



FHA – Retail and Wholesale

Note: *Items in italics represent areas where HSOA requirements differ from investor requirements*

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1. Eligibility

Product Information

Product Description

Since its inception in 1934, the Federal Housing Administration (FHA) has been a door to Homeownership for 34 million American individuals and families. FHA provides access to reasonably priced mortgages and fair terms, as well as many options for keeping Americans in their homes. Unless specifically addressed, the items in the Product Summary apply to all FHA loan sizes, including FHA ('jumbo') High balance loans.

Note as to use of the word 'exception': If 'exception' is used, follow the context of the topic; they are either program criteria as established by FHA, or -if in italics - allow underwriter discretion.

Business Channels accepted

Available through Retail and Wholesale Originations

Interest Only

Not allowed

Program Codes

For all loans

FF30 - FHA 30 Year Fixed

FF15 - FHA 15 Year Fixed

FF30B - FHA 30 Year Buydown - suspended

FA31 – FHA 3/1 ARM **not allowed on loans >\$417,000**

FA51 – FHA 5/1 ARM

FF30J – FHA High Balance 30 Year Fixed

FA51J – FHA High Balance 5/1 ARM

For Streamlines only:

~~FFG30 – FHA 30YR FIXED~~

~~FFG15 – FHA 15YR FIXED~~

~~FGA31 – FHA 3/1 ARM~~

~~FGA51 – FHA 5/1 ARM~~

~~FFG30J – FHA 30YR FIXED HIGH BALANCE~~

Documentation Types

Full/Alt Doc

Streamline refinance

ARM Terms

Index: Weekly average yield on US Treasury securities adjusted to a constant maturity of 1 year as published by the Federal Reserve Board

Initial/Annual Adjustment Cap: The initial interest rate is fixed for the fixed period of the Hybrid ARM (3 or 5 years, respectively). Thereafter, the interest rate adjustments are subject to a 1% interest rate cap at each interest rate adjustment period, which will not cause deferred interest.

Life Cap: 5% above initial interest rate

Margin: Refer to the Rate sheet for options. The margin is the floor.

Payment Cap: N/A

Payment Adjustment Date: The Initial ARM change date is determined by HSOA at the time the docs are drawn. The payment change date will be the first of the month following the interest rate adjustment, and every 12 months thereafter. The interest rate must always be rounded to the nearest 1/8th of 1% (0.125%).

Conversion Option and fee: Not Convertible

Assumptions: Permitted to qualified borrowers

Prepayment Penalty: None; however, borrowers are required to pay interest through the end of the month during which the loan is paid off.

Minimum Loan Size

\$40,000

Maximum LTV, Loan Amount and Credit Score

The maximum loan amount is limited to the local Statutory Mortgage Loan Limits as published by HUD Field Offices. The most current loan limits can be found at <https://entp.hud.gov/idapp/html/hicostlook.cfm>. Enter the state and county location of the subject property to determine the **Maximum** allowable loan amount. Available on Fixed Rate and 5/1 ARMs and 1-2 unit properties. (Refer to Transaction Requirements below for restrictions on cash-out refinances and Section 7 for additional appraisal requirements). **Loan amounts are eligible for the 2012 loan limits, up to a maximum \$625,500 base amount for 1-unit properties**

The maximum loan limits allowed by HUD reflect the maximum base loan amount (before adding UFMIP), and are based on the FHA Case Assignment date.

Pricing adjustments and FHA High Balance Product Codes apply to base loan amounts, including those exceeding the standard Program Loan Limits

Credit and credit score requirements, maximum loan amount and eligibility apply to any final Note amount (loan amount including UFMIP), regardless of the number of units.

Full Doc loans

FHA <u>2012</u> Loan Amount Limits (not to exceed statutory limits)					
Region	1 Unit	2 units	3 units	4 Units	Credit Score
Standard Program Loan Limits					
All states	\$417,000	\$533,850	\$645,300 P & R/T only	\$800,000 P & R/T only	640 P, R/T, CO
High Balance Loan Limits					
48 states	\$625,500	\$800,000	\$800,000 P & R/T only	N/A	660 P, R/T, CO
AK and HI	\$800,000	\$800,000	\$800,000 P & R/T only	N/A	660 P, R/T, CO

Streamlines

FHA 2012 Loan Amount Limits (not to exceed statutory limits)					
Region	1 Unit	2 units	3 units	4 Units	Credit Score
Standard Program Loan Limits					
All states	\$417,000	\$533,850	Not eligible	Not eligible	660 See Streamline credit requirements
High Balance Loan Limits					
48 states	\$625,500	\$800,000	N/A	N/A	660 See Streamline credit requirements
AK and HI	\$800,000	N/A	N/A	N/A	660 See Streamline credit requirements

Credit Requirements for Streamlines only

- No major derogatory in any one of the following showing on the credit report, regardless of the date of the derogatory occurrence:
 - Bankruptcy
 - ⊖ Foreclosure, including short-payoffs or short-sales, pre-foreclosures, deed-in-lieu, NOD, 120-day late
 - ⊖ ~~>4 collections or charge-offs~~
 - Maximum 2X30 cumulative mortgage lates on all properties
- 0X30 in past 12 months on subject property
- No collections or charge-offs in past 24 months
- Max 2X30 cumulative in past 12 months consumer obligations

Summary of AUS and loan size requirements

Scenario	Loans to standard loan limit	High Balance loans	FHA \$100 down (all loan sizes)
AUS requirement/manual underwriting	Standard Program Approve/eligible, manual down grades and refer	Approve/eligible only	Approve/eligible only
DTI with AUS approval	50%; 55% with 680 credit score and at least 2 compensating factors	50%	45%

Down payment Requirements

The minimum Down Payment requirements is 3.5% of the lesser of the appraised value or sales price. This amount is in addition to any borrower closing costs. For all refinance transactions, including streamline refinances with appraisals, the maximum LTV is 97.75%.

For purchase transactions, FHA does not permit the borrower to bring additional funds to close to pay any portion of the remaining lien(s) on behalf of the seller or short sale fees on behalf of the seller – For example, if a seller owes or the existing lender requires \$120,000 on an existing property, and the

sales price is \$100,000, the borrower may not pay any portion of the remaining \$20,000 on behalf of the seller.

Maximum LTV and CLTV

Summary information; see additional details under Subordinate financing

Purchase transactions

LTV

96.5%

- Gross loan amount, including the financed up-front mortgage insurance premium, may not exceed 100% LTV
- Base loan amount, before addition of the up-front mortgage insurance, premium may never exceed the lesser of the statutory loan limit for the county in which the property is located or the maximum loan per the Loan size matrix

CLTV

- Government Second Mortgage – 100% of acquisition cost (lesser of purchase price or appraised value + closing costs, pre-paid expenses, repairs and reasonable discount points) – May be used to meet the borrower's down payment requirement.
- HUD-approved non-profit agency that is considered an instrumentality of government - 100% of acquisition cost (lesser of purchase price or appraised value + closing costs, pre-paid expenses, repairs and reasonable discount points) – May be used to meet the borrower's down payment requirement.
- A HUD-approved non-profit agency that is not considered an instrumentality of government may provide secondary financing for closing cost, pre-paid expense and discount point assistance only. The borrower must make the required 3.5% down payment from a documented and acceptable source, and the combined amount of the first and second liens must not exceed the FHA's statutory loan limit for the county in which the property is located.
- Other organizations and private individuals may provide secondary financing for closing cost, pre-paid and discount point assistance only – The combination of the first and second mortgages may not exceed the applicable LTV ratio (96.5% for purchases)
- Second Mortgages from Family Members – 100% of the lesser of the purchase price or appraised value + closing costs, pre-paid expenses and discount points – May be used to meet the borrower's down payment requirement
- For a list of FHA-approved non-profits, refer to the links below:
 - Atlanta Homeownership Center Approved Non-Profit Agencies
http://www.hud.gov/offices/hsg/sfh/np/np_atl.pdf
 - Denver Homeownership Center Approved Non-Profit Agencies
http://www.hud.gov/offices/hsg/sfh/np/np_den.pdf
 - Philadelphia Homeownership Center Approved Non-Profit Agencies
http://www.hud.gov/offices/hsg/sfh/np/np_phi.pdf
 - Santa Ana Homeownership Center Approved Non-Profit Agencies
http://www.hud.gov/offices/hsg/sfh/np/np_den.pdf

Rate and Term Refi

LTV

97.75%, provided the case number is not assigned on or after April 18, 2011 and the borrower is not refinancing a previous investment property re-occupied within the most recent 12 months - Additional calculations apply – Refer Rate and Term Refi Mortgage Calculation Worksheet

If the borrower is refinancing a non-FHA loan and has owned the property less than one year, the LTV is calculated using the lesser of the borrower's purchase price or the new appraised value

Effective for case numbers assigned on or after April 18, 2011, if the borrower re-occupied a previous investment property within the most recent 12 months, the maximum LTV is 85%

CLTV

97.75%. If the subordinate lien is a line of credit, the CLTV is calculated using the maximum accessible credit limit and not the outstanding balance.

New subordinate liens are not permitted behind rate/term refinance first liens.

Cash out Refinance

LTV

85% before addition of the up-front mortgage insurance premium

- If borrower has owned the property as his or her primary residence for less than one year, use 85% of the lesser of the purchase price or appraised value
- Cash-out refinances not permitted on 2-4 unit properties
- Effective for case numbers assigned on or after April 18, 2011, if the loan is secured by a previous investment property re-occupied by the borrower within the most recent 12 months, the transaction must be underwritten and closed as a rate and term refinance with a maximum LTV of 85%.

CLTV

85%. If the subordinate lien is a line of credit, the CLTV is calculated using the maximum accessible credit limit and not the outstanding balance.

Streamline Refinance with Appraisal

LTV

97.75% before addition of the up-front mortgage insurance premium – Additional calculations apply

CLTV

- New Subordinate Financing – Not allowed
- Existing or modified re-subordinated financing – Maximum CLTV is 100% of the new appraised value.
- If the subordinate lien is a line of credit, the CLTV is calculated using the maximum accessible credit limit and not the outstanding balance

Streamline Refinance without Appraisal

LTV

N/A – Refer to *Streamline Refinance without Appraisal Mortgage Calculation Worksheet*

CLTV

- New Subordinate Financing – Not allowed
- Existing or modified re-subordinated financing – Maximum CLTV is 100% of original appraised value shown on Refinance Authorization screen in FHA Connection
- If the subordinate lien is a line of credit, the CLTV is calculated using the maximum accessible credit limit and not the outstanding balance

Impound/Escrow Accounts

Required on all loans

FHA Case Number Validity Periods

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.

Mortgage Insurance Premiums - UFMIP and Annual

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	<=78%	1.00%	None	None
	78.01<=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%

For insurance premium purposes and eligibility for FHA mortgage insurance, the loan-to-value ratio, computed to two decimals (e.g., 95.65), is calculated by dividing the mortgage amount prior to adding on any upfront mortgage insurance premium by the sales price or appraised value, whichever is less.

For refinance transactions, which often include closing costs in the loan amount, the LTV is determined by dividing the loan amount prior to adding on any upfront mortgage insurance premium by the appraiser's estimate of value.

The annual MIP is determined by multiplying the base loan amount by the appropriate Annual Premium factor. Since the Annual MIP is collected in monthly installments, divide the resulting number by 12 to obtain the monthly premium. This figure is included in the proposed monthly housing expense and qualifying ratios.

- For mortgages >15 years, the annual MIP will be canceled when the LTV reaches 78% of the original appraised value, provided the borrower has paid the annual MIP for at least 5 years
- For mortgages with terms <=15 years, the MIP will be terminated when the LTV ratio reaches 78%, irrespective of the length of time the borrower has paid the MIP.

For the purposes of calculating the annual mortgage insurance premium for a Streamline without an appraisal, the LTV is based on the original appraised value indicated on the Refinance Authorization Screen

Users may also use the [FHA-USDA upfront and monthly MIP/Guarantee fee calculator posted on HSOA's website.](#)

Subordinate Financing

- Down Payment Assistance programs are permitted in accordance with FHA Guidelines, subject to the following restrictions:
 - The source of the Down Payment Assistance must be a Government Agency or government instrumentality. (e.g. Non Profits – including those acting as an instrumentality of a government entity, employer-provided, and Trade Unions are not permitted)
 - **The minimum credit score is 680 and the borrower must have a prior mortgage or rent history of 0x30x12 which must be documented in the credit file.**
 - Deed Restrictions of any kind are not permitted.

Only the FHA-insured first lien is subject to FHA's maximum mortgage limits. This is applicable to purchases and refinances.

- A property seller carryback second is not allowed.
- Transactions may have no more than one subordinate lien.
- ~~Maximum CLTV is 105% on purchases. See below for refinances~~

Purchase Transactions

Family members may lend 100% of the borrower's required cash to close (on a secured or unsecured basis):

- May include down payment, closing costs, prepaid expenses, and discount points.
- Cash back to the borrower is not allowed.
- Maximum CLTV is the lesser of 100% of the property value, or the sum of the sale price plus closing costs, prepaids, and discount points.
- The source, amount and repayment terms must be disclosed in the mortgage application and the borrower must acknowledge that he/she understands and agrees to the terms.
- The family member providing the secondary financing may not borrow the funds from a source with an interest in the sale of the property including, the seller, builder, loan officer or real estate agent. In addition, the borrower receiving the funds from a family member may not be the co-obligor on the note used to secure the funds. For example, a son and daughter-in-law may not be on the note for the funds borrowed by the parents, which in turn was lent for the down payment.
- Document the source and transfer of funds from lending family member to borrower.
- Transactions involving a loan from a family member cannot also be a sale from one family member to another.

For purchase transactions, the following subordinate financing documentation is required and must be included in the loan file:

- At loan submission:
 - documentation as to loan terms and second lien lender's approval
 - Good Faith Estimate and TIL Statement;
- At closing:
 - Note and Security Instrument; and
 - All revised Good Faith Estimate, Changed circumstance documentation and Final TIL Statement; and
 - Second lien HUD-1 Settlement Statement or other closing statement; and
 - For HELOCs, the HELOC agreement indicating all fees and costs paid by the borrower at closing, and the maximum permitted credit advance.

For refinance transactions, the following subordinate financing documentation is required and must be included in the loan file

- Note and Security Instrument, and
- Copy of the Subordination agreement

Federal, state and local governmental agencies, including non-profit agencies considered instrumentalities of government, may provide secondary financing for the borrower's entire cash investment with the following conditions:

- The first mortgage combined with the second mortgage, as well as any other mortgages, grants, etc. may not result in cash back to the borrower.
- The sum of all financing may not exceed 100% of the cost to acquire the property, including down payment, closing costs, discount points, and any normal prepaid expenses.
- The monthly payment under the first and second mortgage or lien, plus other housing expenses and recurring charges, cannot exceed the borrower's reasonable ability to pay.
- The source, amount and repayment terms must be disclosed in the mortgage application and the borrower must acknowledge that he/she understands and agrees to the terms.
- The individual HOC with jurisdiction maintains a list of approved non-profit entities. Loan file submissions are to include evidence of the non-profit approval.

Institutional lenders and private individuals may provide secondary financing under the following conditions:

- The combined amounts of the first and second mortgages do not exceed the applicable loan-to-value factor; the first lien base mortgage amount may not exceed the maximum mortgage limit for the area.

- The repayment terms of the second mortgage must not provide for a balloon payment before ten years (or other such term acceptable to FHA), unless the property is sold or refinanced, and must permit prepayment by the borrower, without penalty, after giving the lender 30 days advance notice.
- The source, amount and repayment terms must be disclosed in the mortgage application and the borrower must acknowledge that he/she understands and agrees to the terms.
- The required monthly payment under the insured mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges, cannot exceed the borrower's reasonable ability to pay. Any periodic payments due on the second mortgage are due monthly and are substantially the same in amount.
- Borrower must make a cash investment of at least 3.5% down payment.

Gifts or Down Payment Assistance Programs from non-profits that are NOT HUD-approved are not allowed.

Refinances

- Rate/Term or cashout refinances: ~~New or~~ existing subordinate liens are allowed subject to the CLTV limitations below. If an existing second lien will not be paid off, it must be subordinated. **New subordinate liens are not permitted behind rate/term refinances.**
- *“New subordinate financing” includes any secondary financing originated concurrently or within 6 months prior to the closing date of the subject FHA refinance, and not part of the original purchase transaction.*
- If HELOC is being subordinated, use original HELOC maximum line amount for CLTV and payment, unless a modification agreement is recorded with the subordination agreement.

CLTV and Loan amount limitations on Refinances

Effective with FHA case numbers assigned on and after September 7, 2010, new CLTV limitations apply.

Refinance type	Maximum CLTV
Cash-out	85%
Rate/Term	97.75% New subordinate liens not allowed
Refinances of borrowers in negative equity position	Not offered by HSOA
Streamlines	New subordinate liens: not allowed. If existing subordinate financing is remaining in place, the maximum CLTV is 100% Calculate CTLV based on the original appraised value if a streamline without an appraisal, based on the new appraisal if a streamline with appraisal.

Temporary Buydowns – Temporarily Suspended

Accepted on fixed rate loans on purchase transactions

- Maximum 1% per year
- Maximum 2% below the note rate
- Qualify at the note rate
- Premium pricing may be used to fund the buydown
- Not permitted on Construction-Perm loans

Buydown funds may not revert to the party that established the escrow. If the property is sold subject to, or on an assumption of the loan, prior to the completion of the buydown, the remaining funds held in escrow must continue to be paid out on behalf of the new owner.

TOTAL Scorecard

- Must be used for all transactions except non-credit qualifying streamlines
- May have previously been used on an FHA case number that is subsequently converted to a non-credit qualifying streamline refinance transactions.

- Must be used – and processed as Rate/Term transactions (not as credit-qualifying streamlines) when deleting borrowers - other than due to death or divorce. See Streamline section for detailed requirements.

Property Eligibility

Property Types

Eligible

- SFR
- 2 Unit Properties
- 3-4 Unit Properties:
 - Cash out refinances not allowed.
 - 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.* Does not apply to streamlines without appraisals.
 - The borrower must have a reserve of 3 months mortgage payments (PITI) after closing (MAY NOT BE FROM GIFT). Applies to purchases and refinances including Streamlines
- PUDs – PUD approval not required.
- Modular Homes
- Leaseholds (see Leaseholds, below)
- **Log Homes, provided value is supported by similar comps**
- Properties with age restrictions are accepted
- FHA approved Condominiums
- **Property Size - FHA does not have a minimum square footage requirement - All properties must be marketable in the area and have adequate sanitary facilities and suitable living, cooking, sleeping, and eating space.**
- **Mixed use properties that meet the following criteria:**
 - Non-residential use may not exceed 25% of the total floor area (Storage areas or similar spaces which are integral parts of the non-residential use must be included in the non-residential floor area calculation)
 - Non-residential use may not impair the residential character of the property

Private Roads

- Must be protected by a permanent recorded easement reviewed and approved by the DE underwriter **or** must be owned and maintained by a Homeowner's Association
- Private road maintenance agreement is **not** required
- Road must "provide all-weather access to all buildings for essential and emergency use, including access for deliveries, service, maintenance, and fire equipment." All-weather roads are defined as "surfaces over which emergency vehicles can pass in all types of weather."

