

LENDERS UPDATE™

ALT & ASSOCIATES NEWSLETTER

A COMPLIMENTARY SERVICE TO THE MORTGAGE LENDING INDUSTRY

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UPDATES TO THE FHA **MORTGAGE SCORECARD**

The FHA, in INFO #19-07, issued March 14, 2019, has announced updates with the *Total Mortgage Scorecard* to address High Debt-to Income/Low Credit Score Combinations. The FHA announced that it is taking steps to mitigate the risks in these endorsements. Effective for mortgages with case numbers assigned on or after March 18, 2019, FHA will update *Total Mortgage Scorecard* to manage a decrease in the average borrower credit scores and the excessive risk that results when multiple risk factors are present.

Commissioner Montgomery has stated that:

The FHA must maintain the integrity of its insurance endorsements. This includes assessing the causes of the increase in higher-risk credit

characteristics in the portfolio and making prudent and necessary changes to recalibrate and adjust its policies as warranted to manage credit risk.

The FHA has seen a continued increase in risk credit characteristics in the mortgages it insures, including:

- ✚ A growth in cash out refinances. In FY 2018, the portfolio experienced an increase of more than 60 percent in cash out refinances.**
- ✚ An increase in the concentration of mortgages with high debt-to-income (DTI) ratios, where almost 25 percent of all FHA-insured purchase transactions in FY 2018 were mortgages where the borrower had a DTI ratio above 50 percent, the highest percentage since the year 2000. This increase in higher DTI concentrations has continued to FY 2019.**
- ✚ A decrease in average borrower credit scores to 670 which is the lowest average since 2008. This decline has continued in FY 2019. Thirteen percent (13%) of new mortgage endorsements in the first quarter of FY 2019 had credit scores less than 620, nearly a nineteen percent (19%) increase over last year.**
- ✚ Finally, an increasing concentration of credit scores of less than 640 combined with DTI ratios greater than fifty percent (50%).**

Therefore, effective March 18, 2019 lenders submitting mortgages with case numbers assigned, on or after March 18, 2019, via an automated underwriting system, may receive feedback results for certain mortgages indicating that they must be manually underwritten. The lender's final underwriting review decision for those mortgages will need to be documented in accordance with existing FHA requirements for manually underwritten mortgages.

ABOUT ALT & ASSOCIATES

Alt & Associates publishes the *Lenders Update* via e-mail as a complimentary service to our friends and clients in the financial industry throughout California and the United States. Over the past three decades, members of the firm have represented Institutional Lenders and Mortgage Bankers and Brokers in all aspects of their business operations. Legal counsel provided to the mortgage industry includes, but is not limited to:

- ✚ Regulatory assistance, both state and federal
- ✚ Compliance work
- ✚ Operational advice
- ✚ Transactional work Agreements such as Loan Officer
- ✚ Compensation Agreements etc.
- ✚ Various forms of employee, officer, and/or manager contracts
- ✚ Litigation representation

You may direct any questions or comments directly to:

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