CHAPTER 6

HOME MORTGAGE INSURANCE PROGRAMS

6-1 GENERAL. This chapter gives a brief description of all of FHA's single-family mortgage insurance programs. Unless otherwise stated, FHA's single-family programs are limited to primary residences only. Section numbers refer to the section of the National Housing Act authorizing that program.

6-2 SECTION 203(b) HOME MORTGAGE INSURANCE. Section 203(b) Home Mortgage Insurance insures lenders against losses on mortgage loans used to finance the purchase of proposed, under construction, or existing one- to four-family dwellings or manufactured homes, as well as to refinance indebtedness on existing housing.

A. Maximum Insurable Mortgage-Purchase Transactions. Determined by the lesser of the statutory maximum loan limit or the applicable LTV ratio. Statutory limits may be 50% higher in Alaska, Hawaii, Guam, and the Virgin Islands. Dollar limitations may be increased by up to 20% if the increase is directly attributable to the cost and installation of a solar energy system in the property.

1. **Statutory Loan Limits.** Limits in high-cost areas are based upon median sales prices in the area. The statutory loan limits can be found on the HUD Web site at www.hud.gov or by accessing FHA Connection at https://entp.hud.gov/clas/.

2. **Maximum LTV Ratios.** The maximum LTV for a property will depend upon its stage of construction (proposed construction, under construction, or existing home), its appraised value and sales price, and whether it is located in a state with high closing costs or low closing costs. The maximum LTVs are as follows:

Maximum Loan-to-Value Percentages

Low Closing Costs States

98.75 percent: For properties with values/sales price equal to or less than $50,000.

97.65 percent: For properties with values/sales prices in excess of $50,000 up to $125,000.

97.15 percent: For properties with values/sales prices in excess of $125,000.

High Closing Costs States

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98.75 percent: For properties with values/sales prices equal to or less than $50,000.

97.75 percent: For properties with values/sales prices in excess of $50,000.

Although the UFMIP may be financed, it is not considered part of the loan amount when applying these ratios. See HUD Handbook 4155.1 for additional information on maximum LTVs for properties in different stages of construction and for refinance transactions.

B. Minimum Investment. Borrowers are required to invest the difference between the total acquisition cost (sales price, cost of any required repairs paid for by the borrower, and total closing costs to be paid by the borrower), and the amount of the mortgage to be insured. The borrower's minimum investment must be:

1. **Principal Residence.** Not less than 3% of the sales price.

2. **Occupant Borrowers at Least 60 Years Old.** Occupant borrowers at least 60 years old may borrow all or part of the required downpayment from a relative, employer, or humanitarian organization. The amount borrowed, when added to the mortgage amount, cannot exceed the total of appraised value, plus prepaid expenses and closing costs. The interest rate on the borrowed downpayment cannot exceed the mortgage interest rate, and the mortgaged property cannot be used as security for the downpayment loan. Evidence that these conditions are met must accompany the application.

C. Mortgage Term. Up to 30 years.

6-3 SECTION 203(h) HOME MORTGAGE INSURANCE FOR DISASTER VICTIMS. Section 203(h) Home Mortgage Insurance for Disaster Victims insures lenders against losses on mortgage loans on principal residences of borrowers who are disaster victims. See HUD Handbook 4240.1 and 24 CFR 203.18(e) for additional information.

A. Eligibility Requirements.

1. Purchasing or reconstructing a one-family dwelling. If purchasing a new home, the home need not be located in the area where the previous home was located.

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2. Previous home (owned or rented) was in an area the President has declared a major disaster and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Documentation attesting to the damage must accompany the loan application.