Ineligible

- *2-4 unit properties exceeding \$800,000 final loan amount*
- 3-4 units with cash out or **on streamlines**
- Condominiums in litigation unless FHA confirms their approval included awareness of litigation
- Condotels
- *Manufactured Homes*
- ~~*Log homes (stick-built properties with log-shaped wood siding are acceptable)*~~
- *Properties exceeding 10 acres; exceptions considered generally up to 20 acres, provided the property is solely of residential use.*
- Properties sold at auction by the builder, developer or construction lender, or which the seller acquired as part of a bulk transaction

- Co-ops
- Condominium projects not listed as approved in FHA Connection
- *Deed/Resale Restricted properties for reasons other than age. Restrictions include those that limit the use of all or part of the land on one or any number of owner characteristics or other requirements, income limits, occupancy, homebuyer status, employment (employer provided subsidy), or resale price.*
- *Properties in Rhode Island and Michigan are not accepted on wholesale loans.*
- Community Land Trusts
- properties with problem drywall (aka Chinese drywall)
- Properties with Survey exceptions
- Properties located on land that does not allow for access for mortgage servicing purposes (e.g. foreclosure)
- Community or adult living group homes
- Properties with adjoining lots (Properties that straddle 2 lots are generally acceptable; properties with extra land may be accepted, but not if the excess land is sub-dividable or has a separate APN.)
- Any property where the seller is not the owner of record
- Non-owner occupied properties (includes streamline refinances without appraisals)
- Working farms, ranches and orchards
- For case numbers assigned on or after March 1, 2011, properties located in Coastal Barrier Resource Systems are ineligible – Coastal Barrier Resource Systems are commonly located along the East Coast, Gulf Coast and the Great Lakes
- Properties having Chinese drywall or properties previously having Chinese drywall, regardless of any drywall removal and/or efforts to cure the damage
- Properties located in a “cancer cluster” or other health hazard area unless the local health authority provides written certification that the subject property is not affected by the health hazard **and** the borrower provides a written certification acknowledging the health hazard and its resolution
- Properties having both a stick-built and manufactured home located on the same parcel or property unless the manufactured home is unoccupied **and** utilities are not hooked up
- Mixed use/commercial properties that have any one of the following characteristics:
 - Commercial enterprises
 - Boarding houses
 - Hotels/motels
 - Condotels
 - Tourist homes
 - Private clubs
 - Bed and breakfast establishments
 - Fraternity/sorority houses

Condominium Requirements

Detached (Site) Condominiums

- Project review is not required
- Appraisal to be completed on FNMA Form 1073 Individual Condominium unit form
- Transaction to be designated using 203(b) as the correct Section of the Act
- Condominium Rider is required
- There must be no shared buildings and no portion of a structure touching another (examples: if the project had shared garages or an archway between homes, the project is not eligible).

Attached Projects

All projects must be FHA approved and meet FHA's condominium guidelines. The website for FHA-approved Condominium projects is <https://entp.hud.gov/idapp/html/condlook.cfm>

If FHA withdraws a project's condominium approval, the loan may not close, regardless of case number assignment date.

The following do not need condominium project approval:

- streamline refinances
- Detached (site) condominiums – see above

The following is required for loans with FHA project approval:

- FHA Case Number assignment, which includes the proper FHA Condominium project identification. FHA Connection will not issue a case number on a project that does not have FHA Project approval as of the case assignment date.
- HSOA FHA Condo Questionnaire for approved projects
- FHA Project Query from FHA Connection showing Project approval details, and all documents required to meet any project approval conditions
- Evidence of Project insurance policies, as applicable – Hazard, Flood, Liability
- Underwriter to complete 'FHA Lender Certification on Individual Unit Financing'

If the HUD REO property is a condominium, FHA Connection will require the entry of the condo ID. If FHA financing was approved on the sales contract, the condominium development must be in compliance with the FHA condominium procedures (ML 2009-46A and 2009-46B).

FHA Condominium Insurance Requirements

The condominium project must be covered by hazard, flood, liability and other insurance required by state or local condominium laws or acceptable to FHA as defined below:

Hazard Insurance: The homeowners association (HOA) is required to maintain adequate "master or blanket" property insurance in an amount equal to 100% of current replacement cost of the condominium exclusive of land, foundation, excavation and other items normally excluded from coverage. If the HOA does not maintain 100% coverage, the unit owner may not obtain "gap" coverage to meet this requirement.

HO-6 Coverage: *In cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit, the borrower must obtain a "walls-in" coverage policy (HO-6 policy). The Individual Contents and Liability Policy with "Walls In" coverage must be in an amount that is no less than 20% of the condominium unit's appraised value and a maximum 5% insurance policy deductible. HO-6 premiums must be impounded.*

Liability Insurance: The HOA is required to maintain comprehensive general liability insurance covering all of the common elements, commercial space owned and leased by the owner's association, and public ways of the condominium project. **Policy liability coverage for the Homeowner's association must be the higher of state required liability coverage or \$1million general liability coverage.**

Fidelity Bond/Fidelity Insurance: Fidelity Bond/Fidelity Insurance is required for new and established condominium projects with 20 or more units. The HOA must maintain this insurance for all officers, directors, and employees of the association and all other persons handling or responsible for funds administered by the association. The coverage must be no less than a sum equal to three months aggregate assessments on all units plus reserve funds.

Flood Insurance: Insurance coverage equal to the replacement cost of the project less land costs or up to the National Flood Insurance Program (NFIP) standard of \$250,000 per unit, whichever is less. In the insuring of a residential condominium building in a regular program community, the maximum limit of building coverage is \$250,000 times the number of units in the building (not to exceed the building's replacement cost). The HOA, not the borrower or individual unit owner, is responsible for obtaining and maintaining adequate flood insurance under the NFIP on buildings located in a Special Flood Hazard Area (SFHA). The flood insurance coverage must protect the interest of borrowers who hold title to an individual unit as well as the common areas of the condominium project. If the FHA Roster Appraiser reports that buildings in a condominium project are located in a SFHA the lender is responsible for ensuring that the HOA obtains and maintains adequate flood insurance on buildings located within the SFHA, per Mortgagee Letter 2009-37.

For condominium units, the total amount of flood insurance must equal the lesser of 100% of the insurable value of the improvements as it appears on the hazard insurance dwelling policy or the National Flood Insurance Program (NFIP) coverage limit. Coverage can be structured in one of the following ways:

- Residential Condominium Building Association Policy (RCBAP) covering the lesser of 100% of the

- insurable value of improvements or the NFIP coverage limit
- RCBAP providing a minimum of 80% coverage along with a dwelling policy to cover the difference needed to meet the lesser of 100% of the insurable value of improvements or the NFIP coverage limit
- If there is no RCBAP, a dwelling policy is required covering the lesser of 100% of the insurable value of improvements or the NFIP coverage limit.

Note: RCBAP coverage less than 80% of the insurable value is not an eligible policy.

FHA requires evidence that homeowner's association assessments are subordinate to the first lien. To meet FHA's requirements, the following must be documented for all FHA purchases and rate and term and cash-out refinance transactions. Streamline transactions are exempt from the documentation requirements below:

PUDS

For FHA loans secured by a PUD, one of the following must be provided prior to closing:

- A copy of the homeowner's association by-laws indicating that HOA assessments are subordinate to mortgage liens, or
- A subordination agreement executed by a representative of the homeowner's association indicating that all current and future HOA assessments are subordinate to mortgage liens, or
- The title commitment stating the title company will insure over any HOA assessment liens, or
- Letter on letterhead from the title company indicating that HOA assessments cannot take first lien position in the state in which the property is located, or
- If state law gives HOA assessments a "super-lien" position, a letter from the HOA indicating that all HOA assessments with the exception of the mandatory super-liens are subordinate to the FHA mortgage is required.
 - States with Super Lien laws are AL, AK, CO, CT, FL, MA, MD, MN, NJ, NV, OR, and WV

CONDOMINIUMS

For FHA approved condominiums, evidence of condominium approval is sufficient to demonstrate HOA assessments are subordinate to the first lien and no further documentation is required

Geographic Restrictions

Eligible in all FHA Areas Approved For Business (AAFB) as designated for each approved FHA Correspondent and retail office; except:

- **Hawaii and New York: not eligible**
- **Rhode Island and Michigan:** Not accepted on wholesale loans.
- **Florida** – Ineligible in Broward, Collier, Glades, Hendry, Lee, Miami-Dade, Monroe, and Palm Beach counties. For all other counties, condominiums are limited to 60% LTV/CLTV, including streamlines (conventional 1073 appraisal required on streamlines).
- **Texas** – Cashout refinances are not permitted. For Rate/Term and streamline refinances, borrowers must receive no money back at closing.
- **Hawaii** – properties in lava zones 1 and 2 are not eligible.
- **Properties subject to right of redemption**

Hazard Insurance Coverage

Hazard insurance coverage must have either guaranteed replacement coverage or 100% of the insurable value - with evidence from the insurance company as to the insurer's determination of value

Borrower Eligibility

Occupancy

- Owner Occupied: allowed on all products and documentation types. *For owner occupied transactions, when an existing owner occupied loan is less than one year old, and borrowers will be retaining that property, credit committee approval is required.*

- Second Homes: not allowed
- Investment Properties: not allowed

Maximum of 4 borrowers are accepted on any loan transaction.

Borrower Eligibility

Borrower Type	Requirements
All borrowers, including U.S. Citizens.	Borrowers must have a social security number and which must be on all applicable income, asset, or credit documentation contained in the loan file.
Permanent Resident Aliens	<ul style="list-style-type: none"> • FHA will insure mortgages made to lawful permanent resident aliens under the same terms and conditions as U.S. Citizens. • The lender must document the mortgage file with evidence of Permanent Residency and indicate on the application that the borrower is a lawful Permanent Resident Alien.
Non-Permanent Resident Aliens	<p>Non-Permanent Resident Aliens Acceptable</p> <ul style="list-style-type: none"> • FHA will insure mortgages made to non-permanent resident aliens under the same terms and conditions as U.S. Citizens. • Non-permanent resident aliens are permitted provide they occupy the property as their primary residence, have a valid social security number AND are eligible to work in the US. • A legible copy of one of the following acceptable visa types must be submitted in the file: E-1, H-1B, H-2A, H-2B, H-3, L-1, G series, and NAFTA workers (TN or TC). • The following are not acceptable visa types: A-1, A-2, A-3, E-2, F-1, F-2, M-1, O-1. • A legible copy of the unexpired passport with I-94 is also required. • If an EAD issued by the USCIS is provided, the borrower is eligible to work in the United States and does not need to provide visa, passport or I-94 documentation • Borrowers with diplomatic immunity are not permitted.

Non-Occupying Co-Borrowers

Non-occupant Co-borrowers are permitted with the following limitations:

- Maximum financing is permitted for borrowers related by blood, or for unrelated individuals that can document evidence of a family-type, long-standing and substantial relationship not arising out of the loan transaction.
- Properties are limited to one-unit single family homes. 2-4 unit properties ~~require exception approval and~~ are limited by FHA to 75% LTV.
- Transactions in which parents help their children buy their first home or assist a child who is a college student to purchase a house near campus is permitted as long as the non-occupant co-borrower is not developing a portfolio of rental properties. Therefore, the amount of financial contribution by the non-occupant co-borrower and the number of properties similarly owned must be looked at closely.
- For loans where the non-occupant co-borrower is not related by blood, or evidence of a family-type long standing relationship, the maximum LTV will be limited to 75%.
- *Accepted on purchase or rate/term transactions where the subject property will be the only property owned by the occupying borrowers.*
- Non-occupant co-Borrowers may not be added on cash-out refinance transactions. If an FHA loan being paid off included non-occupying co-borrowers, those same non-occupying co-borrowers may remain on title and as borrowers on the new loan.

Co-signers are not accepted

Assignment of Purchase Contract

An Assignment of buyer's interest on a purchase contract is not allowed.

Amendatory Clause

An amendatory clause must be included in or with the sales contract when the borrower has not been informed of the appraised value by receiving a copy of HUD-92800.5B, *Conditional Commitment/DE Statement of Appraised Value* or VA-NOV, *before* signing the sales contract. If the amendatory clause is not contained within the body of the purchase contract, it must be provided as a separate document, dated the same date the purchase agreement was signed, and signed by all parties who signed the purchase agreement.

The Amendatory clause is *not* required on HUD REO sales, or sales in which the seller is Fannie Mae, Freddie Mac, the Department of Veterans Affairs (VA), Rural Housing Services, Other Federal, state, and local government agencies, a lender disposing of REO assets, or a seller at a foreclosure sale.

Title Vesting

All owners must take title as individuals ~~or FHA eligible trusts. If vesting in a trust, the trust may be the only title holder. A Trust in title jointly with an individual or another Trust is not allowed.~~ Corporations, conservatorships, trusts, or LLCs are not allowed. Tenants in common ownership with a Tenancy in Common Agreement is not allowed.

Transaction Requirements

Property ownership requirements (Anti-Flipping Rule)

- Only owners of record can sell properties that will be financed using FHA mortgages. Underwriters must verify seller is owner of record. Examples of acceptable documentation are: property sales history report, a copy of the recorded deed from the seller, property tax bill, or title commitment binder.
- For properties owned less than 91 days, see the HSOA restrictions below.
- If the most recent sale of the property occurred at least one year previously per the appraiser, no additional documentation is required. Underwriters are still responsible to verify the owner of record as detailed above.
- If the appraiser indicates property sold within past 12 months, a HUD-1 or other documentation must be obtained from the seller to document sales price.
- If the re-sale is between 91-180 days following acquisition by the seller, a second appraisal must be obtained from a different appraisal company if the re-sale price is 100% or more over the price paid by the seller when the property was acquired. The second appraisal cost may not be charged to the borrower.
- The seller's date of acquisition is the date of settlement on the seller's purchase of the property. **The re-sale date is the date of execution of the sales contract by the FHA buyer.**

Effectively immediately, the following exemptions are not restricted during the first 90 days of ownership:

- FHA REO properties sold by FHA.
- Resales of properties purchased by an employer or relocation agency in connection with an employee relocation. What FHA intends to exempt is bona fide relocation agencies that contract with employers to handle relocations of their employees. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.
- Property inherited by the seller. The seller will not be required to hold title to that property for 90 days before he/she can sell it with FHA insured financing. The seller must still be the owner of record but the 90 day ownership period will not be required. Further, since there was no previous sale of the property because it was inherited, there is no previous sales price that might trigger the second appraisal requirement set forth in the flipping rules. The underwriter must include the documentation evidencing the inheritance in the case binder when submitting the case for insurance.
- Sales by other U.S. Government Agencies of single family properties pursuant to programs operated by these agencies.
- Sales of properties by nonprofits approved to purchase HUD-owned single family properties at a discount with resale restrictions.

- Sales of properties by state and federally chartered financial institutions and Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac). (Note: Mortgage Insurance (MI) companies are not considered a state or federally chartered financial institution and are not qualified as a government sponsored enterprise.)
- Sales of properties by local and state government agencies.
- Sales of properties within Presidentially-Declared Disaster Areas (upon FHA's announcement of eligibility in a mortgagee letter specific to said disaster).
- Sales of properties acquired by foreclosure by state licensed mortgage lenders and/or servicing lenders, whether sold directly by the mortgage lender or their subsidiaries; or by vendors to whom they have transferred titles to properties for the purpose of effectuating sales of those properties. ~~(Note: This temporary exemption applies to loans for which the sales agreements were signed by the seller and buyer prior to 5/10/2010.) For contracts signed after 5/10/2010, underwriter to confirm the (unlikely possibility that the) sale price does not exceed the foreclosure amount by greater than the 10 or 20% limitations above.~~

To be eligible for the waiver of the Property Flipping Rule, all of the following conditions must be met: All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction. Some ways that the lender can ensure that there is no inappropriate collusion or agreement between parties, are to assess and determine the following:

- The seller holds title to the property;
- Limited liability companies, corporations, or trusts that are serving as sellers were established and are operated in accordance with applicable state and federal law;
- **No previous flipping activity occurred on the subject property as evidenced by multiple title transfers within the last 12 months.**
- The property was marketed openly and fairly, through a multiple listing service (MLS), auction, for sale by owner offering, or developer marketing (any sales contracts that refer to an "assignment of contract of sale," which represents a special arrangement between seller and buyer may be a red flag).

In addition to the above FHA criteria, the following HSOA rules also apply:

The following restrictions apply to all transactions *except properties being sold by the foreclosing institutional lender.*

Notes: Seller's ownership must be recorded on title.

Date comparison will be from seller's acquisition date (settlement date) to the earliest of the purchase contract or application/origination date. If the difference between settlement date and title transfer date is material to the transaction eligibility, provide a copy of the Settlement statement and proof of funds being paid.

If the recording date of seller's acquisition is delayed beyond normal recording office delays (generally more than 45 days), underwriters may require 90 days from recording date, or additional documentation to prove the actual date of deed transfer (ex: settlement statement and proof of funds being paid).

FHA has extended the following Anti-flipping waiver for transactions with purchase contracts dated through December 31, 2012.

Owned <= 90 days:

Without Exception approval

- Maximum 10% increase without documented improvements
- Maximum increase of **less than 20% or \$100,000, whichever is less**, with documented improvements.
- **Transactions with sales price increase of 20% or more over seller's purchase price are not allowed.**

With Exception approval

If the property is being sold within one and 90 days of the seller's acquisition date and the new sales price is =>20% higher than the seller's purchase price, **all** of the following are required:

- ~~A second appraisal~~ ordered in compliance with FHA and HSOA appraiser independence requirements. Both appraisals must support the value.
 - a. ~~If the second appraisal has an estimated value more than 5% lower than the original appraisal, the maximum mortgage must be based upon the lower of the two appraised values);~~
 - b. ~~Borrower may be charged for the second appraisal~~
 - c. ~~If the first appraisal was subject to repairs, and if the second appraisal documents that the repairs and/or renovations were completed, a 1004D is not required; otherwise, one 1004D inspection evidencing repair completion is required.~~
- and**
- ~~A property inspection~~ completed by an inspector who has no interest in the property or loan transaction (inspection may be ordered and paid for by borrower). **and**
 - ~~Any Structural or Health and Safety issues reported by the property inspector must be repaired before closing. The property may inspector may conduct the repair inspection for those repairs only cited by the Property Inspector and not required by the appraiser or DE underwriter. **And**~~
 - ~~A fully executed **HSOA FFG 9349 – Property Inspection Certification** included in UW submission; UW to require PTD.~~

Regardless of who the property seller is, if the resale occurs within 0 to 90 days, all transactions must be arms-length; no identity of interest between buyer, property seller or third parties.

Owned 91 days-One year:

Follow FHA requirements, which are

- If the re-sale is between 91-180 days following acquisition by the seller, a second appraisal must be obtained from a different appraisal company if the re-sale price is 100% or more over the price paid by the seller when the property was acquired. The second appraisal cost may not be charged to the borrower.
- If the re-sale is more than 90 days after seller's acquisition, but within the previous 12 months **and** the new sales price increases by **5%** or more, HSOA may require documentation to support the increased value including any rehabilitation or remodeling. A second FHA appraisal may be required at the underwriter's discretion.

Extra due diligence is required whenever the seller is an LLC. The overall transaction risk must be prudently evaluated; if multiple risk layers are present, the transaction is ineligible.

For Sale by Owner and Non-Arms Length (FSBO and NAL) with short-sales and flips

The following restrictions apply if there is a relationship between buyer and seller

- *FSBOs are prohibited on transactions involving short-sales or flips. Transactions must be readily confirm as being registered on the local Multiple Listing Service (MLS)*
- *Reminder: NALs are prohibited on transactions involving short-sales or flips*
- *All other FSBO or NALs require QC pre-funding review and acceptance*

Non-Arms-Length Transactions

FHA refers to NAL transactions as Identity-of-Interest transactions on principal residences are restricted to a maximum loan-to-value of 85%. Identity-of-Interest is defined as a transaction between buyer and sellers who are family members, personal relationships, business partners or other business affiliates; **in other words, a direct relationship between any of the parties to the transaction including, buyer, seller, employer, lender, broker, appraiser, etc.**

Non-arms length transactions may be acceptable provided there is adequate verification the borrower is making the required minimum down payment from their own funds, there is an executed sales contract, and the appraisal supports the value and the appraiser comments on whether the market value is affected by the relationship of the parties.

