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FHA PROPOSES HIGHER NET WORTH REQUIREMENT FOR LENDERS IN EFFORT TO STRENGTHEN RISK MANAGEMENT

The Federal Housing Administration has issued a proposed rule that would increase the net worth requirements for approved mortgage lenders and hold them responsible for the lending actions of affiliated mortgage brokers. Currently, the FHA requires approved mortgage lenders to have a net worth of at least \$250,000. The proposed rule would require such lenders to maintain a minimum of \$1 million in net worth within the first year and at least \$2.5 million of net worth within three years of the effective date of the rule. The FHA stated that these changes are consistent with industry standards and will ensure that FHA lenders are sufficiently capitalized to meet potential needs, thereby permitting the FHA to mitigate losses and decrease risks to its insurance fund.

In addition, the FHA has proposed that FHA-approved mortgage lenders assume liability for all the loans they originate and/or underwrite. While loan correspondents (i.e., mortgage brokers) would be able to continue originating FHA-insured loans through their relationships with approved mortgage lenders under the new rule, they would no longer receive independent approval for origination eligibility. FHA-approved mortgage lenders would therefore be required to assume responsibility and liability for the FHA-insured loans underwritten and closed by the mortgage brokers. The FHA stated that these changes would align FHA with Fannie Mae and Freddie Mac and will potentially increase the number of loan correspondents (mortgage brokers) who are eligible to participate in the origination of FHA-insured loans while providing for more effective oversight of loan correspondents through the FHA-approved mortgage lenders.

Authored By:

[Sherwin F. Root](#)

(213) 617-5465

sroot@sheppardmullin.com