchases = 2.00%

The annual premium is based on the loan term and loan-to-value (LTV) at origination and will not change at this time.

The annual mortgage insurance premium table for traditional FHA mortgage purchase and refinance programs, and additional information may be found in Mortgage Letter 10-02

Hazard Coverage: Minimum coverage: Replacement cost

Flood Coverage: Minimum coverage: Lesser of replacement cost or loan amount

Title Insurance Coverage: Lender vs. Owner policies

Note: Monthly MIP may be dropped at 78%, (based on the original loan amount and purchase LTV) if paid for at least 5 years (request must be made in writing and conditions exist). 15-year terms at 90.01% LTV or more will be terminated when the LTV ratio reaches 78%. 15-year loans at 90% LTV or less require no monthly MIP.

For more on the recent FHA changes visit

http://portal.hud.gov/portal/page/portal/HUD/press/press_releases_media_advisories/2010/HUDNo.10-016