A non arms length transaction may not be used to bail out a family member or any other owner with an established relationship to the borrower from a delinquent mortgage.

- The title commitment may not show any evidence of foreclosure proceedings or NOD.
- If the seller is a corporation, partnership or any other business entity, there must be proof that the borrower is not an owner of the business entity selling the subject property.

Maximum financing above 85% LTV is permissible under the following circumstances:

- A family member (parent, grandparent, child or grandchild) purchasing another family member's principal residence.
- An employee of a builder purchasing one of the builder's new homes or models as a principal residence.
- A current tenant purchasing the property that he or she has rented for at least 6 months predating the sales contract.
- Sales by corporations that transfer employees out of an area; purchase the transferred employee's home and then resell to another employee.
- If a property being sold from one family member to another is the seller's investment property, the maximum mortgage is ~~the lesser of either:~~ 85% of the appraised value or ~~sale price, whichever is lower OR~~ ~~96.5% of the sales price, plus or minus required adjustments.~~
The 85% limit may be waived if the family member has been a tenant in the property for at least 6 months predating the sales contract.

Occupancy for the 6 months predating the sales contract/application date may be verified by any of the following:

- 6 months cancelled rent checks
- Utility bills, insurance policies, or bills from credit report tradeline creditors showing the borrower has occupied the property for the required timeframe
- W-2s, bank statements, pay stubs for the showing the borrower has occupied the property for the required timeframe, provided the property being sold is not a family member's primary residence
- Other written documentation as determined acceptable by the DE underwriter (a lease is NOT acceptable)

For all non-arms length/identity of interest transactions, provide the following documentation:

- Evidence property seller is not in default and the transaction is not a 'bail-out'
- Evidence borrower has not previously held title to the property
- Letter of explanation as to the identity of interest

Re-negotiated purchase agreement policy

HSOA will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:

- The appraised value is higher than the contracted sales price provided to the appraiser, and
- The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
- The only change to the purchase agreement is an increase in sales price.

If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:

- A re-negotiation of seller paid closing costs and/or pre-pays occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
- An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

Chain of Title

24 month chain of title is required, indicating buyers, sellers, and transfer date/instrument recording date. This may be provided within the title commitment/prelim or by Dataquick or other HSOA acceptable property searches.

The transfer sales price information is required for all transfers in the past 24 months if there were transfers within the first 12 months. This information can be obtained from any HSOA acceptable source, including but not limited to: public records, the subject property appraisal, or AVMs

Title vesting changes involving a FHA-eligible family trust is acceptable. However, title vesting changes involving trusts and involving short sales or third party negotiations are not allowed.

Extra due diligence is required whenever the seller is an LLC.

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.

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.

Occupancy of Former Investment Property	Eligible Financing
Occupied 12 months or more prior to the loan application date of the refinancing mortgage	Maximum financing at the same level as an owner-occupant
Occupied less than 12 months prior to the loan application date of the refinancing mortgage	Rate-and-term refinancing only up to 85% LTV (no cashout or streamline allowed)

Acceptable re-occupancy documentation includes, but is not limited to utility bills, property assessment statements, bank statements and similar items.

Land Contracts/ Contract for Deed/ Buying out 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

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

Seasoning

Cash-Out Refinances

- If property is owned as borrower's **principal residence** less than one year, LTV is calculated using the lower of the purchase price or new appraised value
- If property is owned as borrower's **principal residence** at least one year, LTV is calculated using new appraised value
- If the mortgage payment history for the loan being refinanced indicates the borrower has made fewer than six months payments, the loan is ineligible for cash-out
- For properties owned less than one year and purchased for cash (free and clear), there is no minimum months of ownership required; however, provide evidence of source of funds for purchasing the property.
- Effective for case numbers assigned on or after April 18, 2011, if the subject property is a previous investment property re-occupied by the borrower within the most recent 12 months, the loan is ineligible for cash-out

Rate-term Refinances

- FHA to FHA: No seasoning required – LTV is calculated using the appraised value
- Non FHA to FHA:
 - If property is owned less than one year, LTV is calculated using the lower of the purchase price or new appraised value
 - If property is owned at least one year, LTV is calculated using new appraised value
- Effective for case numbers assigned on or after April 18, 2011, if the subject property is a previous investment property re-occupied by the borrower within the most recent 12 months, the maximum LTV is 85%

Streamline refinances

On the date of FHA case assignment:

- The mortgagor must have made at least six payments on the FHA-insured mortgage that is being refinanced, and
- At least six 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.
- With appraisal – LTV and CLTV are calculated using new appraised value
- Without appraisal – LTV and CLTV are calculated using original property value from Refinance Authorization Screen in FHA Connection

Properties Recently Listed for sale

Refinances on properties currently listed for sale are not permitted. If the listing was cancelled prior to the date of loan application and appraisal the following applies:

If a refinance, property can not have been listed for sale in the following timeframes prior to application date

- The property listing agreement must be cancelled a minimum of 1 day prior to the application and appraisal date.
- A copy of the cancelled/expired listing must be included in the file.
- Appraiser must note that the property is not currently listed.
- For owner occupied transactions, the borrower must confirm the intent to occupy the property.
- For cash out refinances where property has been previously listed within the last 6 months, the maximum LTV/CLTV/HCLTV is 70%.

This policy does not apply to streamlines without appraisals.

Continuity of Obligation

Loans with acceptable continuity of obligation may be underwritten and priced as rate-and-term or cash-out refinances according to the standard definitions. An acceptable continuity of obligation exists when:

- There is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced, or
- The borrower has recently inherited or was legally awarded the property (for example, divorce or separation).

Note on inherited properties: Borrower is not required to occupy the property for a minimum period of time before applying for a cash-out refinance provided that the borrower does not treat the subject property as an investment property. For example, a borrower who inherits a property and moves into it directly without ever renting it is eligible for a cash-out refinance. However, if the borrower rents out the property, then the borrower is not eligible for a cash-out refinance until the borrower has occupied the property for at least 12 months.

Borrowers who have been on title for the past 12 months, but are not listed on the note being refinanced are eligible for rate/term transactions only. Proof that the borrower has made timely payments for most recent 12 month period as evidenced by canceled checks or bank statements AND a current 12 months mortgage rating with no late payments is required.

Netting escrows

Netting escrows on all transactions except Streamlines without appraisals

FHA R/T and streamline refinances with appraisals cannot include the netting of impound/escrow balances as a credit on the HUD-1. In all cases, the payoff demand amount due (for eligible items) must match the payoff on the HUD-1, the amount wired to the current servicer, and the amount used by the underwriter in calculating the maximum mortgage. There must be no credit for the balance of the impound balance as a separate HUD-1 entry.

Netting Escrows on Streamlines without appraisals

For streamline refinances without appraisal, the existing escrow balance of the loan being refinanced may be credited to the borrower, provided the amount of the escrow balance is not netted from the total payoff amount on the payoff statement.

- The current escrow balance must be stated in the escrow section of the payoff statement
- No more than the escrow balance may be credited to the borrower and the credit **must** be listed in the 200 section of the HUD-1 Settlement Statement
- If the borrower's escrow balance is deducted from the total payoff amount on the payoff statement and/or HUD-1 Settlement Statement **or** the escrow balance is credited in the 100 section of the HUD-1 Settlement Statement, FHA requires the maximum loan amount to be re-calculated using the reduced principal balance after netting out the escrow balance. If this occurs, the loan must be reviewed by the underwriter prior to loan closing. If the loan closes at a loan amount that exceeds the new maximum

loan calculation, a principal reduction for the portion of the loan amount that exceeds the maximum allowable loan amount.

MIP Refunds that exceed the new UFMIP

As an interim measure, until FHA issues guidance on this topic, the following process applies when paying off an FHA loan where the MIP refund amount exceeds the new UFMIP amount:

- The amount of MIP refund is the lesser of the MIP refund per the FHA Connection or the amount of the new UFMIP.

FHA will determine at some future date how the remainder of the MIP refund will be handled. It cannot be used as a credit for closing costs or other fees.

Cash back limitations on R/T and Streamline refinances

If the amount back at closing exceeds \$500, loan documents must be re-drawn.

No Cashout Refinance

Loan amount is limited to:

- Payoff of the first mortgage.
- Payoff of subordinate liens that are more than one year old.
- Paying related closing costs, discount points and prepaids.
- Subtract any applicable UFMIP refund

The maximum base loan amount is limited to 97.75% LTV.

Note: The maximum base loan amount cannot exceed the statutory limit for the area.

- If the subordinate lien is an equity line, and there have been advances in excess of \$1,000 within the past 12 months for purposes other than repairs and rehabilitation of the property then that portion above and beyond \$1,000 of the line of credit is not eligible for inclusion in the new mortgage.
- Existing subordinate liens may remain subordinate, and new subordinate liens are allowed, as long as they meet FHA guidelines on subordinate financing, including a maximum 97.75% CLTV.
- Payoff of an ex-spouse's or other co-mortgagor's equity is permitted and not considered cash out as long as the divorce decree, settlement agreement, or other bona fide equity agreement documents the equity awarded and must be paid to that party directly by the closing agent.
- FHA will permit the interest charged since the first of the month to be included in the payoff.

Cash Out Refinance

Under the terms and conditions described below, FHA will insure a cash-out refinance of up to 85% of the appraiser's estimate of value. The eligibility conditions that must be met include:

- Not permitted in the state of Texas.
- Existing subordinate liens may remain subordinate, and new subordinate liens are allowed, as long as they meet FHA guidelines on subordinate financing, including a maximum 85% CLTV.
- Any co-borrower or co-signer being added to the note must be an occupant of the property. Non-occupant co-borrowers or owners are not allowed; those who were non-occupying co-borrowers when the property was purchased must be removed from the transaction.
- Cash out for debt consolidation represents considerable risk and must be carefully evaluated.
- Eligibility is based on the number of months of mortgage payments made prior to application date (date the application was signed):
 - Mortgages with less than 6 months of payment history reflected on the credit report are not eligible
 - 7-11 months reported, use the lesser of current value or price paid at purchase.
 - Use current value if 12 or more months are reported on the credit report.
- Borrower mortgage history for subject property must be 0x30 for the past 12 months prior to application (if owned less than 12 months, for all payments made). If owned less than 12 months, use the lower of acquisition cost or current value.
- Borrowers must have occupied the property as their primary residence for the past 12 months prior to application (if owned less than 12 months, for the entire ownership period).

- Properties owned free and clear are eligible for cash-out refinances; during first year of ownership, subject to the same occupancy and value-vs.-acquisition requirements as mortgaged premises
- *The subject property must be a 1 or 2 unit dwelling.*

Case Number Cancellation

Case Number Assignments Eligible for Cancellation and Request for New Case Number:

This option is only available for transactions where the borrower and property remain the same and the new case number is only required because the borrower is eligible for the higher loan limits in effect November 18, 2011. Lenders may request a case number cancellation only for loans that have not yet closed. Lenders must submit their request to the jurisdictional Homeownership Center (HOC) via the relevant electronic mailbox below. Fax requests are no longer accepted by FHA.

- Denver: Send request to email box: denhocinsure@hud.gov
- Philadelphia: Send request to email box: PHOCInsure@hud.gov
- Santa Ana: Send request to email box: snahocinsure@hud.gov
- Atlanta: Send Request to email box: ATLInsurance&Underwriting@hud.gov

The request must include in the subject line of the electronic mail:

- type of request (i.e. case number cancellation), and
- case number that you wish to cancel.

For example, your e-mail subject line should read, "Case Number Cancellation / ###-#####".

Lenders must also include the lender's name, phone number, email, contact name and reason for cancellation request (in this case reason would be that the borrower is now eligible for a higher loan limit) in the text of the e-mail. The loan file documentation must also support the change in loan amount that required the request.

NOTE: Lender requests for case number cancellations will be processed as they are received in the electronic mailbox. Lenders may only request one case number cancellation per e-mail. HOCs will not process your request for case number cancellation if more than one case number cancellation is requested in an e-mail. Failure to follow these instructions will result in delays in processing.

Processing loans for which case numbers were cancelled and new case numbers assigned:

For all loans where case numbers were cancelled in accordance with the above policy, the lender may continue processing the loan under a newly assigned case number. FHA will permit the lender to use the loan application and supporting documentation processed under the cancelled case number subject to the following conditions:

- Total scorecard is re-run with all updated loan information.
- Unexpired credit reports may be used if the lender notates in the file the reason for the credit report predating the issuance the newly assigned case number.
- The appraisal from the cancelled case number may also be utilized only if it complies with FHA guidance on valid appraisals. If the lender uses the appraisal from the cancelled case number, the lender is instructed to:
 - Notate the file with the reason the appraisal date precedes the new case assignment date.
 - Strike the cancelled case number on the appraisal and enter the new case number on the appraisal.
 - Certify the effective date of the appraisal in the "User Confirmation" statement on the Appraisal Logging in screen. See: https://entp.hud.gov/pdf/mp_sfo03_apprlog.pdf for further information on completing the appraisal logging screen.

Principal Curtailments

Principal curtailments are all owed as follows:

- The maximum amount back at closing cannot exceed \$500 on streamlines and Rate/Term refinances, provided a principal curtailment is not required. In all cases, the principal curtailment must be reflected on the HUD Settlement Statement.

- **Refinances**
 - Principal reductions are required when the borrower is receiving more than \$500 cash at closing on a rate and term or streamline refinance loan. **If a principal reduction is required, the principal reduction must include all cash back and not just the portion of cash back that exceeds \$500.** For example, if the HUD Settlement Statement indicates the borrower is receiving \$626 cash back, a principal reduction in the amount of \$626 is required. A principal reduction in the amount of \$126 is not sufficient.
- **Purchases**
 - Principal reductions are required when the borrower receives any cash back at a purchase transaction closing.
 - Documented funds paid by the borrower outside of closing for items such as the EMD, appraisal or credit report may be refunded to the borrower at closing.

Streamline Refinance

Transactions determined to be Higher Priced Mortgage Loans are not eligible as Streamline refinances.

For Streamlines only:

~~FFG30—FHA 30YR FIXED~~

~~FFG15—FHA 15YR FIXED~~

~~FGA31—FHA 3/1 ARM~~

~~FGA51—FHA 5/1 ARM~~

~~FFG30J—FHA 30YR FIXED HIGH BALANCE~~

~~(To clarify, these product codes automatically steer the loan to investor F; exception approval is required to direct streamlines with appraisals back to investor C).~~

Streamline Refinance without a New Appraisal

~~Streamlines without appraisals temporarily not available on wholesale loans.~~

Owner-Occupied Primary Residence

The maximum base mortgage cannot exceed the sum of the following:

- Unpaid Principal Balance
- Current month's interest payment if not already made
- Up to 30 days of interest to the end of the month of payoff
- Minus the MIP refund on the existing loan.

Not to exceed the maximum published statutory limit for the area.

Reminder: the calculations may NOT include late fees, negative impound balances, or any other charges on the loan being paid; nor any closing costs, prepaids or interim interest on the new loan. **All FHA to FHA refinance transactions that include closing costs and/or other fees must be underwritten and closed as a rate and term or cash-out refinance.**

Investment properties

Streamline refinances of investment properties are not allowed

A streamline refinance is allowed for mortgagor occupants of former investment properties but is limited to rate/term refinancing with an LTV not to exceed 85 percent if the mortgagor occupant has occupied the property for less than 12 months prior to the loan application date of the refinancing mortgage.

~~Streamlines without appraisals are subject to the following additional requirements~~

- ~~Properties being refinanced within one year of a FEMA-declared disaster require evidence (exterior inspection is sufficient, provided there has been no damage) from a licensed appraiser, home inspector or fee inspector verifying the following:~~
 - ~~Improvements are still standing and in acceptable condition~~
 - ~~Neighborhood condition~~
 - ~~Photograph of the subject property~~

- ~~Loan term is the lesser of the remaining term of the existing mortgage plus 12 years or 30 years~~
- ~~Time to recoup closing costs cannot exceed 48 months~~
- ~~Forms required~~
 - ~~FFG-9347 Streamline refinance without appraisal~~
 - ~~FFG-9348 Net Tangible Benefit or the state specific required NTB form~~
 - ~~FFG-CFG-3240 Verbal-VOE~~
 - ~~FFG-3257 SSN validation~~
- ~~Settlement attorney must have investor approval if the property is in the Bronx, Kings, or Queens boroughs of New York City.~~

Streamline Refinance with a New Appraisal

~~Exception approval is required on:~~

- ~~All wholesale loans, which also bypasses the 'additional requirements' section in the box below~~
- ~~Retail loans wishing to bypass the 'additional requirements' section below~~

Owner-Occupied Primary Residence

The maximum base mortgage cannot exceed the sum of the following:

- Unpaid Principal Balance
- Current month's interest payment if not already made
- Up to 30 days of interest to the end of the month of payoff
- Minus the MIP refund on the existing loan.
- Maximum 97.75% LTV/105% CLTV

Not to exceed the maximum published statutory limit for the area.

Reminder: the calculations may NOT include late fees, negative impound balances, or any other charges on the loan being paid; nor any closing costs, prepaids or interim interest on the new loan. **All FHA to FHA refinance transactions that include closing costs and/or other fees must be underwritten and closed as a rate and term or cash-out refinance.**

Additional requirements

- ~~Loan must be underwritten and closed as a credit-qualifying Streamline refinance~~
- ~~Repairs indicated in the appraisal are not required unless chipped, cracked or peeling paint exists in the interior or on the exterior of a home built prior to 1978~~
- ~~Value is based on appraised value, regardless of seasoning~~
- ~~Loan term — up to 30 years~~
- ~~If an appraisal is ordered but the borrower wishes to proceed with a streamline without an appraisal, the investor does not permit the loan to be changed to a streamline without appraisal~~
- ~~Properties being refinanced within one year of a FEMA-declared disaster require evidence from a licensed appraiser, home inspector or fee appraiser verifying the following:~~
 - ~~Improvements are still standing and in acceptable condition~~
 - ~~Neighborhood condition~~
 - ~~Photograph of the subject property~~
- ~~Loan term is the lesser of the remaining term of the existing mortgage plus 12 years or 30 years~~
- ~~Time to recoup closing costs cannot exceed 48 months~~
- ~~Forms required~~
 - ~~FFG-9347 Streamline refinance without appraisal~~
 - ~~FFG-9348 Net Tangible Benefit or the state specific required NTB form, which includes a maximum 4 year time frame to re-coup costs.~~
 - ~~FFG-CFG-3240 Verbal-VOE~~
 - ~~FFG-3257 SSN validation~~
- ~~Settlement attorney must have investor approval if the property is in the Bronx, Kings, or Queens boroughs of New York City.~~

Tangible Net Benefit

The following changes, announced in HUD Mortgagee letter 2011-11 are effective with FHA case assignments after 4/15/11. If new policy benefits the borrower, lenders may implement new guidance prior to April 18, 2011.

A copy of the existing loan Note and current billing statement showing the MIP amount are required on all streamline refinances, and for existing ARMs, evidence of the current P&I+MIP or current interest rate, as required to follow the criteria below.