3. Application must be submitted within one year of the President's declaration.

B. **Maximum Insurable Mortgage.** Same statutory loan limits as Section 203(b). LTV ratio is 100%.

C. **Closing Costs and Prepaid Expenses.** These must be paid by the borrower in cash or paid through premium pricing.

D. **Minimum Investment.** None required.

E. **Mortgage Term.** Same as Section 203(b).

F. **MIP.** UFMIP and monthly.

G. **Refinancing.** Permitted in conjunction with rehabilitation.

6-4 SECTION 203(i) HOME MORTGAGE INSURANCE FOR OUTLYING AREAS. Section 203(i) Home Mortgage Insurance for Outlying Areas insures lenders against losses on mortgage loans used to purchase a proposed, under construction, or existing one-family dwelling (or manufactured home), or to refinance a mortgage on an existing one-family dwelling in a rural area or a farm home located on 2.5 or more acres of land adjacent to an all-weather public road. See HUD Handbook 4240.1 and 24 CFR 203.18(d) for additional information.

A. **Maximum Insurable Mortgage.** Determined by the lesser of the statutory loan limit or the applicable LTV ratio.

1. **Statutory Loan Limit.** 75% of the amount available under Section 203(b). Loan limits may be increased by up to 20% if the increase is directly attributable to the cost and installation of a solar energy system in the property. Statutory loan limits are available on HUD's Web site at www.hud.gov.

2. **LTV.** Same as Section 203(b).

B. **Minimum Investment.** Same as Section 203(b). However, the borrower, under certain conditions, may borrow the required cash investment. See HUD Handbook 4240.1 for additional information.

C. **Mortgage Term.** Same as Section 203(b).

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D. **MIP.** UFMIP and monthly.

E. **Refinancing.** Same as Section 203(b).

6-5 SECTION 203(k) REHABILITATION HOME MORTGAGE INSURANCE.

Section 203(k) Rehabilitation Home Mortgage Insurance insures lenders against losses on mortgage loans used to: 1) purchase and rehabilitate an existing one- to four-family dwelling (completed for more than one year) that will be used for residential purposes, 2) refinance and rehabilitate such a structure and refinance the outstanding indebtedness, and 3) rehabilitate a dwelling after it has been moved from another site to a new foundation.

Section 203(k) should not be used unless the rehabilitation or improvement costs total a minimum of $5,000. See HUD Handbook 4240.4 and 24 CFR 203.50 for additional information.

A. **Eligible Improvements.** Eligible improvements include items such as structural alterations, additions, reconstruction, remodeling, new siding, plumbing, painting, decking, heating, air conditioning, electrical systems, roofing, flooring, carpeting, energy conservation improvements, and major landscape work. All health, safety, and energy-conservation items must be addresses prior to completing general home improvements.

B. **Required Documentation.** The application package must include drawings and specifications of the proposed improvements and the rehabilitation cost estimate. The work write-up must show that, when the property is completed, it will meet FHA's minimum property standards or, if more stringent, the local codes.

C. **Maximum Insurable Mortgage.** To assure that the mortgage is adequately supported by the property value, the maximum 203(k) mortgage amount must be based on the least of the following:

1. The "as-is" value, plus the cost of repairs (and improvements). If an "as-is" appraisal is not performed, use the contract sales price on a purchase transaction, plus the repairs costs, or

2. The existing debt on a refinance plus the repair costs, or

3. 110% of the "after improved" value.

D. **Minimum Investment.** Same as Section 203(b).

E. **Mortgage Term.** Same as Section 203(b).

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F. **MIP.** Monthly.

G. **Refinancing.** Permitted in conjunction with rehabilitation.

H. **203 (k) Mortgage.** A 203(k) mortgage is eligible for insurance *before* rehabilitation begins, provided that the mortgage proceeds allocated for the rehabilitation go into a Rehabilitation Escrow Account at closing and will be disbursed as work progresses.

1. **Appraisal Fee.** In some cases, a Section 203(k) mortgage requires two appraisals: one on the "as-is" value of the property, and a second on the estimated market value when the work is complete.

2. **Supplemental Origination Fee.** When the Section 203(k) mortgage involves insurance of advances and partial disbursements of the rehab escrow account, the lender may collect from the borrower a supplemental origination fee. This fee compensates the lender for the additional cost of disbursements and inspections of the work. The fee is 1.5% of the portion of the mortgage allocated to rehabilitation or $350, whichever is greater.

