FHA MORTGAGE INSURANCE PREMIMUM (MIP & UFMIP)

FHA charges Two Mortgage Insurance fees on each loan; Up Front Mortgage Insurance Premium (UFMIP) typically financed in the loan and Annual mortgage Insurance (MIP) paid monthly.

FHA Annual MIP will increase to 1.35 sometime in 2013
As of 1/10/2013 the increase date is unspecified.
Currently Annual FHA (MIP) is 1.25 for 30 Year Loans

Up Front Mortgage Insurance (UFMIP)
1.75 percent of the loan amount for 15 and 30 Year Loans

Also in 2013 MIP Will No Longer Expire
Currently MIP Expires in five years *and* when loan to value drops to 78%

FHA Upfront Mortgage Insurance Premiums (UFMIP)
UFMIP Fee is paid once and is typically financed by adding it to the loan amount although it may also be paid in cash by the buyer or seller.

Below are the current premiums:

Purchase Money and Qualifying Refinances = 1.75 Percent of the loan.

For all SF Forward Streamline Refinance transactions that are refinancing existing FHA loans that were endorsed on or before May 31, 2009, the UFMIP will decrease from 1 percent to 0.01 percent of the base loan amount. The endorsement date is on the Case Query screen in FHA Connection. This change is effective for case numbers assigned on or after June 11, 2012.

Current Monthly Mortgage Insurance Premium (MIP)
An annual premium, shown below, paid monthly, will also be charged based on the initial Loan to Value and length of the mortgage according to the following schedule:
30 Year Loans MIP Fee for loan amounts <=$625,500

- Loan to Value Less than 95% = 1.20%
- Loan to Value Greater than 95% =1.25%

30 Year Loans MIP Fee for loan amounts >$625,500

- Loan to Value Less than 95% = 1.45%
- Loan to Value Greater than 95% =1.50%

15 Year Loans MIP Fee for loan amounts <= $625,500

- Loan to Value Less than 90% = 0.35
- Loan to Value Greater than 90% = 0.60

15 Year Loans MIP Fee for loan amounts > $625,500

- Loan to Value Less than 90% = 0.60
- Loan to Value Greater than 90% = 0.80

<u>Currently</u> FHA UFMIP Fee may be canceled

- The home must be owned for at least five years.
- *<u>And,</u>* the loan amount must be 78% or less of the original purchase price.

FHA Upfront Mortgage Insurance (UFMIP) Fee is refundable.
A portion of UFMIP may be refunable under the following conditions:

- Refinanced within three years.
- The new loan must be a FHA refinance.

Is UFMIP Tax Deductible?
MI Tax Deductibility passed as part of the American Taxpayer Relief Act of 2012.

Borrower-paid MI premiums are tax-deductible through the year 2013. Borrowers should consult their tax advisors regarding MI tax deductibility. See disclaimer note below.

FAQs
Does the bill apply to all mortgage insurance?

Yes, borrower-paid MI or MIP qualifies for the deduction. This includes Monthly, Single and Split Premium plans. There are varied opinions on the deductibility of lender-paid MI as the IRS has not yet clarified the deductibility. It is recommended that borrowers consult their tax advisors regarding the amount that is deductible.

What types of mortgage loans qualify for the MI tax deduction?

Loans used for “acquisition indebtedness” — that is, money borrowed to buy, build or substantially improve a residence — are eligible, as long as the debt is secured by the same residence.

This includes purchase loans and refinance loans, up to the original acquisition indebtedness. (Money borrowed against the equity in a home or when refinancing a

home for any reason other than to buy, build or substantially improve a residence is called “equity indebtedness.”)

When refinancing a piggyback loan originally used to acquire a property, is the original loan amount considered the sum of the two mortgages or only the primary mortgage amount without the second lien included?

The original acquisition indebtedness is considered to be the sum of the two mortgages.

Is deductibility applicable for all loan types?

There is no differentiation among loan types.