The lender must determine that there is a net tangible benefit to the mortgagor as a result of the streamline refinance transaction, with or without an appraisal. "Net tangible benefit" is defined as:

- A 5% reduction when comparing P&I+MIP to the proposed P&I+MIP
- Refinancing from an ARM to a fixed rate according to the matrix below

The following table defines the permissible minimum thresholds in different refinance situations and outlines what is new and existing guidance.

To From	Fixed Rate	One-Year ARM (Not currently offered by HSOA)	Hybrid ARM
Fixed Rate	Reduction of at least 5 percent (existing guidance) of P&I and MIP; (new guidance replaces PITI)	New interest rate at least 2 percentage points below the current interest rate of the fixed rate mortgage (existing guidance)	Reduction of at least 5 percent of P&I and MIP (new guidance)
One-Year ARM	New interest rate no greater than 2 percentage points above the current interest rate of the ARM (existing guidance)	Reduction of at least 5 percent (existing guidance) of P&I and MIP; (new guidance replaces PITI)	New interest rate at least 2 percentage points below the current interest rate of the ARM (new guidance)
Hybrid ARM During Fixed Period	Reduction of at least 5 percent of P&I and MIP (new guidance)	New interest rate at least 2 percentage points below the current interest rate of the ARM (new guidance)	Reduction of at least 5 percent (existing guidance) of P&I and MIP; (new guidance replaces PITI)
Hybrid ARM During Adjustable Period	New interest rate no greater than 2 percentage points above the current interest rate of the Hybrid ARM (new guidance)	Reduction of at least 5 percent (existing guidance) of P&I and MIP; (new guidance replaces PITI)	New interest rate no greater than 2 percentage points above the current interest rate of the Hybrid ARM

Note: HSOA Streamline worksheet has been updated to reflect this change, and has been posted on the intranet and broker resources.

FHA Streamline Credit and Income requirements

Credit Score	Credit Requirements	Income/Employment documentation for salaried and self-employment sources.	4506-T Requirements
640 (applies to standard loan limits)	0X30 in past 12 months for subject property No major derogatory	Wage Earner: YTD pay stub Self-employed: 1-year tax returns. YTD income must be consistent	Signed 4506-T included in UW submission; borrowers sign another 4506-T at closing.

	item the credit report	with the income displayed on the 1003. <u>Ratios will be calculated by underwriting, and should not exceed 65%; however, ratios are not entered into DT or displayed on the LT.</u> Verbal VOE and Borrower Employment Certification required.	For self-employment income, the initial 4506-T is processed and validated. <u>The 4506-T results may be used as the income documentation.</u>
660 (applies to standard loan limits and FHA 'Jumbo' High Balance loans)	0X30 in past 12 months for subject property No major derogatory item the credit report	Wage Earner: YTD pay stub Self-employed:—1-year tax returns. YTD income must be consistent with the income displayed on the 1003. Ratios are not calculated or entered into DT or displayed on the LT. Verbal VOE and Borrower Employment Certification required.	Signed 4506-T included in UW submission; borrowers sign another 4506-T at closing
680	0X30 in past 12 months for subject property	Wage Earner: YTD pay stub Self-employed:—1-year tax returns. YTD income must be consistent with the income displayed on the 1003. Ratios are not calculated or entered into DT or displayed on the LT. Verbal VOE and Borrower Employment Certification required.	Signed 4506-T included in UW submission; borrowers sign another 4506-T at closing

Criteria	Requirement
Credit Score	660
Credit Requirements	<ul style="list-style-type: none"> • No major derogatory in any one of the following showing on the credit report, regardless of the date of the derogatory occurrence: <ul style="list-style-type: none"> ○ Bankruptcy ○ Foreclosure, including short-payoffs or short-sales, pre-foreclosures, deed-in-lieu, NOD, 120-day late ○ Maximum 2X30 cumulative mortgage lates on all properties • 0X30 in past 12 months on subject property • No collections or charge-offs in past 24 months • Max 2X30 cumulative in past 12 months consumer obligations
Income and employment	<ul style="list-style-type: none"> • <u>Employment</u> is completed on the 1003 (current information and a 2 year history). • <u>Income</u> is not listed on the 1003 and not documented. • Ratios are not calculated or entered into DT or displayed on the LT. • Verbal VOE and Borrower Employment Certification required.
4506 T	Signed 4506-T included in UW submission; borrowers sign another 4506-T at closing
Assets	Assets needed for closing to be verified

Additional Requirements for All Streamline Refinances

- The maximum term of the new mortgage is the lesser of 30 years or the unexpired term of the current mortgage plus 12 years.
- The LTV on streamline refinances without an appraisal will be based on data regarding the mortgage being refinanced, including sales price and appraised value amounts residing in FHA's Single Family Insurance System (SFIS). FHA will compute a new LTV by dividing the new loan amount, exclusive of any upfront MIP, by the lower of the sales price or appraised value amount. If the computed LTV is not possible, due to missing data or previous refinancing without an appraisal, the new LTV will default to 89.9%, as will be indicated on the FHA Connection Netting Authorization.
- The mortgage being refinanced must be current.
- See Seasoning requirements for minimum age of existing loan.
- Mortgage payment history requirements for the subject property:
 - Borrowers must be 0X30 *in the past 12 months for the months reported on the credit report*,
 - For mortgages with less than 12 months payment history reported, the borrower must have made all mortgage payments within the month due.
 - Borrowers must also document having no 30 day lates from the credit report last reported date to the month of payoff
- Final HUD-1 cash to the borrower cannot exceed \$500. ~~Principal curtailments are not allowed without exception approval and meeting the exception approval criteria.~~
- Discount points may be charged, but must be paid from borrower's verified assets.
- **The following must be processed as Rate/Term transactions, and are not eligible as Streamlines:**
 - Term-shortening transactions-shortening the original term (not the remaining term) of the existing loan.
 - Adding closing costs, discounts or prepaids to the loan amount.
- Termite inspection is not required on streamlines with appraisals.
- Re-warranting of Condo projects (based on current information) is not required.
- **Application and documentation**
 - A full and complete URLA (1003) is required (abbreviated forms are not allowed).
 - **The initial 1003 and 92900A must be signed by the interviewer and borrower(s) PRIOR TO UNDERWRITING**, and included in the underwriting submission to HSOA.
 - No face to face interview is required.
 - Two year employment history, including current employment ~~and income~~ sources are to be completed; income is not displayed ~~with income amounts displayed, but ratios will not be calculated.~~
- Borrower's employment ~~and income sources~~ must be confirmed as of the date of application (and which will be confirmed at closing via the verbal VOE).
- ~~For salaried borrowers, the most recent year-to-date paystub is required.~~
- ~~For self-employment income, the most recent tax returns are required, which may be provided by the borrower or the 4506T validation.~~
- ~~For all other sources, documentation showing the source and amount is required. The sources and required documentation are as follows:~~
 - ~~Rental properties—most recent tax returns or lease agreements~~
 - ~~Dividend and interest—most recent tax returns or current statement showing interest/dividends earned~~
 - ~~Notes receivable—copy of note receivable~~
 - ~~Fixed income sources awards letter or one payment receipt~~
 - ~~Child support or alimony—divorce decree/court order~~
 - ~~Retirement account income—most recent bank statement showing earnings~~
 - ~~Temporary income or disability: not an acceptable income source per FHA~~
 - ~~Other sources: case by case~~
- HSOA will obtain a verbal confirmation of employment or self-employment within 5 business days prior to funding. ~~SLCs will also complete the FHA Streamline Refinance Certification of Employment when the verbal is obtained.~~
- 4506-Ts signed by borrowers must be included in the loan submission; income will ~~not~~ be validated (Borrowers will sign another 4506 at closing)

- Assets needed for closing must be verified with one month bank statements.
- Tri-merged credit report is required ('mortgage only' reports with scores are not acceptable)
- Document the current housing obligation with a copy of the most recent monthly billing statement or next payment coupon (to confirm current monthly MIP amount), and –if applicable – notice of a pending rate and payment change on an ARM loan. In addition, document any monthly HOA dues as applicable, by providing the billing from the HOA.
- **Investment Properties: not allowed**
- Second mortgages must be subordinated. **CLTV cannot exceed 100% 425%** (based on the original appraisal if a streamline without an appraisal, based on the new appraisal if a streamline with appraisal).
- If the loan being refinanced has undistributed buydown funds, the undistributed buydown funds must be subtracted from the principal balance.
- All individuals currently obligated on the existing loan must be borrowers on the new streamline.
- Credit qualifying streamlines may be used to delete borrowers, as follows:
 1. If deleting a borrower for whatever reason, or
 2. If deleting a borrower due to death or divorce, and the borrower has made less than 7 payments since the death/divorce.

(Standard FHA documentation and underwriting requirements for income, assets and credit; to be run through FHA TOTAL; allowed on streamlines with appraisals and streamlines without appraisals).

3. If due to death or divorce, and the borrower has made at least 7 payments since the death/divorce, credit qualifying is not required.
- If the FHA Case Assignment includes the message: "Warning: Refinanced Indemnification Case", the loan is not eligible as a Streamline refinance.

~~The following additional requirements apply to streamlines where the file credit score <660~~

- ~~Ratios will be calculated by underwriting, and should not exceed 65%; however, ratios are not to be entered into DT or displayed on the LT.~~
- ~~One-year 4506 tax transcripts are required for self-employed borrowers.~~

Underwriter requirements

Underwriters will files for meeting requirements, with special emphasis on:

- payoff calculation
- Calculation of the new loan amount Completed 1003 and 92900A with borrower and originator signatures
- Employment **and income** confirmed **income to match 1003**
- ~~Completing the Lender Employment certification~~
- Assets verified, and consistent with 1003, conditioning for maximum amount borrower may bring to closing being the maximum that was verified.
- FHA's requirements for Net Tangible Benefit having been met
- Completed FHA Streamline worksheet to be included in the loan file to show loan calculations and payment changes.

New Construction

Underwriter requirements

Any property less than one year old at the time of application is classified as New Construction, regardless of previous occupancy. One year is determined by the date the certificate of occupancy was issued.

- No construction draws allowed
- If a property is less than one year old but being sold by a lender that foreclosed on the builder, new construction documentation, including termite certification and treatment, is not required – Although new construction documentation is not required, the investor requires a copy of the certificate of occupancy
- Construction exhibits are not required for re-sales of properties that are less than one year old, provided all of the following criteria are met:

- Property is 100% complete, including all on and offsite improvements
- Re-sale is an arms-length transaction

New construction properties fall into the following categories:

- Proposed Construction - Excavation of construction site has not yet begun and foundation is not yet in place
- Under Construction – Any construction phase after site excavation but appraiser indicates construction is not yet complete
- Existing Construction Less Than One Year Old – Property is complete and appraisal is completed as is

Property Taxes

- Property tax amounts included in the PITI and property tax escrows must be calculated based on the fully assessed property value – Obtain actual tax amounts from the local tax assessor’s office
 - For new construction properties only, taxes may also be calculated using 1.25% of the appraised value of the property.
- Building on own land
 - Not permitted

Earth Fill

- If the Builder’s Certification – HUD Form 92541 indicates the site has “earth fill,” one of the following must be provided:
 - Soils and Structural report from a licensed engineer stating the property complies with HUD Handbook 4145.1 and FHA Data Sheet 79g or
 - Soils and Structural report from a licensed engineer stating that “re-compaction” is ≥ 95% and the “percent compaction” is ≥ 100%

Option A – New construction (one year old or less), where the local jurisdiction issues building permits and performs local inspections/issues Occupancy Certificates. All of the following are required to satisfy the requirements for obtaining a high ratio loan (LTV over 90%).

- An issuance of a building permit (or equivalent*) by a local jurisdiction prior to construction – this permit is acceptable evidence of “pre-approval”, (a copy of the permit must be retained in the file).
- An issuance of a Certificate of Occupancy (or equivalent*) – this certificate is evidence of the local inspections. FHA will no longer approve local jurisdictions to perform these inspections since the Certificate of Occupancy will be accepted as verification of these inspections.
- A Final Inspection by a designated FHA Fee Inspector or original appraiser – this is needed in order for the underwriter to certify the property is 100% complete AND the property meets HUD’s minimum property standards, which is a requirement of the 92900-A.
- 1-year Builder Warranty
- Form HUD 92541 (Builder’s Certification of Plans, Specifications & Site)
- All applicable construction documents from the builder.
- Neither an Early Start Letter nor a HUD approved 10-year warranty plan is required.
- Form HUD 92900-A, page 3, “Direct Endorsement Approval for a HUD/FHA Insured Mortgage”, has been revised to include a check box for the lender to certify that the property is 100% complete and that the property meets HUD’s Minimum Property Standards. This must be done whether the loan is using the “Alternative to Inspections” option or not.

(*A letter from the local jurisdiction explaining their “equivalent” to a building permit or occupancy certificate must be retained in the file along with a copy of the “equivalent”.)

Option B – New Construction (one year old or less), where the local jurisdiction does not issue a building permit and a Certificate of Occupancy. All of the following are required to satisfy the requirements for obtaining a high ratio loan (LTV over 90%):

- An Early Start Letter or Proof of enrollment in a warranty plan acceptable to HUD.
- For Proposed Construction, the Initial Framing and Final inspections by the fee inspector is required, unless a 10 Year Warranty is obtained. If the 10-year warranty is obtained, only a Final inspection by the FHA Compliance Inspector is required.
- 1-year Builder Warranty

- Form HUD 92541 (Builder's Certification of Plans, Specifications & Site)
- All applicable construction documents from the builder.

Construction Inspections as listed below:

Type of Construction	Proposed Construction		Under Construction		Existing, Less Than One Year	
	Option A	Option B	Option A	Option B	Option A	Option B
Initial Inspection		X				
Framing Inspection		X				
For all condos, or if property is less than 90% complete at first appraisal Final Inspection <u>required</u> by FHA Compliance Inspector (Form 92051)	X	X		X	X or URAR showing 100% complete	X or URAR showing 100% complete
For any property other than a condo or less than 90% complete at first appraisal Final inspection by FHA appraiser <u>accepted</u> (using form 92051); FHA compliance inspector is accepted, but not required	X		X		X or URAR showing 100% complete	X or URAR showing 100% complete
Final inspection by Local Building Inspection (Permit sign-off) if separate from Certificate of Occupancy	X	FHA <u>compliance inspector</u> only	X		X	
Building Permit	X		X		X	
Certificate of Occupancy	X		X		X	
1-Yr Warranty (Form HUD-92544)	X	X	X	X	X	X
10-Yr Warranty		X* requires FHA final		X		X

- If a 10-Yr Warranty is obtained, the Initial and Framing Inspections are not required.

Condos:

- **Require 10 yr warranty**
- **Cannot use the local jurisdiction sign-off; must have final inspection (92051) completed by FHA Compliance inspector.**

10-Yr Warranty

- Evidence of acceptance from an acceptable 10-year plan is required (application for a 10 year warranty is not acceptable)
- Not required on low LTV loans (90% or less)
- **10-yr Warranty is always required on all new, proposed or under construction Condominiums**

Final Inspections (form 92051):

- **Except as indicated above, all must be completed by an FHA Compliance Inspector, not the appraiser.**
- **DE Underwriter must also sign this form.**

New Construction Documentation requirements

The following construction documents need to be collected

- Builder's Certification of Plans, Specification, & Site (Form HUD-92541)
- Builder's Warranty (Form HUD-92544), not required on Low LTV if under construction or less than one year old
- 10-Yr Warranty (when required per above); not required on Low LTV
- Plot Plan
- Plans and Specifications required by the local authority for building permit approval. If the local authority does NOT approve plans and specifications to obtain a building permit, the following additional exhibits must also be collected:
 - Foundation or basement plans
 - Floor plans and exterior elevations
 - Description of Materials (Form HUD-92005)
 - Design and local authority approval of individual water supply and/or sewage disposal system
- Pest Control: In areas susceptible to termite damage: NPCA 99a Subterranean Termite Treatment Builder Certification and Guaranty, AND if soil treatment was used, NPCA 99b New Construction Subterranean Termite Record (this requirement includes condominiums). To confirm: this is required on all new construction designations, including Existing -Less than One year Old properties
- Individual Sewer and Water: If applicable and required by appraisal, evidence of approval from local Health Authority

All other documents normally submitted, such as inspection reports, soil poisoning certifications, appraisal reports, etc., are to be collected as usual.

Leasehold Requirements

Leasehold documentation must be submitted and reviewed by the HSOA underwriter. Leasehold documentation for properties located within the purview of the Denver HOC require submission and approval from the Denver HOC.

- Must have a term extending at least 10 years beyond the maturity date of the mortgage.
- Ground rentals are established in the local market place, but in no case may the annual rental exceed the lesser of:
 - 12% of the site value, OR
 - The mortgage interest rate at the time of underwriting, less 2%, times the site value.
- Ground rentals may increase periodically, subject to the following:
 - Rental amounts may not be increased for the first three years of the lease term. Subsequent rental increases may occur no more frequently than once every 12 months.
 - Increases must be stated in the lease document in exact dollar amounts.
 - Establishment of future rentals by negotiation or by formula is not permitted.
 - Increases in any 12-month period may equal no more than 2% of HUD's original site valuation, but at no time may annual ground rental exceed 12 percent of HUD's original site valuation.
- Leases may not contain restrictions of assignability such as assignment by way of mortgage or assignment to or by the Federal Housing Administration or Department of Veterans Affairs or upon foreclosure, nor withhold consent for assignment because of the assignee's national origin, race, color or creed so long as the leasehold is covered by an insured mortgage or a mortgage held by the secretary or so long as the Secretary owns the leasehold.
- Subject to the exceptions listed below, the lease must permit lessee or assigns to purchase fee simple title from lessor or assigns with 30 days written notice. The option price of the fee simple title is intended to reflect HUD's recognition of value ascribed to the stream of income produced by the lease. Thus underwriting instructions require the lease to permit purchase at a price not to exceed HUD's original valuation of the leased fee. Buyer and seller may agree that this right shall not be exercised during the first five years of the lease term. See below for exceptions:

- Where the state, including any political subdivision thereof, of the United States, an Indian Tribe, an Indian, charitable institution, a church, university or similar public purpose institution, is the lessor and an option to purchase would not be permitted under existing laws or regulation.
- Where the property is located in an area which the commissioner has determined that the option to purchase is not economically feasible or acceptable because of the custom and practices.
- Mortgagee must have the right to correct lessee's defaults within 120 days from receipt of notice of intent to terminate lease because of such default, or such further time as may be necessary to complete foreclosure.
- The lease must provide that ownership of both the fee simple title and the leasehold estate by the same owner will not affect a merger of such estates while either estate is encumbered by a mortgage, without the written consent of the mortgagee.
- The terms of the lease must not conflict with the terms of the mortgage.

Buying out a leasehold

- Leasehold must be bought out and payoff obtained from the Title Company
- Title company must update the title commitment to recognize the leasehold will be bought out and property fee simple when transaction is complete.
- Appraisal to be ordered as being subject-to' conversion to fee ownership. Appraiser must
 - Indicate on page 1 of appraisal that the property is "Fee Simple.
 - On page 2 of the appraisal the appraiser must check the 4th (final) box "Subject To" based on "extraordinary assumption that the condition does not require alteration or repair".
 - Determine value with fee simple ownership.
- ROC will obtain the new deed indicating that the subject is now Fee Simple and provide to the appraiser to obtain a 1004D.

