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FHA Reinstates Manual Underwriting for Some Riskier Loans

FHA is **reversing an earlier decision** to remove the rule requiring manual underwriting for mortgages with credit scores below 620 and a ratio of debt to income above 43 percent. The decision, conveyed to lenders earlier this month, was presaged in the Fourth Quarter 2018 report to Congress regarding FHA Mutual Mortgage Insurance Fund Programs which expressed concern about the risk posed by recent originations.

The report, submitted in February by Keith N. Becker, Deputy Assistant Secretary, Office of Risk Management and Regulatory Affairs pointed to a gradual change in the distribution of borrower credit scores. In the 2018 fiscal year the share of 680 to 850 credit scores continued to decline. The average credit score for borrowers fell to 670, the lowest level in a decade.

"FHA's credit risk profile has been shifting from nearly **60 percent** of borrowers at greater than 680 credit scores to **about 35 percent**, while at the same time, about 8 percent of less than 640 borrowers has grown to nearly 30 percent," the report says. It continues by calling the increase a **much riskier population** of mortgages being endorsed by FHA and indicating closer monitoring to determine when policy changes should be implemented. The report also indicated a slight increase in the proportion of borrowers with DTI ratios above 50 percent, from 25.3 percent in the third quarter of 2018 to 25.9 percent in the fourth.

According to a communication sent to lenders, Review Rule 14 was a 2013 update to the TOTAL Mortgage Scorecard and introduced manual underwriting requirements for mortgages submitted to the Scorecard with less than 620 credit scores and greater than 43 percent debt-to-income ratios. In August 2016, the rule was removed from the Scorecard. "The removal of this rule has contributed to the significant increase in higher-risk loans FHA endorses. Continuing to endorse mortgages with higher risk characteristics, without changes, negatively affects the Mutual Mortgage Insurance Fund."

The letter informed lenders that, effective on or after March 18, 2019 loans they submit through the Scorecard 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 must be documented in accordance with existing FHA requirements for manually underwritten mortgages. FHA will carefully monitor the impact of this change and is preparing to implement additional

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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changes to maintain a better balance of managing risk and fulfilling its mission."

Ben Eisen, writing in Realton.com, quotes Becker as saying," We have continued to endorse loans with more and more credit risk. We felt that it was appropriate to take some steps to mitigate the risks we're seeing."

He added that since the manual underwriting rule was reversed three year ago, "we have observed a steady increase in the endorsement of higher-risk loans."

Eisen said FHA's $1.3 trillion insurance portfolio is now filled with a large share of loans made by **nonbank mortgage lenders.** The biggest FHA lenders last year were Quicken Loans Inc., loanDepot Inc., and Fairway Independent Mortgage Corp., according to Inside Mortgage Finance, an industry research group.

Some lenders say they don't expect the FHA's risk-management steps to affect their businesses. Bob Walters, president of Quicken Loans told Eisen, "Our analytics and underwriting teams have determined that this new criteria will have a de minimis effect."

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Rich E. Blanchard 

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