What types of properties are eligible for tax deductibility?

The deduction applies to “qualified residences,” as defined in the Internal Revenue Code. Generally, that includes the borrower’s primary residence and a nonrental second home. As with mortgage interest, borrowers can deduct mortgage insurance premiums paid on both their primary residence and one other qualified residence each year. Investor loans are not eligible.

Who qualifies for this itemized deduction?

Households with adjusted gross incomes of $100,000 or less will be able to deduct 100% of their MI premiums. The deduction is reduced by 10% for each additional $1,000 of adjusted gross household income, phasing out after $109,000. (Details below.)

Married individuals filing separate returns who have adjusted gross incomes of $50,000 or less will be able to deduct 50% of their MI premiums. The deduction is reduced by 5% for each additional $500 of adjusted gross income, phasing out after $54,500. (Details below.)

The deduction is not restricted to first-time homebuyers.

This information was compiled from competent sources but I am not a qualified tax expert so please verify this tax information with a licensed tax professional.

Below Are <u>Previous</u> UFMIP guidelines

Effective for FHA loans with Case Numbers ordered on or after April 5, 2010, FHA UFMIP increased.

<u>Previous Upfront Mortgage Insurance Premiums</u>

FHA will charge revised UFMIP in an amount equal to the following percentages of the mortgage:

- Purchase Money Mortgages = 2.25%
- Full-Credit Qualifying Refinances = 2.25%
- Streamline Refinances (all types) = 2.25%
- HOPE for Homeowners (Delinquent Mortgagors) = 2.00%
- FHA Reverse Mortgages (HECM) = 2.00%

ONCE UPON A TIME, RISK BASED MIP was also considered

Risk Based MIP briefly went into effect in 2008 then Housing Bill HR 3221 placed a moratorium on it until September 30, 2009. But by Sept 30 FHA had not issued any bulletins and FHA lenders have not been notified that Risked Based MIP had been reinstated.

FHA Mortgage Insurance Premiums (MIP)

FHA (Federal Housing Administration) charges Mortgage Insurance Premiums (MIP) to protect the lender in the event of default. They are collected by the lender and then forwarded to FHA.

There are two types of MIP. charged on FHA loans. Up Front Mortgage Insurance Premium (UFMIP) and Monthly Mortgage Insurance Premium MIP.

UFMIP is currently a fixed amount and was expected to become a variable amount based on the borrowers credit and loan to value in late 2009. Actually, Risk Based UFMIP was initiated in July 2008 then placed on a one year moratorium until September 30, 2009. September 30 came and went and FHA is still on fixed MIP and apparently is not going to reactivate Risked Based UFMIP.

Currently, UFMIP is a one-time charge, at closing, of 1.75% of the loan amount and is normally added to the base loan amount and financed by the borrower. The base loan is 96.50% of the purchase price so the resulting total loan to value (loan plus UFMIP) could be 98.20% of the purchase price.

Monthly MIP is paid monthly by the borrower to the lender. The MIP payment is currently computed at 0.90% of the loan amount divided by 12. MIP can be removed when the loan has seasoned for five years and the loan to value is 78% or less, based on the original appraisal.

The Maximum FHA purchase Loan To Value (LTV) is 96.50% of the purchase price.

The Maximum FHA Refinance Loan to Value is 97.75 of the property value.

FHA Maximum Loan Amounts can vary in each county; currently the FHA maximum for San Diego County homes is $697,500 which covers the majority of San Diego homes. In Los Angeles and Orange counties, the maximum FHA loan is $729,750.
FHA Credit Scores

FHA Does not have a Credit Score policy but lenders impose their own guidelines. At the time this is written (August 2009) many lenders have recently increased their minimum FICO score to 640. There are still a few that allow home buyers to have a 620 credit score and I have only one San Diego investor who will accept credit scores down to 580 on a case-by-case basis.

Notes

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

2. Down payment 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 (UFMIP).

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 (UFMIP) charge will be as shown on the premium chart.