Financed Properties

Borrower may own no more than one home with FHA financing, unless:

- Borrower is a non-occupying Co-borrower for a family member on another FHA mortgage. Loan file documentation must include:
 - no pattern of late payments on that existing FHA mortgage, and
 - family relationship. and
 - evidence that borrower was not an occupant purchaser
 - final 1003 showing intention not to occupy, and
 - billing statement on existing property showing property address, and that address not being on the new loan credit report, file documentation, DataVerify or 1003 as a previous or current residence mortgage reference on that loan, showing no pattern of late payments (regardless of who pays them).
- To remove the existing loan from the ratios, provide the most recent 12 months checks that show the primary obligor is paying them and all payments having been paid promptly.
- This policy includes all borrowers who are on title to a property encumbered by an FHA-insured mortgage, regardless of whether they are also obligated on the FHA-insured mortgage.

FHA Seven Unit Limitation

Prohibits any borrower from obtaining FHA-insured financing for a property that may be rented if the borrower has or will have a financial interest in more than seven rental units (regardless of financing type) in a contiguous area, generally defined as within a two-block radius.

Seller/Interested Party Contributions

Interested parties include, but are not limited to, the builder, developer, seller of the property and the real estate agent. Contributions from interested parties are acceptable with the following limitations:

- Maximum contribution is 6% of the property's sales price towards the buyer's actual closing costs, prepaid expenses, discount points and other financing concessions.
- Included in the 6% limitation are buydown funds and payment of the UFMIP (partial financing of the UFMIP is not allowed).

- Any seller contribution exceeding 6% of the sales price results in a dollar for dollar reduction to the sales price before calculating the maximum loan amount
- Items such as the owner's title policy that are customarily paid by the seller are not included in the 6% seller contribution limitation
 - Items customarily paid by the seller vary by state
 - Documentation indicating a fee is typically seller-paid may be required

Job Loss Insurance

- May be paid by builder or seller of property
- HUD-I must reflect payment made directly to the insurance company
- Amount paid on behalf of the borrower is included in the 6% seller contribution limitation
- A copy of the insurance policy is required at closing

Homebuyer Counseling

- May be paid by builder or seller of property
- Amount paid on behalf of the borrower is included in the 6% seller contribution limitation (typical fees are \$250)
- A copy of the homebuyer counseling certification is required prior-to-closing

Inducements to Purchase

Expenses paid by the seller above and beyond reasonable and customary closing costs and pre-paid expenses are considered an inducement to purchase and result in a dollar-for-dollar reduction to the sales price before applying the appropriate LTV ratio. Inducements to purchase include but are not limited to the following:

- Seller-paid closing costs and pre-pays in excess of 6% of the purchase price or in excess of the actual closing costs and pre-paid expenses
- Decorating allowances
- Repair allowances
- Moving costs
- Excess rent credit
- Gift funds that do not meet the gift requirements in the "Gift Funds" section of this document, including someone other than a family member paying off debts
- Personal property items not normally included in the purchase of a home (e.g. boats, cars, riding lawn mowers, furniture, televisions, etc.)
- Sales commissions paid on behalf of the borrower on the sale of the borrower's present residence
- Borrower does not pay real estate commission on the sale of a present home when the real estate broker or agent is involved in both transactions and the seller of the property purchased by the borrower pays a real estate commission exceeding that typical for the area

HSA Exposure Limitations

The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower.

- HSA will finance up to 4 properties including the subject property (one primary residence and three second Homes or Investment properties)
- *Maximum 20% concentration in any one project or subdivision.*
- New multiple loans must be underwritten simultaneously.
- If the aggregate dollar amount of all loans to one applicant from HSA (including the amount of the new loan) exceeds \$2,000,000, the loan request requires approval by executive management.

2. Documentation

Underwriting Decision

The use of FHA TOTAL Scorecard is required on this on all loans except non-credit qualifying streamline refinances. The documentation requirements in the findings supersede standard FHA documentation requirements unless the loan parameters fall within the Manual downgrade scenarios in this section.

Document the loan according to FHA and FHA TOTAL Scorecard requirements. In addition, the following apply:

- See Minimum Trade Lines and Credit Inquiries (section 3)
- A 4506-T **for tax transcript** must be executed before closing, with findings acceptably validated. An additional 4506-T must also be signed at closing. See below for details
- Transactions determined to be Higher Priced Mortgage Loans are not eligible for any documentation relief. Files must have traditional income documentation covering two years, all assets verified and a full appraisal.

4506-T requirements

- A signed 4506-T tax transcripts will be processed for at least 1 year regardless of AUS findings except as noted. The most recent year's tax transcript is required if income information was used in the underwriting decision regardless of AUS results. If the most current year's tax transcripts are not available the following must be provided:
 - the previous year's transcripts
 - evidence that the extension was filed & IRS payment made / or refund received for the most current year
 - most recent 30 days paystubs & most current W2s
 - For **self employed** borrowers, a P&L for the most current tax year is also required. 1040s that can not be validated, along with payment, can be used in lieu of this P&L.
 - If the borrower is not using the most recent year's tax returns you must also obtain and analyze their business tax returns if it's a S-Corporation, Corporation or Partnership along with the appropriate K1's. Example: Today you receive a file with an extension for 2009 tax returns and the borrower is self-employed through his corporation. DU findings are asking for one year most recent 1040's. Since the qualifying income we are looking at is from 2008, we would also require their business returns from 2008, a copy of their extension for 2009 and a P & L for 2009 along with YTD P & L for 2010.
 - If business funds are used as the down payment, the borrower must also provide the most recent business returns.(in addition to the CPA letter stating that use of business funds will not have a material affect on the cash flow of the business).
 - **Please note that if income for more than the most current year is used, tax returns and 4506Ts must still be obtained for all years of income used.**
 - 4506T must be processed for most current year and show "no record"

Regardless of the risk assessment made by FHA TOTAL the DE underwriter remains accountable for compliance with FHA guidelines and eligibility requirements, as well as for any credit, capacity, and documentation requirements.

Manual downgrade of AUS "Approve/Eligible" when:

- **Foreclosure or Short sale** is dated within three years prior to the date of the application.
- **Significant material derogatory items** were not part of the credit report used by DU
- **Disputed tradelines** are reflected on the credit report, except those considered insignificant, as follows:
 - Is marked 'paid in full' or 'resolved', or
 - Has a zero balance, or
 - Is both less than \$500 and more than 24 months old
- **Chapter 7 Bankruptcy discharge** is dated within two years prior to the date of the application
- **Chapter 13 Bankruptcy discharge is dated within 24 months of application date, or the bankruptcy is still in process**
- **Mortgage late payments** – see Section 3- Credit; Mortgage Lates

- Borrower has less than 2 year employment history (includes borrowers who have been in school during the past 2 years)

“ZFHA” is to be entered as the underwriter on 92900-A page 3, LT, and in FHA connection for all FHA TOTAL ‘approve/eligible’ transactions (not down-graded). For all manual downgrades, Refers, and non-credit qualifying streamlines, the underwriter ID number is to be used

“Refer” AUS Findings and Manual Downgrades

Summary of Investor acceptance based on TOTAL Findings:

	Investor C	Investor P	Investor F	Investor S
Accept/Approve eligible (not down-graded)	Yes	Yes	Yes	Yes
Accept/Approve downgraded to manual underwrite	No	No	Yes	Yes, to standard loan limits; No on High balance
Refer/Eligible	Yes-No	No	Yes	Yes, to standard loan limits; No on High balance
Refer/Ineligible	No	No	No	No

Loans with Refer/Eligible findings are eligible for Investor C and Investor F; use the exception process to steer to the appropriate investor F. For Investor C, no Additional investor exception criteria requirements are required; Investor F criteria are apply, as listed below:

AUS Refer or manual downgrade permitted with the following criteria only:

- Chapter 7 Bankruptcy: Must be discharged 3 years
- Chapter 13 Bankruptcy: Must be discharged 1 year
- Foreclosure or Short Sale: Must be discharged for 5 years
- Maximum DTI 45%; compensating factors required if ratios exceed 31/43%
- Maximum loan amount is standard loan limits; FHA High Balance loans are not eligible
- Detailed credit explanation for any credit derogatories
- Down payment assistance (DPA) programs are not allowed
- *Gifts for paying off/down consumer debt are not allowed*
- *If a previously owned property was sold on an assumption*
 - Document the assumptor has been 0X30 in past 12 months
 - Closing statement or appraisal from the assumption sale showing the assumed loan is <=75% LTV
 - Provide copy of the assumption documents
- Assets verified with either 2 months bank statements, or a VOD and one month bank statement
- Proof of stock or bond liquidation is required, if applicable

For all Manual Down-grades and for those Refer/Eligible AUS recommendations directed to Investor F, the following additional conditions must be met:

- ~~Must be a retail transaction; Wholesale loans temporarily ineligible~~
- ~~Maximum loan amount is standard loan limits; FHA High Balance loans are not eligible~~
- ~~Detailed credit explanation for any credit derogatories~~
- ~~Must have a TOTAL accept (not a Refer finding), and MUST have significant extenuating circumstances for Foreclosures, BK and ‘Shorted’ transactions, and re-established credit if~~
 - ~~Foreclosure within 3 years,~~
 - ~~BK (7 or 13) discharged within 2 years~~
 - ~~Borrower had a short sale/DIL/ short payoff in the past 3 years~~

- Ratios exceed 35/45
- Borrower's credit score <680 and receives a gift, grant or loan from a family member
- 1 or 2 unit property (3-4 unit properties are not eligible)
- Down payment assistance (DPA) programs are not allowed
- Gifts for paying off/down consumer debt are not allowed
- If a previously owned property was sold on an assumption
 - Document the assumptor has been 0X30 in past 12 months
 - Closing statement or appraisal from the assumption sale showing the assumed loan is <=75% LTV
 - Provide copy of the assumption documents
- 31/43 ratios — see Ratio section for compensating factors if exceeded
- Assets verified with either 2 months bank statements, or a VOD and one month bank statement
- Proof of stock or bond liquidation is required, if applicable
- Forms required
 - FFG-9347 Streamline refinance without appraisal
 - FFG-9348 Net Tangible Benefit or the state specific required NTB form
 - FFG-CFG-3240 Verbal VOE
 - FFG-CFG-3257 SSN validation
- Settlement attorney must have investor approval if the property is the Bronx, Kings, or Queens boroughs of New York City.
- Property seller must be on title at least 31 days prior to purchase contract date
- Appraisal must be ordered through Streetlinks if any of the following is true (transferred in appraisals are not accepted):
 - Property is being sold by an LLC or other non-lending entity that is not the builder/developer Property has 2-4 units
 - Property is a condominium located in Florida
 - Borrower is an employee in the sales or production function of any mortgage originating branch or company

“Credit Reject” in FHA Connection

Transactions with a credit reject notice in FHA Connection regarding the subject property or borrower's income/employment, assets or credit are not allowed. This does not apply if the reject warning applied to a different property (case queries based on SSN) or different borrower (case queries based on FHA case number).

Signed Tax Returns Defined

References to signed returns means either copies of signed federal tax returns or tax returns that have been validated via a IRS 4506T.

Age of Documentation

- HUD REO appraisals: 120 days
- ~~90 days for title commitment~~
- ~~120 days for all other documents. In addition, bank statements must be dated within 45 days of the initial application date.~~ The maximum age of all credit documents (including prelim, credit report, employment, income, and asset documents) is 60 days at the time of underwriting, 90 days at the time of funding, regardless of AUS requirements.
- Updated credit reports are required when the existing credit report is expiring, or when there are material changes to the reported information. HSA will NOT accept an updated credit report solely because the credit score has improved.
- See below for Conditional commitments and 1004D acceptance

Conditional Commitments: 120 days, on all appraisals including existing or proposed construction.

Extensions without a 1004D

The underwriter should note the extension on the HUD form 92900-LT and conditional Commitment (for the conditional commitment, the underwriter must handwrite this comment, such as “30 day extension included

in expiration date”), with the LT explaining why the extension was granted. On purchases, indicate the purchase contract execution date, which must be before the appraisals 120 day expiration date).

If the LT is subsequently updated, the initial approval date (which must be prior to the appraisal’s 120 day expiration date on refinances) must remain on the LT, with a note added indicating the re-approval/updated approval date’. The LT approval date and the Conditional commitment Action date must be dated the same date, and must be prior to the appraisal expiration date. (note: the AUS last run date does NOT need to match the LT approval/Conditional Commitment Action date).

Extensions with a 1004D

Form 1004D, Part A, Appraisal Update Report may be used to extend the validity period for the original appraisal report, in lieu of ordering a new appraisal report, when the following conditions are met:

- The Update Report may not be used if the property value has declined.
- The Appraisal Update Report may only be used one time to extend the validity period of the original appraisal report.
- The Appraisal Update Report must be ordered and performed prior to the expiration date of the original appraisal report.
- The FHA appraiser who performed the original appraisal must perform the appraisal update and the appraiser must be in good standing with FHA at the time the Appraisal Update is performed.
- The appraiser must provide an updated Market Conditions Addendum, Fannie Mae 1004MC, to update their research and analysis of the current market data to validate the subject property has not declined in value. The appraiser must certify there has been no decline in value on the Update Report form.
- The appraiser must be able to observe from the street or a public way the subject property's improvements that contribute value to the property.
- An exterior inspection of the property must not indicate any significant changes or deficiencies that were not observed at the time of the original appraisal report's effective date.
- If the original appraisal report was transferred to a new lender, the appraiser must attach the original appraisal report to the Appraisal Update Report instead of referencing the report. This is a USPAP requirement.
- The appraiser must provide new photos of the subject property from the street and photos from as many angles visible from a public way.
- The loan must close within 120 days of the 1004D’s effective date. The 30-day extension is not permitted

Underwriter action steps

The underwriter should note the 1004D extension on the HUD form 92900-LT and conditional Commitment (for the conditional commitment, the underwriter must handwrite this comment, such as “120 day extension included in expiration date”), with the LT explaining why the extension was granted.

The LT approval date and the Conditional commitment Action date must be dated the same date; (note: the AUS last run date does NOT need to match the LT approval/Conditional Commitment Action date). The loan must be funded by HSOA by the date on which the 1004D becomes 120 days old

3. Credit

Credit and Credit Scores

All borrowers must have a minimum representative credit score as listed in the Loan amount matrix. A tri-merged credit report is required on all borrowers on all FHA loans, including streamlines. Individual credit reports are required for unmarried borrowers who do not have joint accounts. Credit for married borrowers is to be pulled jointly.

Minimum trade lines

Each borrower must have sufficient credit depth such that, for loans rated as Accept/Approve and not manually down-graded:

- **Scores:** at least two repositories report a credit score, and
- **Open:** at least one trade line is currently open, and
- **Recent History:** at least one trade line reports a 12 month history, for which the most recent reporting date is not be more than one year old.

One trade line that is both currently open and reporting a 12 month history can be used to meet both the open and 12 month recent history requirements.

For loans rated as Refer or manually down graded, three trade lines are required, with each trade line reporting at least a 12 month history. For joint credit reports, this three trade line minimum applies to the credit report, not each applicant.

Eligible trade lines are standard reporting creditors, and do not include authorized user accounts, judgments, disputed accounts, foreclosures, repossessions, collections or charge-offs, non-traditional creditors, or student loans that were in deferment status during the required time frame.

Exceptions for borrowers not meeting the Open and Recent History requirements (but who meet all other credit and credit score requirements, and have at least two scores) will be considered with a documented recent 12 month prompt rental payment and a housing payment shock not exceeding 50% (example: payment increasing from \$1,000 to \$1,500).

Decision Credit Score Determination

Credit report must indicate all 3 repositories were accessed. The Decision Credit Score is determined for each borrower using the following method:

- When three scores are reported (one from each Bureau), the middle score is used
- When two scores are reported, the lesser of the two is chosen
- When only one score (or no score) is reported, the loan is ineligible for FHA financing

Loan Representative Score:

- If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrowers' representative scores.

Mortgage Payments – Reporting History and Late Payments

Borrowers who are currently, or at the time of closing, delinquent or in arrears on their existing mortgage are not eligible. For all refinance transactions, mortgage payment history must be updated through the month of pay-off. Example: credit report is dated in June, but last mortgage reporting month is April; loan closes in August.....File must document that May, June and July payments were all made within the month they were due.

Mortgage late payments allowed:

- Purchase and Rate/Term: Maximum **0X30** ~~2X30~~ on all mortgages in the 12 months prior to application, and must be documented as current for the month due.
- Streamline Refinance: 0X30 in the 12 months on subject property mortgage prior to application.
- Cash out Refinance: 0X30 in the 12 months on all mortgages prior to application.

Non-borrowing spouse credit concerns

If the non-borrowing spouse has a foreclosure, short sale, pre-foreclosure, short payoff, re-structured debt within the prescribed time limits, and:

- Property was acquired prior to the marriage and the borrower was never vested on title and never occupied by the borrower: not a credit concern.
- Property was acquired during the marriage or the borrower was added to title: treated the same as if the borrow was obligated.

Short Sales, Short Pay-offs or Re-Structured Debt

Note: throughout this document, any reference to Short Sale also means short payoffs, re-structured debts, modifications, etc.

For borrowers who sold or refinanced (or are selling or refinancing) a property for less than the amount owed on the mortgage (even if as agreed to by the lender, investor, and mortgage insurer), the situation is considered the same as a foreclosure. A three-year seasoning for reestablishing credit following the sale or refinance of the property is required.

If the subject property is the same property that was 'short' refinanced, then the loan is ineligible.

Chapter 13 Bankruptcy

If borrower is still in repayment on Chapter 13 bankruptcy repayment:

- The borrower must have 12 months of prompt payment history on the Chapter 13 bankruptcy.
- Trustee approval is required.
- Bankruptcy payment must be included in qualifying ratios.
- If the loan receives a Total Scorecard "approve" or "accept" response and the borrower had a bankruptcy discharged within the most recent two years, the loan must be manually downgraded to a "refer" response – Full manual underwrite is required and the file must be documented according to manual underwriting requirements. Documentation relief indicated in the findings is no longer valid, and the "refer" response underwriting ratios apply.

Cash out restrictions

If the Chapter 13 repayment plan:

- *included mortgage payment arrearages, or required a reduction in ongoing mortgage payments, the bankruptcy must be discharged before application.*
- *Did not include reduced mortgage payments or arrearage payment, borrowers may obtain cash out to pay off all bankruptcy debts.*

~~*Note: Utilizing CCC (Consumer Credit Counseling) is considered the same as a chapter 13 bankruptcy. This applies when the bulk of borrower's credit obligations were included in the CCC, not isolated tradeline(s). Provide a copy of the CCC plan and borrower explanation letter.*~~

Credit Counseling

Borrower may currently be in active consumer credit counseling if:

- AUS Approval required; no Refer or manual downgrade permitted.
- The borrower has participated in the plan for 1 year with no lates.
- An explanation letter from the borrower regarding the counseling is required
- If the transaction is a purchase, payment shock > 25% will require a concurrence by underwriting manager or team lead.

Chapter 7 Bankruptcy

Minimum time from discharge to application date is **two** years prior to application date. Mortgages included and discharged through a bankruptcy are considered a foreclosure, and must meet the foreclosure timeframes.

If the loan receives a Total Scorecard "approve" or "accept" response and the borrower had a bankruptcy discharged within the most recent two years, the loan must be manually downgraded to a "refer" response – Full manual underwrite is required and the file must be documented according to manual underwriting requirements. Documentation relief indicated in the findings is no longer valid, and "refer" response underwriting ratios apply

Foreclosure

Minimum time from foreclosure completion is **three** years prior to application date. Foreclosure rules apply to any property owned or occupied by the borrower (except for renting from a landlord), or properties owned or occupied by other parties on title to the subject property.