6-6 **SECTION 203(n) SINGLE-FAMILY COOPERATIVE PROGRAM.** Section 203(n) Single-Family Cooperative Program insures lenders against losses on mortgage loans used to acquire corporate certificates (stock or membership) and occupancy certificates in a cooperative housing project covered by a blanket mortgage insured under the National Housing Act. See HUD Handbook 4240.3 and 24 CFR 203.43c for additional information. This program is not eligible for Direct Endorsement processing.

A. **Occupancy.** Purchaser must intend to occupy the unit and will be responsible for his or her share of common expenses or assessments and charges.

B. **Maximum Insurable Mortgage.** The maximum mortgage amount is the remaining balance of the amount calculated per instructions for Section 203(b) relating to owner-occupants minus the portion of the unpaid balance of the blanket mortgage which is attributable to the dwelling unit.

C. **Minimum Investment.** Same as Section 203(b).

D. **Mortgage Term.** The mortgage term is not to exceed 30 years, the remaining term of the blanket mortgage, or three-fourths of the remaining economic life of the building improvements, whichever is less.

E. **MIP.** UFMIP and monthly MIP.

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F. **Refinancing.** Not available.

6-7 SECTION 220 (d)(3)(A) URBAN RENEWAL MORTGAGE INSURANCE.

Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance insures lenders against losses on mortgage loans used to rehabilitate one- to eleven-family dwellings or to build new ones in redevelopment areas. See HUD Handbook 4245.1 for additional information.

A. **Area Eligibility.** This program is limited to:

1. Urban renewal or code enforcement areas
2. Areas designated by local government (and approved by FHA) for concentrated housing, physical development, and public service activities under a locally developed comprehensive strategy to upgrade and stabilize the area.

B. **Maximum Insurable Mortgage.** Determined by the lesser of the statutory loan limit or the appropriate LTV ratio, using the cost of rehabilitation or construction instead of market value.

1. **Statutory Limits.**

   a. **One- to Four-Family Structures.** Same as Section 203(b).

   b. **Five- to Eleven-Family Structures.** The applicable Section 203(b) limit for a four-family dwelling, plus $9,165 for each additional family unit over four.

2. **LTV Ratios.**

   a. **Principal Residences.** Same as Section 203(b).

   b. **Refinancing.** Refinancing is permitted, except on proposed construction. The maximum mortgage is the sum of the following, plus closing costs:

      (1) FHA's estimated cost of the rehabilitation, and

      (2) The lesser of: "as-is" value or amount required to refinance the existing debt

C. **Minimum Downpayment.** Same as Section 203(b).

D. **Mortgage Term.** Same as Section 203(b).

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E. **MIP.** Annual MIP.

F. **Refinancing.** Permitted in conjunction with rehabilitation.

6-8 **SECTION 220(h) INSURED IMPROVEMENT LOANS-URBAN RENEWAL AREAS.** Section 220(h) Insured Improvement Loans-Urban Renewal Areas insures lenders against losses on mortgage loans used for alterations, repairs, or improvements to existing one- to eleven-family dwellings in a redevelopment area. See paragraph 6-7 of this handbook for additional information. Cost certifications are required for five- to eleven-family dwellings. See HUD Handbook 4245.1 for additional information.

A. **Property Eligibility.** The property must have been completed not less than 10 years before the date of application, unless the loan will be used primarily for:

1. Major structural improvements

2. Correcting defects not apparent at completion

3. Correcting defects caused by fire, flood, or other casualty

B. **Maximum Insurable Mortgage.** The amount cannot exceed the difference between any existing debt on the property and the Section 220(d)(3)(A) loan limit for that size structure. Within this limit, the maximum insurable mortgage is the least of:

1. FHA's estimate of the cost of improvements

2. $40,000

3. $12,000 per family unit ($17,400 in high-cost areas)

C. **Minimum investment.** None required.

D. **Mortgage Term.** 10, 15, or 20 years.

E. **MIP.** Monthly.

F. **Refinancing.** Not available.

6-9 **SECTION 223(e) MISCELLANEOUS HOUSING INSURANCE.** Section 223(e) Miscellaneous Housing Insurance insures lenders against losses on mortgage loans used to finance repair, rehabilitate, construct, or purchase property

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in an older, declining urban area. See HUD Handbook 4260.1 and 24 CFR 203.43a for additional information.

