

**DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**
**[Docket No. FR-5171-N-01]**
**Federal Housing Administration (FHA)  
Single Family Mortgage Insurance:  
Announcement of Planned  
Implementation of Risk-Based  
Premiums**
**AGENCY:** Office of the Assistant  
Secretary for Housing—Federal Housing  
Commissioner, HUD.

**ACTION:** Notice.

**SUMMARY:** This notice applies to FHA  
single family mortgage insurance  
programs. This notice announces FHA's  
planned implementation of risk-based  
premiums, which are designed for  
mortgage lenders to offer borrowers an  
FHA-insured product that provides a  
range of mortgage insurance premium  
pricing, based on the risk the insurance  
contract represents.

**DATES:** *Comment Due Date:* October 22,  
2007.

**ADDRESSES:** Interested persons are  
invited to submit comments regarding  
this notice to the Regulations Division,  
Office of General Counsel, Department  
of Housing and Urban Development,  
451 Seventh Street, SW., Room 10276,  
Washington, DC 20410-0500.  
Communications should refer to the  
above docket number and title.

*Comment by Mail.* Please note that  
due to security measures at all federal  
agencies, submission of comments by  
mail often results in delayed delivery.

*Electronic Submission of Comments.*  
HUD now accepts comments  
electronically, which interested persons  
may now submit through the Federal  
eRulemaking Portal at <http://www.regulations.gov>. HUD strongly  
encourages commenters to submit

 comments electronically. Electronic  
submission of comments allows the  
commenter maximum time to prepare  
and submit a comment, ensures timely  
receipt by HUD, and enables HUD to  
make them immediately available for  
public viewing. Commenters should  
follow the instructions provided at  
<http://www.regulations.gov> to submit  
comments electronically.

*No Facsimile Comments.* Facsimile  
(FAX) comments are not acceptable. In  
all cases, communications must refer to  
the docket number and title.

*Public Inspection of Public  
Comments.* All comments and  
communications submitted will be  
available, without revision, for  
inspection and downloading at <http://www.regulations.gov>. Comments are  
also available for public inspection and  
copying between 8 a.m. and 5 p.m.  
weekdays at the Regulations Division.  
Due to security measures at the HUD  
Headquarters building, please schedule  
an appointment to review the comments  
by calling the Regulations Division at  
(202) 708-3055 (this is not a toll-free  
number).

**FOR FURTHER INFORMATION CONTACT:**

 Margaret Burns, Director, Office of  
Single Family Program Development,  
Department of Housing and Urban  
Development, 451 Seventh Street, SW.,  
Washington, DC 20410; telephone (202)  
708-2121 (this is not a toll-free  
number). Persons with hearing or  
speech impairments may access this  
number through TTY by calling the toll-  
free Federal Information Relay Service  
at (800) 877-8339.

**SUPPLEMENTARY INFORMATION:**
**I. Risk-Based Premiums**

 This notice announces HUD's plan to  
implement risk-based premiums for  
FHA loans for which case numbers have

 been assigned on or after January 1,  
2008. Section 203(c)(2) of the National  
Housing Act (12 U.S.C. 1709(c)(2))  
establishes mortgage insurance  
premiums for most FHA single family  
programs. Such upfront and annual  
insurance premiums are set at levels not  
to exceed 2.25 percent and 0.50 percent  
(0.55 percent for mortgages involving an  
original principal obligation that is  
greater than 95 percent of the appraised  
value of the property), respectively,  
with a discount available on the upfront  
premiums for mortgagors who are first-  
time homebuyers and who successfully  
complete pre-purchase homeownership  
counseling approved by the Secretary.

 By offering a range of premiums based  
on risk, FHA will be able to offer  
options to mortgagees serving borrowers  
who were previously underserved, or  
not served, by the conventional  
marketplace. Alternatively, FHA will  
also be able to offer options to  
mortgagees serving those borrowers  
wishing to lower their premiums by, for  
example, increasing their downpayment  
or by improving their credit scores. A  
range of premiums based on risk will  
also ensure the future financial  
soundness of FHA programs that are  
obligations of the Mutual Mortgage  
Insurance Fund (MMIF). Under risk-  
based premiums, however, no qualified  
borrower will be charged by the  
mortgage lender in excess of the current  
statutory upfront and annual mortgage  
insurance premium limits. Additionally,  
this notice, when issued in final, will  
replace FHA's Mortgagee Letter 00-38,  
which identifies the current mortgage  
insurance premiums for FHA's single  
family programs.