If the loan receives a Total Scorecard “approve” or “accept” response and the borrower had a foreclosure within the most recent three years, the loan must be manually downgraded to a “refer” response – Full manual underwrite is required and the file must be documented according to manual underwriting requirements. Documentation relief indicated in the findings is no longer valid; “refer” response underwriting ratios apply

Note for bankruptcy and foreclosures, short sales, etc. File documentation must include evidence of the completion date of the bankruptcy and foreclosures (or foreclosure equivalent).

Note: throughout this document, any reference to foreclosure also means deed in lieu, Notice of Default, being >=120 days past due, etc

Prior Bankruptcy or Foreclosure – subsequent payment history

- No housing delinquency or new public records since discharge.

Loan modifications

- Refinance transactions on previously modified loans are not permitted.
- New purchase transactions where the borrower’s previous loan was modified and the property is being retained as a 2nd home or investment property are not permitted.
- New purchase transactions where the borrower’s previous loan was modified and the property is being sold are not eligible unless the modification was *at least 3 years ago*.
- Refinances where another property (not the subject property) has a loan modification are not eligible unless the modification was *at least 3 years ago*.

Judgments

- Judgments must be satisfied prior to closing ~~unless both of the following items are provided:~~
 - ~~Fully executed repayment agreement~~
 - ~~Evidence timely payments have been made (Evaluated on a case-by-case basis generally for a minimum 12-month period)—The payment must be included in the debt-to-income ratios when qualifying the borrower~~
- Judgments that have been paid in full but do not indicate a “satisfied” status on the credit report require evidence of satisfaction from the court. A paid-in-full letter from the creditor **does not** satisfy FHA’s requirements
- Judgments belonging to a non-borrowing spouse are subject to all of the above requirements when the borrowers live in or purchase a property located in a community property state
- All outstanding judgments on title must be removed prior-to-closing. For cash-out refinances, proceeds may be used to payoff outstanding judgments at closing ~~—Underwriter exception acceptance required and exceptions are granted on a case-by-case basis.~~ The lender is required to provide evidence of the judgment’s satisfaction from the appropriate court after the loan closes

FHA cash out refinance >\$417,000 with Bankruptcy or Foreclosure

*Time elapsed since the completion of a Bankruptcy or Foreclosure on FHA refinances exceeding \$417,000 and providing cash back is 7 years to the date of application. Exceptions will be considered on strong files **subject to exception approval.***

Credit Inquiries

If the credit report indicates that a creditor has made an inquiry (other than the inquiry by the originator for the subject transaction) within the previous 120 days, a letter from the creditor or signed statement from the

borrower is required to determine if additional credit was obtained. Any new debt must be included in qualifying the borrower.

Derogatory Credit Explanations

- “Accept” or “approve” responses do not require credit explanation letters
- All “refer” response loans and manual downgrades for borrowers having derogatory credit must contain a credit explanation letter at the time of initial submission. All of the following must be explained:
 - Late payments within the most recent two years
 - Collections, chargeoffs, judgments, and public records, regardless of time frame

Disputed Tradelines

Transactions with disputed accounts (except those considered insignificant, as indicated in the Section 2 – Documentation) require a manual underwrite and meet manual underwriting requirements.

If the tradeline **does not** belong to the borrower, or the reported payment history is **inaccurate**, written documentation is required to evidence the erroneous information. When the information is validated, no further action is required.

If tradeline **does** belong to the borrower and the reported payment history is **accurate**, the disputed tradeline(s) must be considered in the credit risk assessment.

Pay-off Demand Statements

Current pay off demand statements are required on all refinances, and must show that the loan:

- is not 30 days delinquent
- does not contain charges associated with default/forbearance
- does not indicate a curtailment of principal/interest (e.g. short pay)
- meets the program requirements for mortgage delinquencies
- Payoff demand expiration date requirements are as follows:

Borrower made the previous month’s payment (disbursing in December, borrower has made the November payment):

- HSOA must obtain an updated payoff demand if the loan proceeds will be disbursed after the payoff demand expiration date.

Borrower made the current month’s payment (disbursing in December, borrower has made the December payment):

- Payoffs that expire during the funding month; acceptable to add the per diem through the end of the month, without HSOA obtaining a payoff demand update.

In all cases:

- Closing agent must confirm the payoff demand amount with the existing lender; if any changes, notify HSOA prior to closing the loan and disbursing funds;
- Closer/Funder must compare payoff demand amount to the demand in file, return to underwriting for adjustments if the payoff amounts changed (unlikely to occur).

Reminder:

- **Be sure the payoff calculation includes the appropriate per diem charges through the closing agent’s disbursement date.**
- **Payoff demand expiration dates and the number of days of per diem interest are to be based on the date when the closing agent disburses funds (not HSOA closing or funding date).**

Collections and Charge-Off Payment Requirements

For all transactions except non-credit qualifying streamlines, collections and charge-offs (including medical collections and charge-offs) must be paid off, with source of funds verified, in the following scenario:

- *If the credit report does not show a recent 12 month mortgage history, collections or charge-offs less than 2 years old must be paid, regardless of the amount.*

Disputed items may remain unpaid if it has not reached a judgment or lien status and the borrower has documented evidence of the dispute.

4. Employment/Income

Stable monthly income is the borrower's verified gross monthly income from all verifiable sources, which can reasonably be expected to continue. (Except for Verbal VOEs, this section does not apply to non-qualifying streamlines.)

Verbal Verification of Employment (VVOE)

HSOA will obtain a verbal confirmation of current employment or self-employment ~~a within 5 business days prior to funding the loan~~ a maximum of 3 days prior to the Note date, and will expire after days after the Verbal VOE is completed if the loan is not funded. This applies to all loans, including streamline refinances.

Verbal VOE requirements for self-employed income:

HSOA must verify the existence of the borrower's business

- from a third party, such as a CPA, regulatory agency, Secretary of state office, or the applicable licensing bureau, if possible; **and**
- by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance. Other examples include – when accompanied by a borrower explanation as to how they conduct business and obtain clients without a publicly available phone number, cell phone bill showing a business name, client reference letter, copy of recent newspaper advertisement. **However, internet sites such as 411.com, Chamber of Commerce and Manta.com where business owners are allowed to add their own information are not acceptable for verifying employment.**

If the contact is made verbally, HSOA must document the source of the information obtained and the name and title of the person who obtained the information for HSOA.

Salaried Borrowers

To verify employment and income for employed borrowers (wage-earners):

For loan applications rated as Accept/Approve and not manually down-graded, follow FHA TOTAL Scorecard requirements, which typically are as follows:

Current Employment---Provide the single most recent pay stub (showing year-to-date earnings of at least one month) **and** any one of the following to verify current employment:

- Verbal verification of employment completed by HSOA
- Written Verification of Employment (VOE)
- Electronic verification acceptable to FHA

Employment History---Verify the applicant's employment history for the previous two years. However, direct verification is *not* required if *all* of the following conditions are met:

- The current employer confirms a two-year

For loan applications rated as Refer or are manually down-graded

Current Employment---Provide the single most recent pay stub (showing year-to-date earnings of at least one month) **and** any one of the following to verify current employment:

- Written Verification of Employment (VOE)
- Verbal verification of employment completed by HSOA
- Electronic verification acceptable to FHA

Employment History---Verify the applicant's employment history for the previous two years. Obtain one of the following for the most recent two years to verify the applicant's employment history:

- W-2(s)

- Only base pay is used to qualify (no overtime or bonuses)
- The borrower signs form IRS 4506 or 8821 for the previous two tax years.

If the applicant has not been employed with the same employer for the previous two years and/or all conditions immediately above cannot be met, then one of the following for the most recent two years is required to verify the applicant's employment history:

- W-2(s)
- Written VOE(s)
- Electronic verification acceptable to FHA

- Written VOE(s)
- Electronic verification acceptable to FHA

Employment Gap

Accept/Eligible and not manually down-graded:

- Obtain an explanation for employment gaps of greater than **60** days if it occurred within the last two years.

Refer or manually down-graded:

- Obtain an explanation for employment gaps of greater than **30** days in duration if it occurred within the last two years.

Borrowers Re-entering the Workforce

Borrowers who are re-entering the workforce after non-employment of 6 months or more, and have an employment and income history that covers less than the 2 most recent years must be with their current employer for a minimum of 6 months and must have a documented 2-year work history prior to the previous absence from employment.

Commission Income

The following is required for borrowers whose commission income is 25% or more of their income:

- The commission portion of the borrower's income is averaged over the most recent two years
- Copies of the borrower's personal tax returns are required, and un-reimbursed business expenses from Schedule A of the 1040s must be deducted from the gross commission before averaging the commission income
- If commission income is declining, it cannot be used without evidence of significant compensating factors
- If the borrower has received commission income at least one year but less than two years, the commission income may be used for qualification purposes, provided the lender documents the income is likely to continue and the underwriter's rationalization is documented in writing in the file.
- If the borrower has received commission income less than one year, the income is not eligible for qualification purposes unless the borrower's income was re-structured from salary to commission **and** the borrower works in the same or similar position with the same employer.

Overtime and Bonus Income

- Eligible, provided borrower has received the overtime and/or bonus income for the past two years, and it's likely to continue
 - Income is averaged over most recent two years
 - If income is declining, income cannot be used without justification by the lender and documentation supporting the justification must be included in the file
 - If income varies significantly from year-to-year, income must be averaged over a period of time greater than two years

- If income has been received less than two years, it may be acceptable, provided lender justifies the use of it in writing and that justification is documented in the file
 - Overtime and bonus income are ineligible if the verification of employment indicates it's unlikely to continue

Part-Time Income

- **Part-time Primary Employment Income**
 - Eligible, provided the lender can document the stability of income and likelihood of ongoing employment
- **Part-Time Income from a Second Job**
 - Eligible, provided borrower has received second job income for the most recent two years, and it's likely to continue
 - FHA defines part-time income as “jobs taken to supplement the borrower’s income from regular employment, such as a second job that is less than 40 hours per week”
 - If income from a second job has been received less than two years, it may be acceptable, provided the lender justifies the use of it in writing and that justification is documented in the file – Evidence the income is likely to continue is required

Self-Employed Borrowers

Borrowers who own 25% or more of any business are considered self-employed

Self-employed income is eligible, provided the borrower has been self-employed at least two years, and the income is averaged over the most recent two year period

- Income from borrowers who have been self-employed at least one year but less than two years may be used for qualification, provided the borrower has:
 - At least two years of successful prior employment in the same line of work **or**
 - At least two years of successful employment in a related occupation **or**
 - A combination of one year of successful employment and formal education or training in the same or related occupation
 - Income from borrowers self employed less than one year is ineligible
- The following income documentation is required for loans having Total Scorecard “refer” responses **or manual downgrades**:
 - Signed and dated individual tax returns for the most recent two years, including all tax schedules. Significant declining income may not be used to qualify the borrower(s)
 - Signed and dated corporate or partnership tax returns for the most recent two years, including all tax schedules. Significant declining income may not be used to qualify the borrower(s)
 - Year-to-date profit and loss statement and balance sheet – If the income on the current profit and loss statement shows a significant increase in income from the previous years’ tax returns, the income calculation must be based on the tax returns
- **Capital losses carried over from previous years may NOT be added back to the income.**
- If the borrower is required to file quarterly tax returns, income from the quarterly returns may be used to qualify the borrower

The following documentation is not required for loans having Total Scorecard “approve” or “accept” responses:

- Business tax returns are not required, provided all the following requirements are fulfilled:
 - Individual tax returns show increasing self-employed income over the most recent two years **and**
 - Funds to close are not coming from the borrower’s business accounts **and**
 - Loan is not a cash-out refinance
- Business credit report
- **Profit and Loss (P&L) Statements and Balance Sheets**---These documents are not required on mortgages rated “accept/approve” by FHA’s Mortgage Scorecard (and not down-graded by underwriting) *provided* that the income used in qualifying was based on the previous two years’ tax returns. However, if income used to qualify the borrower exceeds that of the two-year average based on tax returns, or if the tax returns provided are not the most recent two calendar years, then either an

audited P&L statement or signed quarterly tax returns are to be used to support the greater income stream. (example: during 2012, if 2010 and 2011 returns are provided, the P&L may be waived per above; if 2009 and 2010 are provided, then P&Ls and balance sheets are required for 2011 and YTD 2012).

Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable, even if the current income and debt ratios meet FHA guidelines. To be eligible for consideration, documentation must be provided to show stable or increased earnings since the most recent tax return. The P&Ls and balance sheets as indicated above must be supported by independent confirmation of P&L accuracy. Examples include year-to-date Sales Tax filings or business bank statements with deposits in line with the gross receipts on the P&Ls

Alimony and Child Support

- Provide evidence the income will continue at least three years after the loan closes via one or more of the following:
 - Final divorce decree
 - Fully-executed legal separation agreement
 - Voluntary payment agreement
- Provide evidence borrower has been receiving the payments for the most recent 12 months via one of the following (periods of fewer than 12 months may be acceptable, provided the lender documents the payer's ability and willingness to make timely payments):
 - Canceled checks
 - Deposit slips
 - Tax returns
 - Court records, such as a Friend of the Court statement
- If non-taxable, child support income may be grossed up:
 - Borrower files tax returns: Non-taxable Child Support income may be grossed up by the "tax rate used to calculate the borrower's last year's income tax"
 - Borrower is not required to file tax returns: Non taxable Child Support income may be grossed up by 25%
- Alimony income may not be grossed up
- For documentation requirements for loans with Total Scorecard "approve" or "accept" responses, refer to the Total Scorecard findings

Automobile Allowances

- Only the amount of the allowance that exceeds actual automobile expenses may be used for qualification
- Amount of allowance is calculated using borrower's most recent two years' IRS form 2106 – Employee Business Expenses
 - "If the borrower uses the standard per-mile rate in calculating the automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added to income"
- The borrower's monthly car payment must be included in the ratios
- Employer verification that auto allowance payments will continue is required

Boarder Income

- Eligible, provided both of the following conditions are fulfilled:
 - Boarder is related by blood, marriage or law **and**
 - Boarder income is shown on borrower's tax returns

Disability Income

- Eligible, provided the disability income will continue at least three years after loan closing
- Non-taxable disability income may be grossed up (not all disability income is non-taxable):

- Borrower files tax returns: Non-taxable disability income may be grossed up by the “tax rate used to calculate the borrower’s last year’s income tax”
- Borrower is not required to file tax returns: Non taxable disability income may be grossed up by 25%

Dividend and Interest Income

- Eligible, provided borrower has a two year history of receiving dividend and/or interest income
- Dividend and interest income is averaged over the most recent two years using tax returns
- If the borrower’s funds to close are derived from any of the accounts that provide dividend and/or interest income, subtract the portion of funds that will be depleted from the asset’s account balance before calculating dividend and interest income

Employer Subsidized Mortgage Payments (Employer Differential Payments)

- Eligible as income if the employer pays the mortgage company directly
- May not be used to offset the mortgage payment

Borrowers Employed by a Family-Owned Business

- Borrower must document that he or she does not have ownership in the company via signed personal tax returns or signed corporate tax returns showing all of the owners and the percentage of the company each owns
- If the borrower owns 25% or more of the family business, the borrower is self-employed and subject to the requirements in the “Self Employed” portion of this section below

Government Assistance Programs

- Eligible, provided documentation the income will continue at least three years after the loan closes is included in the file

Military Income

- Eligible
- Income is documented with a copy of the borrower’s Leave and Earnings Statement (LES) - Refer to the AUS findings for specific documentation requirements
- In addition to the borrower’s base pay, some allowances and additional pay types showing on the LES may be included in the borrower’s qualifying income, provided evidence of continuance is verified in writing
 - Allowances are non-taxable and may be grossed up by the “tax rate used to calculate the borrower’s last year’s income tax”
 - Additional pay, such as pro-pay, hazard pay, etc. is taxable and may not be grossed up

Notes Receivable Income

- Eligible, provided all of the following are documented:
 - Copy of the note indicating payment amount the borrower receives and how long the payments will continue (The payments must continue for at least three years after the loan closes)
 - Evidence the borrower has consistently received the income from the note for the most recent 12 months via one or more of the following:
 - Deposit slips
 - Canceled checks
 - Tax returns

Projected Income – Documented Income the Borrower Will Begin Receiving in the Future

- Eligible, subject to the following conditions:
- Income is a cost-of living adjustment, performance salary increase and/or bonus and the following documentation is provided:
 - The borrower’s employer has verified the amount of the increase in writing **and**
 - The borrower’s employer has verified the start date of the income increase in writing (the increase must take effect within 60 days of the loan closing)

- **OR**
- Income is the result of the borrower's new employment and the following documentation is provided:
 - A fully executed contract for employment (An offer letter is unacceptable) **and**
 - The contract indicates the borrower's new employment will begin within 60 days of the loan closing **and**
 - The borrower has sufficient current income and/or reserves to pay the mortgage payment between loan closing and beginning the new job

Retirement Income

- Eligible, provided it will continue for at least three years after the loan closes

Roommate Income

- Ineligible

Seasonal Employment Income (Seasonal coaching, holiday employment, etc.)

- Eligible, provided the borrower has received the income for the most recent two years **and** the borrower expects to be hired next season

Social Security Income

- Eligible, provided the social security income will continue for at least three years after the loan closes
- If borrower is not of retirement age, continuance must be documented
- Grossing up non-taxable Social Security income:
 - Borrower files tax returns: Non-taxable Social Security income may be grossed up by the "tax rate used to calculate the borrower's last year's income tax"
 - Borrower is not required to file tax returns: Non taxable Social Security income may be grossed up by 25%

Trailing Spouse Income

- Ineligible; trailing spouse income may be considered as a compensating factor only, provided all of the following requirements are fulfilled:
 - Primary wage earner is relocating for the purpose of new or transferred employment **and**
 - The trailing spouse has an established history of employment and is expected to return to work **and**
 - There is evidence of available employment within the trailing spouse's profession and that available employment is within reasonable commuting distance of the subject property

Trust Income

- Eligible, provided the borrower will receive "guaranteed, constant payments" for at least three years after the loan closes
- Document trust income with the following:
 - Copy of the trust agreement or trustee statement showing:
 - The amount of the trust **and**
 - Frequency of distribution(s) **and**
 - Duration of payments – Must be at least three years
 - If trust account funds are being used for borrower's funds to close, provide evidence the distribution will not have a negative impact on borrower's income from the trust

Unemployment Income

- Eligible, provided all of the following are documented:
 - Borrower has received unemployment income annually for the most recent two years **and**
 - Borrower works in a seasonal profession, such as landscaping or construction or works for a resort, etc., so there is reasonable assurance the unemployment income will continue

Maternity Leave

Income during leave is not accepted

Non-Employment Income

This category includes many sources of passive income such as: social security, pension income, interest income, etc.

- The underwriter must be confident this income will continue for the next 3 years.
- Documents provided can be any of the following as applicable: award letter, pension statement, IRS 1099, the most recent signed pages 1 and 2 of individual income tax returns, or other documents.
- For all tax-exempt income, the income must be grossed up once its continuance for three years has been established.

Section 8 Income

If borrower is to receive subsidies under the housing choice voucher homeownership option program from a Public Housing Agency

- Assume that the subsidy will continue for at least 3 years making the subsidy eligible to be considered as effective income for qualifying purposes.
- Monthly subsidy may be treated as income in determining the homebuyer's qualifying ratios.
- This subsidy is non-taxable, therefore may also be "grossed up" by 25%.

Identify as a Section 8 subsidized mortgage loan by entering "88" as the program identification code in CHUMS.