A. **Property Eligibility.** Area must be reasonably viable, and property cannot qualify for other single-family programs. Initial determination of properties subject to Section 223(e) will be made by the appraiser.

B. **Maximum Insurable Mortgage.** Same as appropriate section.

C. **Minimum Investment.** Same as appropriate section.

D. **Maximum Term.** Same as appropriate section.

E. **MIP.** Monthly.

6-10 SECTION 233 MORTGAGE INSURANCE FOR EXPERIMENTAL HOUSING. Section 233 Mortgage Insurance for Experimental Housing insures lenders against losses on mortgage loans used to build or rehabilitate one- to four-family dwellings (or one- to eleven-family dwellings meeting the requirements of Section 203(b), Section 220(d)(3)(A), or Section 220(h)) using: (1) advanced technology in housing design, material or construction, or (2) experimental property standards for neighborhood design. See HUD Handbook 4290.1 and 24 CFR 233 for additional information.

A. **Property Eligibility.** The property must be approved for insurance before construction, repair, rehabilitation, or improvement can begin.

B. **Maximum Insurable Mortgage.** The requirements of the applicable program, Sections 203(b), 220(d)(3)(A), 220(h), or 234(c), must be met (except that LTV ratios are applied to the estimated replacement cost, rather than value, for new construction or to the estimated rehabilitation cost, using, in either case, conventional or advanced methods, whichever is less).

C. **Minimum Investment.** Same as appropriate section.

D. **Mortgage Term.** Same as appropriate section.

E. **MIP.** Monthly.

6-11 SECTION 234(c) MORTGAGE INSURANCE FOR CONDOMINIUM UNITS. Section 234(c) Mortgage Insurance for Condominium Units insures lenders against losses on mortgage loans used to purchase or refinance individual units in eligible condominium projects. See HUD Handbook 4150.1 and 24 CFR 234 for additional information.

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A. **Project Eligibility.** The condominium project must be on FHA's approved list. See HUD's Web site at www.hud.gov for the list of approved condominium projects. In specific circumstances, a loan on a single unit in an unapproved condominium project, known as a "spot loan," may qualify for mortgage insurance. The lender must certify that a project satisfies the eligibility criteria for a spot loan condominium project that has not been approved by FHA. See Mortgagee Letter 96-41 for more information.

B. **Borrower Eligibility.** Same as Section 203(b).

C. **Maximum Insurable Mortgage.** Same as Section 203(b).

D. **Minimum Investment.** Same as Section 203(b).

E. **Mortgage Term.** Same as Section 203(b).

F. **MIP.** Upfront and monthly.

G. **Refinancing.** Same as Section 203(b).

6-12 SECTION 238(c) MORTGAGE INSURANCE IN MILITARY IMPACTED AREAS (MIAs). Section 238(c) MIAs insures lenders against losses on mortgage loans financing construction, repair, rehabilitation, or purchase of property near any military installation in federally impacted areas. See 24 CFR 203.43e for additional information.

A. **Area Eligibility.** The Secretary of Defense must have certified that there is a need for additional housing in the area and that there are no plans to close or relocate the military base during the five years following the certification.

B. **Application Eligibility.** Same as appropriate section.

C. **MIP.** Monthly

6-13 SECTION 245(a) GPMs AND GEMs. Section 245(a) Graduated Payment Mortgages (GPM) and Growing Equity Mortgages (GEM) insures lenders against loss on mortgage loans that involve increasing or graduated mortgage payments.

