

LENDERS UPDATE™

A MONTHLY SERVICE TO THE MORTGAGE LENDING INDUSTRY

AN ALT & ASSOCIATES NEWSLETTER

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The purpose of the Lenders Update is to provide a “heads-up” of new legislation and regulations affecting the mortgage lending industry. We provide summaries of new matters so our readers can judge whether the subject impacts their operations. We recommend that our readers review the entire new statute, regulation or other material in detail where it is relevant to them. For convenience, the applicable matter can be easily identified in the summary, and, where possible, a link is provided.

The Update includes information available to Alt & Associates as of September 21, 2009.

HUD ANNOUNCES MAJOR CHANGES TO FHA PROGRAM

On Friday, September 18, 2009, HUD published on its website, at www.hud.gov/news/ a number of changes to its program. The 3 page release should be reviewed with care by all FHA lenders and brokers. Among the changes are the requirement for submission of audited financial statements, new requirements for Streamline Refinance Transactions, and new rules for appraiser independence and appraisal portability. These changes will all take effect on January 1, 2010.

Perhaps most shocking, HUD also announced it will propose a new rule modifying Mortgage Approval Procedures and participation in FHA Loan Origination.

The following is taken directly from the news release:

MODIFY MORTGAGEE APPROVAL AND PARTICIPATION IN FHA LOAN ORIGINATION

Lenders seeking approval to originate, underwrite, or service an FHA loan must meet the eligibility criteria for a supervised or non-supervised mortgagee. Mortgagees with this

approval status must assume liability for all the loans they originate and/or underwrite. Loan Correspondents (mortgage brokers) will continue to be able to originate FHA-insured loans through their relationships with approved mortgagees; however they will no longer receive independent FHA approval for origination eligibility.[Emphasis added] These policy changes will require the FHA approved mortgagee to assume responsibility and liability for the FHA insured loan underwritten and closed by the approved mortgagee. These changes align FHA with GSEs and will potentially increase the number of loan correspondents (mortgage brokers) who are eligible to originate FHA-insured loans while providing the more effective oversight of loan correspondents through the FHA approved mortgagees.

INCREASE NET-WORTH REQUIREMENTS FOR MORTGAGEES

The FHA plans to propose to increase the net worth requirement for approved mortgagees to meet industry standards. The requirement is currently at \$250,000 and has not been increased since 1993. HUD is proposing an initial increase of approximately \$1,000,000 that would be in place within one year of the enactment of this rule. To maintain consistency with industry standards, HUD may propose that the net worth requirements be increased further in future years to a level comparable to those required by GSEs and other market institutions. These changes will help to ensure that FHA lenders are sufficiently capitalized to meet potential needs, thereby permitting HUD to mitigate losses and decrease risks to the FHA insurance fund.

As indicated, this change will occur after HUD follows the prescribed “Rule Making Process” applicable to most federal regulations. In other words, it does not yet have an effective date. If eventually approved, it will not likely be effective until well into 2010 or beyond.

Our monthly Lenders Update is published via e-mail as a complimentary service to our friends and clients in the financial industry throughout California and the United States. Only those persons who have requested this newsletter are on our mailing list. Should you have colleagues who wish to receive this complimentary service, please have them e-mail us at

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ALT & ASSOCIATES provides regulatory, compliance, operational advice and transactional assistance, as well as litigation representation, to the financial services industry. Over the past two decades, members of the firm have represented Institutional Lenders and Mortgage Bankers and Brokers in all aspects of their operations. If you have any questions please contact:

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