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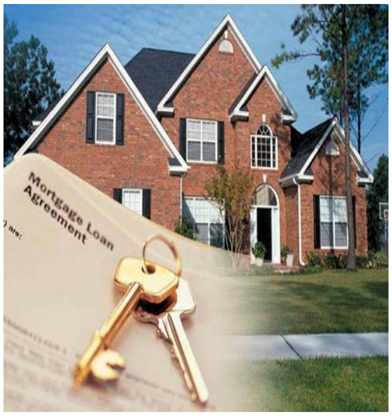

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A message from the President

I hope you find this news letter informative and helpful. Please call me with any questions. (401)-737-4400 ext. 202

Steven N Taylor
President

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Fannie Mae to prohibit lenders from changing home values

The mortgage giant addresses complaints that home sales have been sabotaged by arbitrary reduction in appraiser's valuations. Working with right mortgage professional could save your deal!

Picture this: You've signed a contract to sell your house. Your buyers say they've nailed down the right mortgage. All is well. But then the appraisal comes in low-$25k-$50k under what was agreed in the contract.

The buyers refuse to pay a dollar more than the appraisal, you decline to go that low and suddenly the whole deal is off. Your client and the buyers involved are all left sputtering over the appraisal that scuttled the transaction.

This scenario is not unusual in many markets across the country, say home builders, realty agents and appraisers. One little-publicized reason: Lenders unilaterally may be lowering the numbers on the appraisals submitted to them to avoid accusations that the loans they sell to giant investors Fannie Mae or Freddie Mac are based on inflated appraisals — even slightly inflated. Such value inflations can expose lenders to "buyback" demands, forcing them to repurchase loans at huge costs.

The vice chairman of the National Assn. of Realtors' Appraisal Committee, Frank K. Gregoire of St. Petersburg, Fla., says it's a widespread problem — large numbers of legitimate home sales "sabotaged by lenders and underwriters arbitrarily reducing the value estimate" provided by the appraiser.

Typically, Gregoire says, the lender orders a low-cost electronic valuation — based on publicly available statistical data with no on-site inspection — to review the accuracy of what was submitted by the appraiser. If there's a discrepancy between what the computer says and the appraiser's report, the lender's underwriters sometimes simply cut the number — even if this means knocking the real estate transaction off track. Or they demand an immediate explanation from the appraiser.

But all this may be about to change. Effective Sept. 1, Fannie Mae is prohibiting lenders who sell it loans from changing appraisers' numbers. In guidance issued June 30, Fannie Mae said lenders must contact appraisers to resolve any disagreements about the valuation. If that's not possible, they should order a second appraisal — not just chop the value supporting the real estate contract.

Appraisers applauded the new rule. "This is huge," said Gary Crabtree, president of Affiliated Appraisers of Bakersfield and a member of the national government relations committee of the Appraisal Institute, an industry group.

Pat Turner, an appraiser in Richmond, Va., said Fannie's new requirement "is great news for consumers" because loan underwriters hundreds of miles from the property "no longer will be able to change the appraiser's valuation" simply because they pulled a lower number off a computer. **Continued…**

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Turner said these electronic models "are often inaccurate" and provide no information on property condition. He said an appraisal completed recently in Virginia was challenged by a review company in California using a proprietary electronic valuation system. The reviewer wanted to know why Turner hadn't used a specific property in the area as a "comparable" in doing his appraisal on the house. Turner checked out the suggested "comp," and it turned out to be a vacant lot, worth far less than the house — not a true comp "by any stretch of the imagination."

Fannie Mae's new guidelines also attempt to clarify other issues that have arisen during the last year, including the widespread use of inexperienced appraisers who are unfamiliar with local market conditions. Realtors, builders and mortgage brokers have complained to Congress that rules adopted by Fannie Mae and Freddie Mac in 2009 encouraged lenders to use "appraisal management" companies to value properties.

Those companies, in turn, often pay appraisers deeply discounted fees — half off traditional prevailing rates in some cases — and require them to complete their assignments far faster than normal turnaround times. Critics have charged that low-budget appraisers working for management companies frequently travel long distances to do their valuations, have minimal access to local realty data and make excessive use of foreclosures and short sales as comparables — thereby depressing the values of non-distressed sales in the area.

Potential Results of FHA tightening on the Housing Market

"On the brighter side, H.R. 5072 will reduce the upfront mort. Premium from 2.25% to 1% of the loan value"

July 21, 2010 (FreeRateUpdate.com) – The Federal Housing Administration, also known as FHA, is proposing several changes that will have an impact on the future of FHA borrowers. As the sub prime loan industry melted, FHA loans have become extremely popular in recent years. Home buyers are attracted to FHA loans mainly because of their low down payment requirements as well as the lack of credit score mandates. Just as the real estate and lending climate has changed and FHA has become more popular, the guideline mortgages are about to be updated which will have an effect on how an FHA loan will be approved.

At this time, the House has approved FHA Reform Act H.R. 5072 which will increase the annual mortgage premium for an FHA loan from .55% of the loan amount to a maximum of 1.25% which is paid monthly throughout the year. How will this change affect borrowers? Ideally, a borrower's total house payment, which includes taxes, home owner's insurance and FHA insurance, should for FHA not exceed 30% of their income. This increase of the annual mortgage premium will, in effect, increase the total monthly payment due which will reduce the purchasing power of the borrower. Simply put, borrowers will qualify for smaller loans and less of their monthly payment will be going towards equity of the home.
On the brighter side, H.R. 5072 will reduced the upfront mortgage premium from 2.25% of the loan value to 1% of the loan value.

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There are additional FHA policy changes in the works. For borrowers, the most significant proposed FHA change is related to credit scores. If adopted, all new FHA borrowers will be required to have a minimum FICO credit score of 580 in order to be approved for FHA's most popular down payment plan of 3.5%. Any borrowers who have credit scores below 580 will be required to have a down payment of at least 10%. Borrowers with credit scores below 500 will no longer qualify for an FHA insured mortgage.
This change will have its greatest impact on borrowers with credit scores below 580 as they will have to tighten their budgets in order to save for the required cash investment. Lenders have always had their own requirements and guidelines, most lenders do not approve borrowers that have credit scores of 500 and below.

Another FHA proposed policy change has to do with seller concessions which are used to offset a buyer's cost. Currently, sellers are allowed to contribute up to 6% of the home's sales price towards the closing costs. In order to eliminate any inflated appraisal values used to cover this expense, FHA has proposed changing the seller concession to 3%.

Changes to underwriting manually underwritten loans is also proposed by FHA. Compensating factors will now have to be considered in determining the strength of the loan. These compensating factors are the borrower's credit history, the loan to value percentage, the housing/debt ratios and reserves. For these manually underwritten loans, borrowers will be required to have reserves equal to one total monthly mortgage payment.

All of these proposed changes by FHA are their answer to protecting themselves from default in the current market. Since stricter underwriting standards have already been in place in many institutions, these proposed changes may not affect the real estate and mortgage industry as badly as one may think.
As of this date, H.R. 5072 is still awaiting Senate approval. In the meantime, the public has the opportunity to submit their comments to these proposals until August 13, 2010. After that, the changes can possibly go into effect mid August.

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