

# Home Savings of America

Wholesale Lending

## BROKER BULLETIN



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## FHA Updates on Monthly MIP and Refinances

Effective: See below / Issued: March 7, 2011

### Summary

The following changes apply to FHA loans:

#### Refinance changes

Seasoning on cash out minimum 6 months

Occupancy of former investment property

3-4 unit cash flow and reserve requirements apply to refinances

Paying off land contracts

Monthly MIP increases by 0.25%

Case Number assignment and cancellation changes

FHA Product summary will be updated with the March 2011 revision.

### Detailed Requirements

(Arranged in order of effective dates)

### Effective immediately

#### 1. Ordering Case Numbers

**Reminder:** Case numbers may be ordered only when there is an active loan application for the subject borrower and property.

**New:** Beginning April 18, 2011 FHA connection will require the user to certify that there is an active loan application in process when requesting case numbers. In addition borrower names and Social Security Numbers will be required on all new construction transactions.

#### 2. Seasoning

**Cash out transactions (HUD clarification).** During first year of ownership (purchase date to application date), use:

- Mortgages with fewer than 6 months of payment history reflected on the credit report are not eligible.
- Mortgages with 7-11 months reported, use the lesser of current appraised value or price



paid at purchase. All payments must have been made within the month due.

**Streamline refinances (HUD clarification).** On the date of FHA case number assignment:

- The mortgagor must have made at least 6 payments on the FHA-insured mortgage that is being refinanced, **and**
- At least 6 full months must have passed since the first payment due date of the refinanced mortgage, **and**
- At least 210 days have passed from the closing date of the mortgage being refinanced.

### **Effective with loans submitted or locked after March 4, 2011**

To be eligible under previous guidelines loan must be locked by March 4, submitted by March 4, and funded by HSOA by March 31, 2011.

#### **3. Occupancy of a former investment property**

The table below describes policy guidance on the maximum mortgage amount available for mortgagors who re-occupy their investment property securing the mortgage which is being refinanced.

<b>Occupancy of Former Investment Property</b>	<b>Eligible Financing</b>
12 months or more prior to the loan application date of the refinancing mortgage	Maximum financing at the same level as an owner-occupant
Less than 12 months prior to the loan application date of the refinancing mortgage	Rate-and-term refinancing only (no streamline allowed), with an LTV not to exceed 85 percent

#### **4. 3-4 unit cash flow analysis and reserve requirements now also applies to all refinances (except streamlines)**

(No change to HSOA policy; was previously an overlay with exceptions considered)

3-4 Unit Properties (applies to all transactions, except streamlines)

- Property must be self-sufficient, i.e.; the maximum mortgage amount is limited so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100 percent. *HSOA 3-4 unit loan calculator, available on HSOA's website, may be used to confirm maximum payment eligibility.*
- The borrower must have a reserve of 3 months mortgage payments (PITI) after closing (MAY NOT BE FROM GIFT).

#### **5. Land contracts and Ground leases**

***Buying out ground leases on properties owned less than 12 months old. Rate/Term transactions allowed, using the lesser of current value or acquisition cost (price plus***

documented improvements)

**Buying out ground leases on properties owned at least 12 months old.** Accepted as standard rate/term or cash out transactions

## Land Contracts

A land contract, also known as an installment land contract, contract for deed, contract sale, contract purchase, or in Hawaii, an Agreement of Sale, is a form of seller financing in which the seller retains title to the property while the buyer makes regular payments to the seller. Once the buyer pays the number of payments and/or amount specified in the contract, the seller conveys title to the buyer. A mortgage in which the proceeds are used to pay the outstanding balance of a land contract, contract for deed, or buying out ground leases will be viewed as follows:

### Land contract dates and recording information

- **Contracts not recorded:**  
Not accepted
- **Contracts recorded within 30 days of the contract execution date:**  
*Contract must have been executed at least 12 months prior to the subject property application date, and 12 months payment history provided*
- **Contracts with recording dates delayed more than 30 days**  
*Must be 12 months from recording date to subject property application date, and 12 months payment history provided since the recording date*
- **Land Contracts less than 12 months old**  
*As indicated above, not accepted by HSOA, due to systems issues and quality concerns*
- **Buying out ground leases less than 12 months old**  
*Rate/Term transactions allowed, using the lesser of current value or acquisition cost (price plus documented improvements)*
- **Land Contracts at least 12 months old**  
*If the land contract or contract for deed was executed more than 12 months preceding the mortgage application date, Rate/Term refinance transactions will be considered. Proceeds from the refinance transaction may include the sum of the outstanding balance of the land contract and the costs incurred for documented rehabilitation, renovation, or energy improvements.*
- **Documentation requirements for all land contract transactions**  
A copy of the executed land contract is required, and Standard verification showing the borrower has been making the payments. Verification includes:  
**Private party lender:** most recent 12 months cancelled checks.  
**Institutional lender:** Evidence of timely repayments on the credit report. Verification of Mortgage (VOM) is not required if this evidence is shown on the credit report.
- **Purchase transactions where the seller is a land contract buyer (not fee ownership)**  
*These transactions, including those with recorded land contracts, are considered a double escrow and are not accepted. The property seller must be in fee ownership.*

**Effective with FHA case assignment dates on and after April 18, 2011**

**6. FHA Annual Mortgage insurance premium increases 0.25%.**

MIP changes are as follows:

FHA Case # Assignment Date				
Loan Term	LTV	Upfront MIP	Annual MIP	
		10/4/2010	10/4/2010 through 4/17/2011	Starting 4/18/11
<=15 Years	<=90%	1.00%	None	0.25
	>90%	1.00%	0.25%	0.50
>15 Years	<=95%	1.00%	0.85%	1.10%
	>95%	1.00%	0.90%	1.15%

DataTrac will be updated to reflect these changes.

**7. FHA Case Number Validity Periods.**

Automatic Case Number cancellation applies to all FHA loans, regardless of case assignment date.

**Effective for loans funded by March 31, 2011.** In order to allow sufficient time after closing to obtain FHA mortgage insurance, HSOA requires that loans close within the following case assignment validity periods:

- **Condominiums - Streamlines without appraisals:** 5 months from case assignment date to closing date.
- **Condominiums with appraisals:** Loans must be closed by the later of:
- **All other properties:** 12 months from case assignment date to closing date.

**Effective with loans not funded as of April 1, 2011.** In order to allow sufficient time after closing to obtain FHA mortgage insurance, HSOA requires that loans close within 5 months of the later of case assignment date appraisal logging in FHA Connection.

**Questions?**

If you have any questions, contact your Community Banker.

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