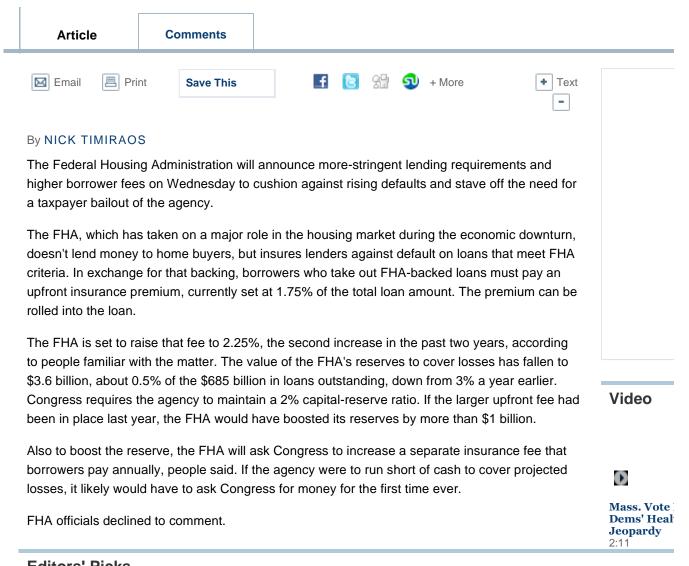
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JANUARY 19, 2010, 11:55 P.M. ET

# FHA to Lift Mortgage Insurance Fees



The FHA, which backs as many as half of all new loans in certain housing markets, has come under fire for insuring loans with little or no money down as home prices have plunged over the past three years. With its reserves falling, the agency has been forced to walk a tightrope between protecting taxpayer dollars and helping to facilitate the housing recovery.

The FHA will keep minimum down payments at the current 3.5% level for most borrowers. But the agency will require riskier borrowers with credit scores below 580 to make a minimum 10% down payment. While the FHA doesn't have a credit-score cutoff, most lenders require a minimum 620 score.

Some housing analysts have pushed for higher down payments on FHA-backed loans, and a bill in Congress would raise down payments to 5%, from the current 3.5%.

Instead, the FHA will reduce the amount of money that sellers can kick in for closing costs to 3% of the sale price, down from the current level of 6%. The higher cap led to abuses where sellers "heavily marked up the purchase price," says Lou Barnes, a mortgage banker in Boulder, Colo.

The FHA is also set to announce a series of measures to boost its ability to oversee and take action against lenders that originate loans with FHA backing.

"Mortgage lenders will find the new rules painful but necessary," says Howard Glaser, an industry consultant. He says the rules were overdue given that "an 'anything goes' environment" had prevailed in recent years as former subprime brokers migrated into FHA-backed loans.

Write to Nick Timiraos at nick.timiraos@wsj.com

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