A. **GPMs.** This program facilitates early homeownership for households that expect their incomes to rise. Initially, monthly payments are smaller than payments in a level-payment mortgage. Later, the payments gradually increase. The program is limited to principal residences. Only one-family dwellings are eligible.

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Five plans are available, varying in duration and rate of payment increase. Higher downpayments are required under some plans. Mortgages are insured under Section 203(b) or 234(c), pursuant to Section 245(a). Requirements of the applicable section must be met. See HUD Handbook 4240.2 and 24 CFR 203.45 for additional information.

1. **Maximum Insurable Mortgage.** The principal amount of the mortgage cannot exceed the least of:

    a. Section 203(b) statutory loan limit for the area

    b. Applicable 203(b) LTV ratio , or

    c. An amount which, when added to the deferred interest that will be added to the principal, does not exceed 97% of value

2. **Mortgage Term.** Same as Section 203(b).

3. **MIP.** Same as appropriate section.

4. **Authorized Plans.** Monthly payments increase annually. Starting in the 6th year (for the 5-year plans) or the 11th year (for the 10-year plans), the monthly payments will be level for the remaining term. The annual increases for the various plans are:

a.	Plan I	(Code A):	2.5% each year for 5 years.
b.	Plan II	(Code B):	5% each year for 5 years.
c.	Plan III	(Code C):	7.5% each year for 5 years.
d.	Plan IV	(Code D):	2% each year for 10 years.
e.	Plan V	(Code E):	3% each year for 10 years.

5. **Refinancing.**

    a. Section 245(a) cannot be used to draw equity out of property owned by the borrower, or if the present financing does not contain a mandatory prepayment clause. Refinancing an existing mortgage is only permitted when:

        (1) Owner is required to pay-in-full a conventional mortgage used to purchase the home, and the mortgage required a balloon payment within 3 to 5 years.

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(2) Borrower has contracted to have a home built and, when construction is complete, the construction loan must be paid-in-full.

(3) Borrower purchased a home on a land contract or contract for deed.

b. Borrowers with a GPM may refinance at any time to a level-payment mortgage:

(1) If the borrower is eligible for a streamline refinance, without an appraisal, or

(2) If the unpaid balance, including the negative amortization, does not exceed the appropriate LTV ratio, based on a new appraisal.

B. **GEMs.** There is no interest deferral or negative amortization with a GEM. Scheduled increases in monthly payments are applied to reduce the principal, resulting in a shorter term and lower total cost to the borrower.

Mortgages are insured under Section 203(b), 203(k), or 234(c), pursuant to Section 245(a). Requirements of the appropriate section must be met. See 24 CFR 203.47 for additional information.

1. **Maximum Insurable Mortgage.** Same as Section 203(b).

2. **Minimum Investment.** Same as Section 203(b).

3. **Mortgage Term.** Varies with each plan and the mortgage interest rate.

4. **MIP.** Same as appropriate section.

5. **Five Specific Plans are Authorized.** Each plan has an annual increase in the monthly payments for the life of the loan. For the initial year, the monthly payments to principal and interest are based on a 30-year level-payment amortization schedule. Thereafter, monthly payments increase by one of the following fixed percentages each year for the life of the loan:

a.	Plan I	(Code L):	1% each year.
b.	Plan II	(Code M):	2% each year.
c.	Plan III	(Code N):	3% each year.
d.	Plan IV	(Code O):	4% each year.
e.	Plan V	(Code P):	5% each year.

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6. **Refinancing.** Same as appropriate section.

6-14 SECTION 247 SINGLE-FAMILY MORTGAGE INSURANCE ON HAWAIIAN HOME LANDS (HHL) [See 24 CFR 203.43(i)].

A. **Property Eligibility.** Covers one- to four-family dwellings in Hawaii that are under a homestead lease.

B. **Borrower Eligibility.** Limited to owner-occupants who are native Hawaiians. (Requires a certificate of eligibility issued by the Department of Hawaiian Home Lands.)