Rental Income

FHA loans with rental income must use the FNMA rental income calculator. This applies to any rental property owned by the borrowers and if a refinance, rental income on an owner occupied 2-4 unit property.

Subject 2-4 Unit Primary Residence

The rent received from the additional units not occupied by the borrower may be used for qualifying purposes. The rent (after subtracting the local FHA office's estimate for vacancies and maintenance, or 25% if the local FHA has not established a separate allowance) may be added to the borrower's gross income in calculating the qualifying ratios; it may not be used to offset the monthly mortgage payment.

Investment Properties and 2-4 units Primary Residences other than the subject property

- Signed leases may be used to calculate gross rents only if the property was acquired since the last income tax filing and is not shown on the Schedule E. However, no more than 75% of the gross rental income can be used.
- For properties listed on the Schedule E from the borrower's 1040s, depreciation may be added back to the net income or loss shown. Confirm the borrower still owns each property listed on the Schedule E.
- If six or more units are owned by the borrower in the same general area, a map disclosing the locations must be submitted evidencing compliance with HUD's seven unit limitation.

Conversion of Principal Residence

Converting Primary Residences into Investment Properties (principal residence being vacated in favor of another principal residence)

Exceptions

Rental income on the property being vacated, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center (see <http://www.hud.gov/offices/hsg/sfh/ref/sfh2-21u.cfm>) may be considered in the underwriting analysis under the following circumstances below:

- Relocations: The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. *Borrower must have 2 months reserves covering both properties.* If the renter is a family member, the renter must not currently reside in the property and must provide evidence of their current residence and the cancellation of that lease on their current residence. Obtain evidence of the security deposit and evidence the first month's rent was paid to the homeowner, or

- Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 75 percent or less, as determined by a current appraisal. The appraisal, in addition to using forms Fannie Mae® 1004/Freddie Mac® 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. ~~Borrower must have 2 months reserves covering both properties~~

The above guidance applies solely to a primary residence being vacated in favor of another primary residence and is not applicable to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040). **If the property being vacated has a mortgage insured by FHA, the transaction is not eligible**

All other cases

- Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and
- ~~Borrower must have 2 months reserves covering both properties.~~

5. Assets

Borrower Investment

The minimum cash investment is 3.5% down payment, in addition to closing costs.

Verification of Deposit (VOD) - Asset Documentation

- Non-qualifying streamlines: one month bank statement.
- All other loans:

	FHA TOTAL 'accept/approve' and not a manual downgrade	FHA TOTAL 'refer' or manual downgrades
Documentation requirements	One month bank statement	VOD with one month bank statement, or 2 months bank statements

The borrower may pay for their credit report and appraisal fee on a credit card. The source of the fees must be documented by copy of personal or visa check, visa slip, bank or visa statement, or written on the Good Faith Estimate. The new visa/credit card payment must be counted into the ratios for qualifying the borrower.

Assets brought to closing must be from sources and amounts as have been verified. Transfers between verified assets to consolidate funds into one check must be documented.

Bank statements

- All loans except non-qualifying streamlines:
- Large deposits must be adequately explained and documented. This is generally required when non-payroll deposits exceed ~~\$500~~ \$1,500, either individually or in aggregate, over one month's statement, or reflect an unusual pattern of deposits not consistent with the borrower's employment, earnings and/or savings patterns. "Generally" is meant to allow more flexible, or - in some situations - tighter enforcement, depending on the borrower profile and transaction risk.
- Non-qualifying streamlines: Sourcing of large deposits is not required.
- All pages of all bank statements must be provided.

Assets in stocks, mutual funds, IRAs, securities: enter 60% of the balance in DU. If the accounts are used as reserves, must evidence the funds are accessible for withdrawal. Non-vested retirement accounts or employer-deposited funds in such as funds as PERS or STRs are not eligible as funds for down payment or reserves.

Joint Assets

Joint accounts with non-borrowing spouses are accepted.

All other accounts held jointly with another party will be accepted if all the following are met:

- Account holder address on bank statement is the same as the borrower's
- Other account holder affirms borrower's rights to full access on the account

Business Bank Accounts

~~Business funds/Corporate accounts are not an acceptable source of funds for down payment, closing costs and reserves. Any transfers from business to personal accounts cannot have occurred on any of the bank statements included in the loan file.~~

Business assets may be used for down payment and closing costs as follows:

- The borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds.
- The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted.
- Business funds are not an eligible source of funds for cash reserves.

Bank Account Holder's names	Eligibility
Personal	Accepted without restriction
Personal and a business name	Allowed, subject to: <ul style="list-style-type: none"> • tax returns are filed as a Sole Proprietor using Schedule C • borrower is the sole owner of the business • Determination is made by HSOA DE underwriter that the withdrawal of the funds will not negatively impact the business. If the tax returns were professionally prepared, a CPA letter is required as part of this determination.
Business name	Not accepted

Loan from Family Members

- A loan from a family member may be secured or unsecured. The maximum loan amount is 100% of homebuyer's required investment (down payment, closing costs, pre-paid expenses and discount points)
- If the loan is secured by the subject property, only the family member may be the note holder, regardless of the source of family member's loan
- The family member may borrow funds, provided the borrower is not a co-obligor on that note. The source from which the family member borrowed the funds must not have an interest in the transaction (seller, real estate agents, originators, etc.)
- Max CLTV is 100% of the lesser of purchase price or appraised value plus closing costs, pre-paid expenses and discount points
- Required payments, if any, must be included in borrower's ratios
- A fully executed copy of the document outlining the terms of the secondary financing must be provided
- Cash back to the borrower is not permitted
- The note must not provide for a balloon payment within five years of the date of execution

Unacceptable Sources of Down Payment

- Proceeds of a personal or unsecured loan unless from family member.
- A gift that must be repaid in full or in part.
- Cash advance on a revolving charge account or unsecured line of credit.

Cash Saved at Home

- Borrowers who have saved cash at home and are able to adequately demonstrate the ability to do so, are permitted to use this money as an acceptable source of funds to close.

- Funds must be verified either on deposit in a financial institution or held by the escrow/title company.
- Additional documentation must include evidence provided from the borrower showing ability to accumulate such a savings and written explanation from the borrower on how such funds were accumulated and the amount of time taken to do so.
- Special consideration will focus on the amount of the borrower's income, the time period the funds were saved, spending habits, and the borrower's history of using financial institutions in order to determine the reasonableness of the accumulation of the funds.

Homeownership Bridal Registry

- Provides couples planning to get married, and other individuals who are in a situation where gifts are typically received, the opportunity to establish a savings account in order to help them accumulate gift funds to be used towards the down payment on the purchase of a home.
- In the situation of a couple planning to get married, the borrowers can distribute a letter to their family and friends.
- When gift funds are being received for a situation other than a couple planning to get married, it will be up to the individual(s) to notify their family and friends of the program.
- The borrowers are to open a new interest bearing savings account at the bank of their choice.
- Funds may be deposited by family and friends directly in the Bridal Registry Account, or given by cash or check to the couples or individuals for deposit.
- A copy of the bank statement and/or account ledger verifying the deposits and a fully executed Lender and Borrower Certification must be included in the HUD case binder.

Proceeds from Sale of a Personal Asset

- The borrower may sell a car, motorcycle, recreational vehicle, jewelry, stamp, coin, or baseball card collection, etc. The following documentation is required:
 - Evidence of borrower's ownership of the asset **and**
 - Estimate of the asset's value **and**
 - Bill of sale **and**
 - Copy of purchaser's check **and**
 - Evidence of deposit of purchaser's check into borrower's bank account

Proceeds from Sale of Real Estate

- HUD-I Settlement Statement required

Real Estate Commission from Subject Property

- Real estate commission from the subject property may be used as funds to close when the borrower is the licensed real estate agent for the property
- A family member who is a licensed real estate agent for the subject property may give the borrower commission received from the subject property. The following documentation is required:
 - Fully executed gift letter
 - HUD-I settlement statement reflecting credit of the family member/realtor's commission

Rent Credit

- Provide a copy of the rent-with-option-to-buy agreement that clearly defines the terms and conditions, including rent credit
- The portion of rent credit that exceeds fair market rents for the area may be credited toward borrower's funds to close (i.e. If the monthly fair market rent for the property is \$750 and the option-to-buy agreement indicates a monthly rent credit of \$800, then \$50 times the number of payments the borrower has made may be credited to the borrower)
- Fair market rents for the area are estimated by the appraiser
- If the borrower lived in the property rent-free or paid rent below fair market value, the difference between rent paid and fair market rent must be treated as an inducement to purchase resulting in a dollar-for-dollar reduction in the sales price before calculating the maximum LTV (i.e. If the monthly fair market rent is \$500 and the borrower paid \$350 in monthly rent, then \$150 times the number of payments the borrower made must be deducted from the purchase price before the maximum purchase LTV is calculated)

Retirement Savings

- Document balances with most recent statement
- Document the terms and conditions for withdrawal and/or borrowing, regardless of whether borrower is using funds to close
 - When funds may only be withdrawn in the event of the borrower's retirement or death, the funds may not be used as reserves
- When used as reserves, 60% of the vested account balance may be used
- When funds are used to close on the subject loan, proof of liquidation is required, regardless of Total Scorecard response

Savings Bonds

- Provide copies of bonds indicating ownership
- Provide evidence of redemption value
- Provide evidence proceeds were deposited to borrower's bank account

Secured Loans

- Borrowed funds are acceptable, provided they are fully secured by investment accounts or real property such as stocks, bonds, real estate, etc.
- The secured loan must be obtained through an independent third party lender. Interested parties (sellers, realtors, etc.) may not supply loans, even when the loan is secured by an asset
- Unacceptable borrowed funds include, but are not limited to, signature loans, cash advances on credit cards, loans secured by household goods such as furniture, etc.

Stocks and/or Bonds

- Provide most recent two months' brokerage statements
- Proof of liquidation is not required with Total Scorecard "approve" or "accept" response
- Proof of liquidation is required for manual underwriting approval

Sweat Equity

- Not Allowed

Trade Equity

- When a borrower trades in a real property as all or part of the down payment, closing costs, pre-paid expenses and/or discount points, the amount of trade equity is determined using the following calculation:
 - The lesser of the appraised value from an appraisal that is \leq six months old **or** sales price **minus**
 - All existing liens **minus**
 - Real estate commission paid on the property being traded
- Documented evidence the borrower owns the property being traded is required
- If the property being traded is currently FHA-insured, FHA's assumption processing requirements and restrictions apply – See *HUD Handbook 4155.1 7.1-3*

Earnest money deposits

- For EMD funds that have cleared the bank: A copy of the borrower's cancelled check and two month's bank statements (the bank statement prior to the EMD being cleared, and the statement showing the check being cleared) to evidence a sufficient average balance to support the amount of the earnest money deposit (Note: Any large deposit to the account must be addressed).
- DataTrac entries:
 - The EMD must be reflected in the asset section as other liquid asset in order for it to reflect as funds available for closing – in the description section EMD should be input. This is needed so that the information matches FHA requirements on FHA forms.
 - The EMD should not be input into the details of transaction as cash deposit on sales contract.
 - The EMD must be evidenced as having cleared before closing.

- Closers: the amount needed for closing includes any EMD funds; be sure to subtract from cash to close requirements.

Gifts

Gift Fund Requirements

An outright gift of the cash investment is acceptable if the donor is a relative of the borrower, the borrower's employer or labor union, a charitable organization, a governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time homebuyers, or a close friend with a clearly defined interest in the borrower.

The table below describes the requirements for the transfer of gift funds. However, **Regardless of when the gift funds are made available to the homebuyer, the lender must be able to determine that the gift funds ultimately were not provided from an unacceptable source and were indeed the donor's own funds. When the transfer occurs at closing, the lender remains responsible for obtaining verification that the closing agent received funds from the donor for the amount of the purported gift and that those funds came from an acceptable source**

Three-step process to document transfer of gift funds on FHA loans (in addition to the gift letter)

Source and Transfer doc	1. Verify the Source from Donor	2. Document the Transfer to borrower	3. Prove the Receipt	
			Funds in borrowers account	Funds received at closing
Cash and money order	Not accepted			
Personal check or personal certified check	<p>Without exception approval Donor's bank statement (see below for details) is required</p> <p>With exception approval,</p> <p>Verification of donor ability is only required when funds are provided in the form of certified funds/bank check that do not evidence the donors name and account.</p>	Cancelled check (front and back); if not cancelled, copy of bank validated withdrawal slip	Bank statement that shows deposit or bank statement and copy of deposit slip dated after bank statement date	HUD-1 to reflect gift funds received
Cashier's check or Bank check		Bank-validated withdrawal slip showing that funds used for the bank check as coming from donor's account		
Wired funds	<p>In all other cases, the gift Letter Donor Certification or donor's bank statement will be accepted.</p> <p>Donor certification may be on the gift letter form or as a separate statement signed and dated by the donor.</p> <p>In transactions involving Identity of Interest or concerns of 'straw-buyers', underwriters reserve the right require the donor bank statement.</p>	Wire transfer advise showing donor and borrowers banks and amount	Bank statement that shows deposit or wire transfer dated after bank statement date	

Donor source is borrowed funds	Donor to provide written evidence that the funds were borrowed from an acceptable source (not from a party to the transaction or the lender or originator)	Copy of Note and loan proceeds check, and evidence of transfer into donor's account; <u>then follow the applicable liquid asset process</u>	N/A	N/A
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Gift Letter Donor Certification

“The funds given to the applicant were not made available to me from any person or entity with an interest in the sale of the property, including the seller, real estate agent or broker, builder, loan officer or any entity associated with them.”

Donor’s bank statement details

- Donor’s bank statement must show sufficient assets to provide the gift; large deposits must be sourced.
 - Large deposits (aggregate deposits >=the gift amount) must be sourced.
- Provide the bank statement that shows the funds withdrawal, or if not yet withdrawn, the most recent bank statement dated within 30 days of the application.

Excess gift funds may not be considered as reserves but may be considered as a compensating factor

Gift of Equity

Gift of equity is allowed provided the seller/donor is immediate family (parent, child, or grandparent). If the property was not the donor’s primary residence, the loan is subject to a maximum 85% LTV/CLTV, unless the borrower resided in the property for the 6 months preceding the purchase contract and application date.

Reserves

- 1 & 2 units - no reserve requirement
- 3 & 4 units - 3 months PITI including streamlines

Minimum Statutory Investment

The DU minimum statutory investment amount reflects FHA’s requirements for the minimum down payment that must be made on an FHA purchase transaction. Closing costs paid by the borrower are NOT to be included in calculating this amount, and must be paid in addition to the down payment requirements.

The following items may be credited on page one of the HUD-1 Settlement Statement, to reduce the final amount of cash borrowers must bring to closing:

- **Earnest money** documented as having been paid.
- **POCs**: can be given as a credit ONLY if the file is documented as having paid the fee from the borrower’s bank account (not credit card). From FHA’s 4155: “The borrower may use a credit card to pay for the appraisal and credit report. These costs cannot be considered to help meet the required investment.”

Note: RESPA requires that any fee paid outside of closing must be labeled as a POC and cannot be listed as a borrower charge.

If the goal is to include the appraisal/credit report fees as closing costs paid by the seller or lender, all of the following are required (this is applicable only if the lender and or seller are paying all closing costs and fees):

- Document that the borrower(s) paid these fees from their bank account.
 - If paid by check or debit card, provide a copy of the bank statement showing the check clearing/debit charge
 - If initially charged on a credit card, provide

- The credit card billing statement that shows the appraisal/credit report fee, AND
 - The following month's credit card statement showing the previous month's balance as having been paid in full.
- HUD-1 to reflect:
 - The borrower-paid charge listed as a credit in lines 205-209, in addition to the seller/lender credit for closing costs.
 - A charge to the seller for the same amount as closing costs paid by borrower POC
- **Seller Pro-ration Credits:**
 - In states where property taxes are paid in arrears, the tax pro-rations paid by the seller at closing may be used to reduce the borrower's required cash-to-close, and the borrower may bring less than 3.5% to closing. Borrowers must have verified assets from an acceptable source that are at least 3.5% of the purchase price, regardless of the amount of tax pro-rations credited for taxes paid in arrears
 - Seller-paid tax pro-rations credited to the borrower for any period of time in which the seller did not occupy or own the property may NOT reduce the amount of funds the borrower brings to close, and the borrower must bring at least 3.5% of the purchase price to closing

6. Ratios

Qualifying Ratios

DU Approved loans and not manually down graded

DTI maximum is 50.0% without compensating factors

DTI to 55.0% is permitted with the following criteria:

- AUS Approval required – no exceptions (no Refer, manual downgrade or manual Under writing permitted)
- **Minimum 680 credit score**
- Borrower must demonstrate **at least 2** compensating factors as defined by HUD:
 - The borrower has successfully demonstrated the ability to pay housing expenses greater than or equal to the proposed monthly housing expenses for the new mortgage over the past 12-24 months, or there is only a minimal increase in the borrower's housing expense.
 - The borrower has substantial documented cash reserves (at least three months worth) after closing. Funds borrowed against IRA's or Thrift Savings Plans, proceeds from cash out refinance, or gift funds may not to be considered as cash reserves.
 - The borrower makes a large down payment of 10 percent or higher toward the purchase of the property
 - The borrower demonstrates an ability to accumulate savings and a conservative attitude towards credit.
 - Borrower's previous credit history shows that he/she has the ability to devote a greater portion of income to housing expenses.
 - The borrower receives documented compensation or income that is not reflected in effective income, including significant non-taxable income or unused trailing spouse income that can be documented. Note: Income not used for qualifying should be a significant amount (ie enough to bring the DTI into the acceptable range if used)
 - The borrower has a potential for increased earnings, as indicated by job training or education in his/her profession.

DU Refer or manually down-graded loans

Qualifying ratios are 31% / 43%. The ratios may be exceeded **to a maximum 45% DTI** on manual underwrites only when valid compensating factors are listed on HUD-92900-LT then signed and dated by the DE Underwriter. ~~Requires Exception approval.~~

See above for the list of most common acceptable FHA compensating factors

Qualifying Interest Rate

- Hybrid ARMs qualify at the higher of the start rate or fully indexed rate.
- Temporary buydowns qualify at the note rate, not the bought down rate.

Qualifying Amount for Property Taxes

For qualifying purposes for the property tax payment, for California purchase transactions use 1.25% of the sales price. In all other cases, compare the following sources and use the highest of: appraisal; title commitment binder/prelim; tax bill, if provided; or for new construction properties, 1.25% of the sale price unless a higher percentage is typical and customary.