 Risk-based premiums will utilize the  
following schedule for upfront mortgage  
insurance premium rates:

**FHA SINGLE FAMILY MORTGAGE INSURANCE UPFRONT MORTGAGE INSURANCE PREMIUMS—EFFECTIVE AS OF JANUARY 1, 2008**

[All premiums are specified in basis points (0.01%)]

	Minimum Downpayment <sup>a</sup> (%)	Decision Credit Score						
		850-680	679-640	639-600	599-560	559-500	499-300	None
Funds from Borrower or a Relative .....	10	75	100	125	150	175	175	200
	5	100	125	150	175	200	.....	225
	3	125	150	175	200	225	.....	.....
Other Sources of Funds .....	3	175	200	<sup>b</sup> 225	.....	.....	.....	.....

a. Premiums are based on two categories of sources of funds: (1) The borrower's own funds or gifts from relatives and (2) any other acceptable source. See HUD Handbook 4155.1 for guidance on acceptable sources of funds.

b. A minimum decision credit score of 620 is required when downpayment funds come from a source other than the borrower or a relative of the borrower.

**Notes:**

1. Annual premium rates are: 50 basis points for loans with 5 and 10 percent downpayments; 55 basis points for loans with 3 percent downpayments; and 25 basis points for all loans with amortization terms of 15 years or less.

2. Downpayment percentage is determined by the base loan-to-value ratio (LTV). The "base LTV" is calculated by: (1) Dividing the base mortgage amount by the lesser of the sales price or appraised value of the property (for refinances, the base mortgage is divided by the appraised value of the property); (2) subtracting the result from 1 (one); and (3) multiplying by 100. "Base mortgage amount" is defined as the mortgage amount prior to adding any financed closing costs or upfront mortgage insurance.

3. Eligibility for the mortgage insurance premiums listed in the chart above is based on an applicant's decision credit score (FICO). A "decision credit score" is determined for each applicant according to the following guidelines: when three scores are available (one from each repository), the median (middle) value is used; when only two are available, the lesser of the two is chosen; when only one is available, then that score is used. If more than one individual is applying for the same mortgage, the lender should determine the decision credit score for each individual borrower and then average them to determine the final decision credit score for the application. That application "decision" credit score is then used to underwrite and determine if the mortgage is considered an acceptable risk.

4. Except as provided below, eligibility for these insurance premiums is dependent upon borrower acceptance by TOTAL (Technology Open to Approved Lenders). Therefore, all borrowers with valid credit scores must be scored by TOTAL.

5. Borrowers not scored by TOTAL or with insufficient trade lines to generate credit bureau scores are considered as "none" in the premium chart and are priced accordingly. Borrowers falling into cells with no premium price shown are not eligible for FHA-insured financing.

6. If TOTAL refers a loan for manual underwriting and the underwriter deems that there are sufficient compensating factors to create an acceptable risk to FHA, then the upfront insurance premium charge will be as shown on the premium chart.

7. These premiums apply to all purchase loans and to fully underwritten (non-streamline) refinance loans. Cash-out refinance loans must meet a minimum 5 percent equity requirement, based on the appraised value of the property.

8. Streamline refinance of an existing FHA loan for which a case number was assigned prior to January 1, 2008, will have an upfront premium of 100 basis points and an annual premium of 50 basis points.

9. First-time homebuyers who would otherwise pay an upfront premium of 225 basis points, but who complete pre-purchase homeownership counseling acceptable to the Secretary, will pay an upfront premium of no more than 200 basis points.

## II. Solicitation of Public Comments

FHA welcomes comments on the risk-based premiums for a period of 30 days. The risk-based premiums are based on FHA insurance eligibility requirements as they exist at the time of publication of this notice. FHA's proposed rule on downpayment assistance, if issued in final, would affect the risk-based premiums proposal contained in this notice.

Any changes made to the risk-based premiums in response to public comment will be announced through publication of a subsequent notice in the **Federal Register**.

## III. Findings and Certifications

### *Environmental Review*

A Finding of No Significant Impact is not required for this notice. Under 24 CFR 50.19(b)(6), the subject matter of

this notice is categorically excluded from the requirements of the National Environmental Policy Act (42 U.S.C. 4332 *et seq.*).

Dated: September 13, 2007.

**Brian D. Montgomery,**

*Assistant Secretary for Housing—Federal Housing Commissioner.*

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**BILLING CODE 4210-67-P**