

Doron F. Eghbali Residential Real Estate Law

Federal Housing Administration (FHA) Is Raising Mortgage Insurance Premiums

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Federal Housing Administration (FHA) is raising mortgage insurance premiums to 2.25% from 1.75% as of Monday, April 5, 2010.

SOME BACKGROUND

FHA guarantees most loans made by lenders to homeowners. So, FHA is ultimately on the hook for any defaults. Given the ballooning foreclosures and defaults the housing market has experienced, the FHA's reserves have been depleted. The FHA has been under pressure from lawmakers and others to raise mortgage insurance premiums and even down payments from their current level of 3.5% of the purchase price.

DEFINITION OF MORTGAGE INSURANCE PREMIUMS

Mortgage insurance premiums are monthly payments made by homeowners who put down less than 20 percent of a home's purchase price. Mortgage insurance payments could be all paid upfront or rolled into the new loan.

APPLICATION OF MORTGAGE INSURANCE PREMIUMS

Let us assume you borrowed \$400,000 to purchase a home. With the 1.75% of the purchase price, you were required to pay \$7,000. Now, with the 2.25%, you are required to pay \$9,000 upfront or roll it into your new loan.

SOME OTHER COSTS

Annual Mortgage Insurance

A. 30-Year Fixed Rate Mortgages: In addition to mortgage insurance premiums, borrowers with 30-year fixed-rate mortgages MUST also pay mortgage insurance annually currently set at .5% of the loan amount for loans with loan-to-value ratios up to 95% and .55% for loans above that. This means that if a borrower's loan represents about 95% of the purchase price, then the borrower MUST Pay .5% of the total loan as annual mortgage insurance to FHA. And if the borrower's 30-year fixed rate loan represents more than 95% of the purchase price, then the borrower MUST pay .55% of the total loan in annual mortgage insurance.

B. 15-Year Fixed Rate Mortgages: In addition to mortgage insurance premiums, borrowers with 15-year fixed rate mortgages MUST also pay mortgage insurance annually currently set at .25% of the loan amount for loans with loan-to-value ratios up to 90% of the purchase price. No annual mortgage insurance is required for 15-year fixed rate mortgages with loan-to-value ratios BELOW 90% of the purchase price.

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