Liabilities

- Installment debt obligations which extend ten (10) or more months must be included in the borrower's debt-to-income ratios. Debts lasting less than ten (10) months must be counted if the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after the loan closing.
- Childcare expense does not need to be included as a recurring debt.
- Student loans deferred less than 12 months from the closing date must be included as a recurring debt; obtain scheduled payment amount from the creditor.
- Child support payments must be counted in the total debt to income ratios if they will continue for 10 or more months.
- "Authorized User" account (AUA)
 - If the DU approval is based on authorized user account trade lines, underwriter must confirm these accounts accurately reflect the borrower's credit history. Multiple AUAs (especially relative to the overall number of trade lines) may skew the credit score and risk analysis, thereby making the DU findings inaccurate. Consideration for review includes the following, compared to borrower's non-AUA accounts: number of AUA accounts, late payment history patterns, and credit limits. If the differences are considered significant, the borrower must provide
 - cancelled checks as evidence of paying the most recent 12 months payments on the AUAs.
 - Letter of explanation that identifies the relationship to the primary borrower, who must be a relative (spouse, parent, or related by blood, marriage, adoption, or legal guardianship).
 - In all other cases, payments on AUAs may be omitted from the borrower's ratios if the credit reporting agency confirms the borrower is not obligated to make the payments
- Debts not counted in ratios: Funds to cover the required investment may be obtained from certain types of loans secured against deposited funds, (such as signature loans, cash value of life insurance policies, loans secured by 401ks, etc.), in which repayment may be obtained through extinguishing the asset, do not have to be included in the qualifying ratios. However, these assets securing the loan may not be included as assets available to the borrower.
- *HELOC loans: use maximum amount of line to calculate CLTV and DTI, basing payment on the payment that would be required within the next 12 months (example: don't use the interest-only minimum payment if the loan requires amortizing payments to begin within the next 12 months; use the amortizing payment).*
- **Other Credit Liabilities:** If the borrower is a co-signer on a debt for another person, the underwriter must determine who actually makes the payments on the debt when deciding whether the contingent liability needs to be included in the borrowers debts.
 - To disregard the liability, evidence must be obtained to show timely payments are being made by an obligor other than the borrower and document who makes the payments by obtaining copies of cancelled checks or a statement from the creditor. The documentation obtained must cover at least the most recent 12 months.
 - If the payments on the contingent liability have not been timely over the most recent 12 months, the liability must be included in the borrower's qualifying ratios.
 - Payments on "Authorized User" accounts should always be included in the debt-to-income ratio unless written documentation (i.e. 12 months cancelled checks) is provided proving that the owner of the account is making the payments. If an authorized user's account is used to meet the minimum credit requirements, then both the payment history, including any late payments, and the monthly obligation must be considered in the credit analysis and included in the DTI ratios. If the AUS approval is based on authorized user

account trade lines, underwriter must confirm these accounts accurately reflect the borrower's credit history.

Contingent Liabilities

- **Mortgage Assumptions:** If the borrower is listed as an obligor on a mortgage that has been assumed by another, a copy of the documents transferring the property and the Assumption Agreement executed by the transferee are required. The debt must be counted against the borrower unless the assumption released the borrower from liability, or:
 - A prior 12 months satisfactory payment history from assumptor is provided;
 - If the assumed mortgage is an FHA loan, an appraisal or closing statement from the sale of the property supporting a value that results in a 75% LTV ratio (i.e. the outstanding balance on the mortgage loan minus and UFMIP refund if applicable) can not exceed 75% of the lower of appraised value or sales price.

See Non-Occupying Co-Borrowers for ratio requirements on affected loans.

7. Appraisers and Appraisals

Appraisal review

All appraisals must have a CoreLogic review. For details, refer to PA 2011-084 FHA and VA CitiCorelogic Process.

Appraisers

Appraisers must be on FHA's approved list on the FHA Connection and match the appraiser on the FHA Case Assignment. The appraisal must be dated after the appraiser assignment date in FHA connection. The FHA Connection must indicate the appraiser has passed the Mandatory Appraiser exam. The assigned appraiser must perform the physical inspection of the property. He/She may not sign the appraisal performed by another appraiser.

Appraiser's licensing status must be as State Certified appraisers.

Appraisals must be ordered via Home Saving's AIR appraisal ordering process. Transferred-in appraisals will be accepted; the first lender must transfer the case to HSOA in FHA Connection, including the appraisal report. HSOA does not require a written transfer letter or an AIR certification.

Appraisals

The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FHA standards.

- Operating Income Statement will be required on all 2-4 unit properties.
- Properties appraised in "Fair Condition" are not acceptable. The property must be brought up to at least "Average Condition" prior to closing. A final inspection showing the work has been completed must be included in the file. Escrow holdbacks may be permitted.
- On streamline refinances with an appraisal, a new appraisal is always required. A re-certification of value is not acceptable.

FHA requires the subject property photos to show a view of all sides of the home. The appraiser may either take separate photos of all side, or may take the front and back pictures from a corner angle, such that the photo captures two sides of the house.

The case number assignment date must be prior to the effective date of the appraisal **unless** the appraisal was ordered for conventional lending, HUD REO or government guaranteed loan purposes but was performed by a FHA Roster Appraiser and is being converted to a FHA-insured mortgage. The loan file must contain documentation substantiating conversion of the mortgage to FHA.

If the appraisal was ordered for conventional lending or government guaranteed loan purposes but was performed by a FHA Roster Appraiser, HSOA underwriters must ensure that the appraisal was performed in accordance with FHA appraisal reporting requirements. Ensuring compliance with this requirement may entail a re-inspection of the property by the appraiser

Effective with case numbers assigned on or after January 12, 2011, the Master Appraisal Report is no longer an acceptable appraisal reporting procedure in the valuation of one to four unit single family properties to be security for FHA insured mortgages.

Uniform Appraisal Dataset (UAD)

Appraisals completed on and after September 1 may comply with Uniform appraisal Dataset (UAD) requirements. It is mandatory for case assignments or HUD REO appraisals with effective dates on or after January 1, 2012. This applies to appraisal forms 1004 and 1073.

General Appraisal requirements

The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the contract of sale was signed and date of the appraisal must be considered.

Photos of subject property and comps must be taken by the appraiser. MLS photos may be used as secondary supporting photos on comps where the appraiser's photo does not provide a clear picture of the home.

FHA appraisals are:

- Expected to include at least two comparable sales that settled within 90 days of the appraisal's effective date, or a detailed explanation, consistent with the 1004MC addendum, identifying why the appraiser was unable to locate such sales.
- Required to include two additional active listings or pending sales, which should be truly comparable and which bracket the dwelling size and sales price whenever possible.
- To adjust active listings to reflect the 'list to sales price ratios' from the 1004MC.
- To reflect the contract price on pending sales and adjust pending sales to reflect the 'list to sales price ratios.'
- To include the original list price and any revisions, and total days on market (DOM), which should approximate the time frames in the neighborhood section and 1004MC.
- Reconcile the adjusted values of listings, pending sales and closed sales with each other, to arrive at a defensible value estimate.
- To include an absorption rate analysis.

Data source requirements

- Acceptable data sources are those that are confirmed using local sources (agents, sellers, etc; or public records. MLS by itself is not sufficient.
- Sources that are not readily verifiable are not acceptable, meaning the property cannot be used as a comparable.
- Known Incentives and sales concessions must be included in the comparable adjustments for sold comps, as well as listings and pending comparables.

Uniform Appraisal Dataset (UAD) Requirements

Appraisers must follow the UAD requirements on case assignment dates beginning January 1, 2012 and on HUD REO property appraisals with an effective date on or after January 1, 2012. Appraisals completed before these dates may, but are not required to, follow UAD standards.

Well and Septic Inspection

Septic System inspections are required only if:

The appraiser observes evidence of system failure or suspects a problem with the system, or

- It is customary to obtain inspections in the area, or
- Inspections are mandated by the State or local jurisdiction. In the above instances the appraiser is to condition for an inspection and certification, by the local health authority, a licensed sanitarian or an

individual determined by the lender to be qualified to inspect the system, that states the system appears to be operating properly.

- If the home has been unoccupied for more than 30 days (and does not meet one of the conditions noted above) the underwriter must decide if an inspection of the system is necessary.
- In addition to the above, the underwriter can use his/her discretion to require an inspection of a system whenever the underwriter believes it prudent lending to do so.

Water Test

Individual water supply systems (wells) may be acceptable when connection to a public or community water system is not available and there is assurance of a continuing adequate supply of safe potable water for domestic needs.

A water test or inspection is required if it is mandated by the State or local jurisdiction;

- if there is knowledge that well water may be contaminated;
- when the water supply relies upon a water purification system due to the presence of contaminants; or
- when there is evidence of: corrosion of pipes (plumbing);
- areas of intense agriculture within 1/4 mile;
- coal mining or gas drilling operations within a 1/4 mile;
- dump, junkyard, landfill, factory, gas station or dry cleaning operations within 1/4 mile;
- objectionable taste, smell or appearance of the water.

Water potability

If the well water must be tested, it must meet the latest local and State drinking water regulation for private wells. This includes all microbiological and chemical test parameters in any regulation. If there are no local or adequate State requirements and standards for private wells, then water quality must be tested for lead and acute contaminants, including nitrates/nitrites and microbial contaminants such as total and fecal coliform and, if of local concern, other contaminants. The water sample(s) necessary for microbiological and chemical testing must be tested in accordance with the State drinking water regulations and EPA's analytical methods by a State-certified private laboratory (please see the attachment to Mortgagee Letter 95-34). In some States, County Health Authorities are required to collect the test samples; however, if they are unable or are not required to collect the samples, an individual/company acceptable to the State and the laboratory may collect the samples.

If water purification equipment is required to meet the State drinking water regulation and/or EPA's recommendations for private well water, follow the instructions in Mortgagee Letter 1992-18.

Property Condition

Property must be in a minimum of "average" condition (corresponding UAD condition codes C1-C4 and quality codes Q1-Q5)

All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing.

Properties must be in marketable condition at the time of closing. "Marketable" means the property could be sold in its current condition if necessary. Properties with kitchen/bath that are currently being remodeled, or properties missing flooring (bare, unfinished cement floor) are not considered in marketable condition and are not acceptable. These deficiencies must be completed prior to closing.

Two appraisals

Two appraisals are required on re-sales when seller has owned the property between 91-180 days and the value is more than doubling.

- **Fee for second appraisal cannot be charged to the borrower**
 - The appraisal completed by the appraiser assigned the file in the FHA Connection is considered the first appraisal.
 - The second independent appraisal must be ordered by HSOA and completed by a FHA roster appraiser.

- If the second appraisal has an estimated value more than 5% lower than the original appraisal, the maximum mortgage must be based upon the lower of the two appraised values

The second appraisal, when required, is to be included in the FHA insurance binder. If the second appraisal is used to recalculate the maximum mortgage amount, the underwriter must enter the appropriate information in the appraisal logging screen in FHA Connection.

Market Conditions Addendum to the Appraisal Report

The Market Conditions Addendum to the Appraisal Report (Form 1004MC) is required for all loans. Form 1004MC will:

- provide the appraiser with a structured format to report market data,
- help further clarify conclusions made by the appraiser, and
- supply the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

1004D Form Summary Appraisal Update and Completion Report **HSOA does not accept Part A, Appraisal Updates.**

Effective with FHA Case Numbers assigned on and after February 15, 2010, the 1004D Part B Completion Report, will be accepted for repair inspections (but not new construction completion inspections) completed by the initial appraiser.

Unpermitted Space

Loans secured by properties with “unpermitted” structural additions under the following conditions:

- Appraisal must comment that any addition was completed in a workmanlike manner.
- Appraiser to comment that the addition conforms to the main home structure
- Appraiser to comment if there are any health or safety issues
- Value **MUST** be given to any conversion or addition (may be positive or negative)
- The addition does not result in a change in the number of units comprising the subject property (e.g. a 1 unit converted into a 2 unit).

Disaster Areas

FHA Transactions with appraisals

Appraisal Performed Prior to Declaration of Disaster

Property must be re-inspected by the original appraiser whenever possible. If the original appraiser is not available, another licensed appraiser is acceptable.

- If an appraiser is not available, inspections performed by the following alternative sources are acceptable:
 - nationally recognized appraisal field review company
 - local professional licensed inspector
 - licensed general contractor
 - licensed structural engineer
 - building or safety inspector from the local municipality
 - If the disaster inspection is someone other than an appraiser, the following additional requirements apply for the inspector:
 - Be given a copy of the first two pages of the original appraisal, plus any repair addendums, and
 - Provide an external photo of the subject property

Appraisal Performed After Declaration of Disaster

Appraiser comments are not required if the declaration pre-dated the appraisal by at least 90 days.

Appraisal must include written certification by the appraiser that:

- The property is free from damage and the disaster has had no effect on the value or marketability.

- If the appraisal indicates damage, the extent of the damage must be addressed.
 - Completion of repairs is required as evidenced by Form 1004D, Summary Appraisal Update and Completion Report, with photos, prior to the closing of the loan.
 - A physical inspection of the neighborhood as evidenced by completion of the Catastrophic Disaster Area Inspection form.
 - Photos: interior, exterior, and neighborhood.

Work Completion Escrows

Escrow Holdbacks for the completion of minor repairs will be permitted as long as they adhere to all of the following:

- The Holdback amount must be at least 1.5 times the amount needed for repairs and will be held by the Closing Agent
- Holdback amount not to exceed \$5,000, which means the cost of repairs cannot exceed \$3,333.00
- Holdbacks will be permitted up to 10 Business Days MAXIMUM.
- The lock period must be valid through the 10 business day escrow time frame.
- A copy of the invoice/contractor's bids reflecting an estimate of repairs to be completed and must be sent to the ROC Manager or UW Manager for approval.
- All Escrow Holdbacks will require the approval of the UW or ROC Manager.
- Closing Agent to hold any and all broker/originator funds including lender-paid or borrower-paid compensation until all repairs have been completed.
- Other than incidental painting, all work must be performed by licensed contractors (no do-it-yourself projects).

Defective paint on HUD REO sales

If the appraiser observes defective paint in a home that was built before 1978, in the physical deficiencies or adverse conditions section of the appraisal report, the appraiser must enter an "X" in the "Yes" box, and note all areas affected. However, if the appraiser does not observe defective paint in a home that was built before 1978, an explanation is not required in the physical deficiencies or adverse conditions section of the appraisal report.

8. Compliance/Special Considerations

HSOA does not make any loans, which are defined, as "high-cost" under Section 32 or any State or locally governed legislation.

Maximum real estate sales commission is 8%, including any auction fees. The amount that exceeds 8% must be deducted from the sales price, and LTVs calculated accordingly.

HSOA reserves the right to amend the requirements set out in this document without providing prior notice.

All loans must meet FHA and HSOA Government Underwriting guidelines.

- All Refinances must provide a reasonable benefit to the borrower.

CAIVRS, LDP and GSA Search

- Check the FHA Connection and document the results on the MCAW.
- A copy of the FHA Connection screen results for all searches must be in the loan file.
- Each borrower is assigned an alpha-numeric CAIVRS number with the FHA Case Number assignment. CAIVRS beginning with the alpha character "A" are acceptable. Contact the D.E. Underwriter for any CAIVRS beginning with a different alpha character.
- All parties to the transaction must be checked against the LDP and GSA (borrowers, sellers, listing and selling real estate agents, loan officers, appraiser, termite company, licensed professionals providing

certifications [such as heating, plumbing, air conditioning, roofing and electrical companies]). The web access address is <https://www.epls.gov/> . If any party appears on either list, the application is not eligible for mortgage insurance. (An exception may be made when a seller appears on the LDP list and the subject property is the seller's principal residence.

- LDP and GSA search is required on all loans; CAIVRS is required on all loans except non-credit qualifying streamline refinances.

Allowable Borrower Paid Fees

The borrower may now pay customary fees such as an underwriting fee, processing fee, document preparation fee, and funding fee. The charges must be usual and customary for the area. **Tax service fee cannot be charged to the Borrower.** For example if other companies in the area charge a processing fee in the range of \$100 to \$150, the fee would need to stay in that range. Due to existing requirements, borrowers may not pay a tax service fee or be charged an origination fee greater than one percent. The borrower may never pay more than the actual cost of a third party fee. Discount points and prepaid charges paid by the borrower cannot be counted toward the borrower's minimum investment.

The following fees may be paid by the borrower:

- Origination fee (multiplied by the base loan amount); Note: on 203Ks, or on properties sold by HUD, FHA limits the origination fee to 1%
- Discount fee, financed on refinances only (multiplied by the total loan amount)
- Appraisal fee. (Note: If paid by credit card, cannot be included in the base loan amount.)
- Underwriting fee
- Processing fee
- Flood certification fee (actual charge only)
- Title insurance
- Property survey
- Recording fee
- Home inspection service
- Inspection (including pest, septic and water test)
- Credit report
- Courier (refinance only) – Allowed only for delivery of the payoff to the lien holder and closing documents to the settlement agent. The borrower must agree to pay in writing
- Document preparation (third party)
- Settlement or closing
- Deposit verification fee
- Attorney's fee
- Transfer stamps and taxes
- Test and certification fee
- Other costs as permitted regionally by HOC office

Interim Interest Credits are permitted. Loan closing must be within the first seven- (7) calendar days of the month to receive the credit.

Non-Borrowing Spouse in a Community Property State

If the subject property is located in or the borrower resides in a community property state, the following requirements apply to all transactions

- A credit report for the non-borrowing spouse is required to determine any joint or individual debts. The spouses' authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected.
 - Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.
 - The credit reporting company should be given non-purchasing spouse information (name, address, birth date and any other significant information requested) in order to do the records check.
- The greater of the monthly payment amount or 5% of the outstanding balance of all debts of the non-purchasing spouse must be included in the qualifying ratios.

- Non-purchasing spouse's judgments and federal debt must be paid, or provide an acceptable eligible repayment agreement.
- Disputed debts of the non-purchasing spouse need not be counted, provided the file contains documentation to support the dispute.
- Credit history of the non-purchasing spouse should not be the sole basis for declining the loan.
- State law in the states of Arizona, California, Louisiana, Nevada and Washington dictate certain aspects of non-purchasing spouse requirements (such as treatment of delinquent debt, debts acquired prior to the marriage, homestead rights, etc.).

List of Community Property States

Arizona	Louisiana	Texas
California	Nevada	Washington
Idaho	New Mexico	Wisconsin

Title Insurance:

A full ALTA title policy is required. A Short Form Residential Loan Policy is also acceptable, except for leasehold properties, and except for properties in Texas and Oregon. Short form title policies provide the same amount of coverage as a standard policy but in a shorter format. The policy references the loan specifics (insured amount, date of policy, property address, borrowers, etc.) and refers to general documents for all coverage. Limited Coverage Policies are not acceptable.

- For example: it automatically provides the Environmental Protection Lien Endorsement (ALTA 8.1) Condo and PUD endorsements and all other standard endorsements without actually providing copies of these endorsements.
- It also provides affirmative coverage for property specific exceptions such as restrictions, encroachments, etc with general statements in the policy text.

Plat/Surveys

- If surveys are not commonly required in the area where the property is located an ALTA 9 endorsement or its equivalent should be provided.
- If it is not customary to supply either a survey or an endorsement, the title policy must not have a survey exception.

Power of Attorney

A Specific (or Limited) power of attorney, which is the only type accepted, must meet the following requirements:

- Clearly reference the subject property (if a legal description is referenced, it must be stated or attached accordingly)
- Authorize the attorney-in-fact to enter into a real estate transaction and to mortgage the property (for refinance transactions, must specify the terms of the transaction)
- Indicate clearly that the mortgagor is appointing an attorney-in-fact
- Precisely identify who is being appointed
- Identically match the legal name(s) on the POA to the typed name(s) and signature(s) for the Borrower and POA. If the legal signature differs from the typed name, a notarized Signature/Name Affidavit is required.
- Must be signed and dated by the borrower (aka principal)
- Must be notarized (notary must be complete, contain a valid date, and no blank fields)
- Must be signed no more than 90 days prior to, or concurrent with, the date of the security instrument
- Must be recorded prior to, or concurrent with, the date of the security instrument.
- May not contain any blank fields.
- Must be acceptable to the title company issuing the title policy.
- General POA's are not acceptable.
- Durable POAs and Military POAs are acceptable as long as they are specific to the transaction.
- In all states, documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-

fact) must be written out in its entirety as abbreviations (AIF, POA, etc) are not acceptable. The same information must be typed on the documents.

- There must be more than one borrower on the loan and at least one borrower must be present at closing. POA is not allowed for single borrower transactions.

Lender ID Number

For wholesale loans: FHA: 22443-09996