C. **MIP.** One-time MIP only.

6-15 SECTION 248 SINGLE-FAMILY MORTGAGE INSURANCE ON INDIAN LANDS (IL) [See 24 CFR 203.43(h)].

A. **Property Eligibility.** Covers one- to four-family dwellings on Indian lands (on trust lands or otherwise restricted lands).

B. **Borrower Eligibility.** Borrower must be a member of an Indian tribe or the tribe itself.

C. **Other.** Tribe must have adopted eviction procedures acceptable to FHA.

D. **MIP.** Monthly.

6-16 SECTION 251 ARMs.

Section 251 ARMs insures lenders against loss on variable rate mortgages. Mortgages are insured under Section 203(b), 203(h), 203(k), or 234(c), pursuant to Section 251. Requirements of the appropriate section must be met.

A. **Property Eligibility.** One- to four-family dwellings and condominium units.

B. **Insurance Authority.** The number of ARMs that FHA may insure in a year is limited to 30% of the total number of mortgages insured under Title II during the preceding fiscal year.

C. **Maximum Insurable Mortgage.** Same as appropriate section.

D. **Minimum Investment.** Same as appropriate section.

E. **Mortgage Term.** Only 30-year mortgages are permitted.

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F. **MIP.** Same as appropriate section. NOTE: The monthly MIP is calculated on initial interest rate for term of loan.

G. **Interest Rate Adjustments.**

1. **Index.** Weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year (published in the Federal Reserve Board's Statistical Release H.15(519)), which is available on the Federal Reserve System Web site at www.federalreserve.gov. The rate must be the one effective 30 calendar days before the Change Date. See Mortgagee Letter 2004-10 for more information.

2. **Interest Rate Caps.**

   a. The 1-, 3-, and 5-year ARMs allow a one percentage point annual interest rate adjustment after the initial fixed interest rate period and a five percentage point interest rate cap over the life of the loan.

   b. The 7-, and 10-year ARMs allow a two percentage point annual interest rate adjustment after the initial fixed interest rate period and a six percentage point interest rate cap over the life of the loan.

1. **Frequency.**

Interest rate adjustments occur on an annual basis, except that the first adjustment will occur no sooner than:

1-year ARMs - no sooner than 12 months nor later than 18 months
3-year ARMs – no sooner than 36 months nor later than 42 months
5-year ARMs – no sooner than 60 months nor later than 66 months
7-year ARMs – no sooner than 84 months nor later than 90 months
10-year ARMs – no sooner than 120 months nor later than 126 months

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The date of the first adjustment to the interest rate and the frequency of adjustments must be specified in the mortgage documents.

H. Required Disclosures.

1. **At Application.** Before signing the application, the borrower must receive and sign an ARM disclosure statement prescribed by the Federal Reserve Board.

2. **Annually.** The lender must send the borrower a notice at least 25 days before the change date (i.e., 25 days before the new payment amount is due). The notice must include the following:

   a. Prior year's interest rate, monthly payments, and governing index,

   b. Current value of the index, loan margin, new interest rate, and new monthly payments.

   c. An explanation of how the new interest rate was calculated.

I. Refinancing. Owner-occupants may refinance any loan to an FHA ARM. See HUD Handbook 4155.1 for underwriting details.

6-17 SECTION 255 Home Equity Conversion Mortgage. Section 255 HECM insures lenders against loss on reverse mortgages, which convert equity into monthly income or lines of credit. See HUD Handbook 4235.1 for complete programmatic instructions.

A. Borrower Eligibility. Homeowners must be 62 years of age and older. Only one-family dwellings are eligible.

B. Plans. Line of credit and/or monthly payments for a term (fixed period) or tenure (life). Interest rates may be fixed or variable.

C. MIP. Two percent of the maximum claim amount prior to insurance endorsement; thereafter, a monthly MIP based on the outstanding balance.

HISTORICAL REFERENCE ONLY