

FHA UNVEILS NEW LOAN-LEVEL, LENDER-LEVEL CERTIFICATIONS



The Federal Housing Administration (FHA) released new loan-level and lender-level certifications in an effort to provide more clarity for mortgagees. The agency said these certifications will make it easier for banks to avoid penalties for errors during the mortgage process and jump-start lending to borrowers with lower credit scores.

The certifications were formed after the Department of Housing and Urban Development (HUD) received many comments from lenders about the uncertainty of originating FHA-insured loans, and the agency had to find a way to balance the concerns with mortgage lender compliance and borrower protection.

The new provision limits banks' liabilities for some loan errors, potentially making it easier for those with less-than-stellar credit to qualify for government backing but have low credit scores or high debt.

The FHA, which backs loans to homebuyers or mortgage refinancers with downpayments as low as 3.5 percent and credit scores as low as 580, sells insurance to investors which protects them in the case of defaults.

Principal Deputy Assistant Secretary of the FHA Edward Golding said that the agency is hoping that these changes will loosen lending for borrowers who have credit scores below 680. With the current certification, creditors must promise that a loan file contains no errors, which can be a difficult guarantee to make with more complicated loan files. The requirement is especially panic-inducing for lenders given that when the FHA finds issues with loan files, lenders can be liable for triple damages under the False Claims Act.

The new certification will limit lender's liability for errors in loan files by not penalizing lenders for mistakes so long as the mistakes were not intentional and the borrower still qualified for the loan.

In response to the announcement, the Justice Department posted on a blog clarifying that it only pursued banks for significant errors and would continue to do so, regardless of the FHA's new certifications, which will go into effect in August.

"No lender will face False Claims Act enforcement based on an unknowing mistake or an immaterial requirement," the post said. "At the same time, the department will not hesitate to bring an action where a lender . . . submits false statements and claims."

Nevertheless, David H. Stevens, president and CEO of the Mortgage Bankers Association was optimistic about the FHA's new certification.

CURRENT FHA LOAN LIMITS FOR:

► Los Angeles, Orange, San Francisco and Santa Clara Counties

\$625,000 SFR	\$967,950 Three Units
\$800,775 Two Units	\$1,202,925 Four Units

► Inland Empire

\$356,500 SFR	\$551,650 Three Units
\$456,350 Two Units	\$685,550 Four Units

