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

FHA to Lift Mortgage Insurance Fees

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The Federal Housing Administration will announce more-stringent lending requirements and higher borrower fees on Wednesday to cushion against rising defaults and stave off the need for a taxpayer bailout of the agency.

The FHA, which has taken on a major role in the housing market during the economic downturn, doesn't lend money to home buyers, but insures lenders against default on loans that meet FHA criteria. In exchange for that backing, borrowers who take out FHA-backed loans must pay an upfront insurance premium, currently set at 1.75% of the total loan amount. The premium can be rolled into the loan.

The FHA is set to raise that fee to 2.25%, the second increase in the past two years, according to people familiar with the matter. The value of the FHA's reserves to cover losses has fallen to \$3.6 billion, about 0.5% of the \$685 billion in loans outstanding, down from 3% a year earlier. Congress requires the agency to maintain a 2% capital-reserve ratio. If the larger upfront fee had been in place last year, the FHA would have boosted its reserves by more than \$1 billion.

Also to boost the reserve, the FHA will ask Congress to increase a separate insurance fee that borrowers pay annually, people said. If the agency were to run short of cash to cover projected losses, it likely would have to ask Congress for money for the first time ever.

FHA officials declined to comment.

Video



**Mass. Vote
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2:11

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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.

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