



## FHA Government

Note: *Items in italics represent areas where HSOA requirements differ from FHA. “\*\*” indicates that exceptions will be considered.*

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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.

### Interest Only

Not allowed

### Program Codes

- FF30 - FHA 30 Year Fixed
- FF15 - FHA 15 Year Fixed
- FF30B - FHA 30 Year Buydown
- FA31 – FHA 3/1 ARM
- FA51 – FHA 5/1 ARM
- FA51-175 – FHA 5/1 Low Margin ARM

- FF30J – FHA High Balance 30 Year Fixed
- FA51J – FHA High Balance 5/1 ARM

### 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

\$30,000

### 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).

The maximum loan limits allowed by HUD reflect the maximum base loan amount (before adding UFMIP).

**Pricing adjustments and FHA High Balance Product Codes apply to base loan amounts 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.**

FHA <u>2010</u> Loan Amount Limits (not to exceed statutory limits)					
Region	1 Unit	2 units	3 units	4 Units	Credit Score
	<b>Standard Program Loan Limits</b>				
All states	\$417,000	\$533,850*	\$645,300*	\$800,000*	640
	<b>High Balance Loan Limits</b>				
48 states	\$729,750	\$800,000*	\$800,000*	N/A	660
AK and HI	\$800,000	\$800,000*	\$800,000*	N/A	660

\*2-4 units with final loan amounts exceeding \$417,000 require Landsafe LARA review

### 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%.

### Impound/Escrow Accounts

Required on all loans

## Mortgage Insurance Premiums - UFMIP and Annual

FHA Mortgage Insurance is required on all loans. Effective with FHA Case Assignment dates on and after April 5, 2010, the UFMIP will be 2.25% for all FHA loans.

Purchase or Full Credit Qualifying Refinance				
Loan Term	LTV*	Upfront MIP - FHA Case # Assignment Date		Annual MIP
		Before 4/5/2010	Starting 4/5/2010	
<=15 Years	<=90%	1.75%	2.25%	None
	>90%	1.75%	2.25%	0.25%
>15 Years	<=95%	1.75%	2.25%	0.50%
	>95%	1.75%	2.25%	0.55%
Streamline Refinance				
Loan Term	LTV*	Upfront MIP - FHA Case # Assignment Date		Annual MIP
		Before 4/5/2010	Starting 4/5/2010	
<=15 Years	<=90%	1.50%	2.25%	None
	>90%	1.50%	2.25%	0.25%
>15 Years	<=95%	1.50%	2.25%	0.50%
	>95%	1.50%	2.25%	0.55%

\*As a reminder, MIP requirements are based on the LTV calculated using the base loan amount.

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%, provided the borrower has paid the annual MIP for at least 5 years.
- For mortgages <=15 years, the annual MIP will be canceled when the LTV reaches 78%.

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. From this computed LTV, FHA will determine the 78% threshold is reached based on the scheduled amortization. If the computed LTV is not possible, due to missing data or previous refinancing without an appraisal, the new LTV will default 89.9 percent.

## Subordinate Financing

A property seller carryback second is not allowed.

Transactions may have no more than one subordinate lien.

Exception approval is required on loans with secondary financing in the following circumstances:

- Purchase and Rate-Term transactions if the proposed CLTV will exceed 105%.
- All streamline 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 maximum insurable mortgage is not affected by loans from family members.
- 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.

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, private individuals, and non-profits that are not HOC-approved 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 and 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.

Down Payment Assistance Programs from non-profits are not allowed.

### **Refinances**

- Cash out transactions – maximum 85% CLTV.
- *Rate/Term refinances: No new subordinate liens, but if an existing second lien will not be paid off, it must be subordinated, and may be modified without limitation as to LTV/CLTV (subject to exception*

approval if >105% CLTV). Payments are included in the Ratios. "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.

- Streamlines: see streamline section
- 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.

## Temporary Buydowns

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.

## Property Eligibility

### Property Types

#### Eligible

- SFR
- 2 Unit Properties
- 3-4 Unit Properties
  - Property must be self-sufficient, i.e.; the maximum mortgage amount is limited so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100 percent. *HSOA 3-4 unit loan calculator, available on HSOA's website, may be used to confirm maximum payment eligibility.*
  - The borrower must have a reserve of 3 months mortgage payments (PITI) after closing (MAY NOT BE FROM GIFT).
- PUDs – PUD approval not required.
- Modular Homes
- Log Homes - *requires exception processing*
- Leaseholds (see Leaseholds, below)
- Properties with age restrictions are accepted, subject to Exception approval
- FHA approved Condominiums

#### Ineligible

- *2-4 unit properties exceeding \$800,000 final loan amount*
- 3-4 units with cash out
- Condotels
- *Manufactured Homes*
- *Properties exceeding 10 acres*
- Properties sold at auction by the builder, developer or construction lender
- 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, Michigan and Oregon are not accepted on wholesale loans.*

## **Condominium Requirements**

### Detached (Site) Condominiums

- Project review is not required
- Appraisal to be completed on single family detached 1004 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>

The following do not need condominium project approval:

- streamline refinances
- FHA PD sales (FHA/HUD selling a foreclosed property)
- Detached (site) condominiums – see above

The following is required for loans with FHA project approval:

- 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'

FHA Spot approvals are no longer available.

## **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.

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.

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.

## Geographic Restrictions

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

- **Rhode Island, Michigan and Oregon:** 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.

## TOTAL Scorecard

- Must be used for all transactions except non-credit qualifying streamlines
- Must **not be used** on non-credit qualifying streamline refinance transactions. **If the FHA Connection case query states TOTAL Scorecard Processed: “Yes”, the loan must be either:**
  - ⊖ changed to and documented, underwritten and closed as a Rate/Term (no cash-out) refinance transaction, or
  - ⊖ **processed as an FHA streamline with appraisal, with exception approval.**
- DU TOTAL scorecard input as a Streamline –either with or without an appraisal – can only be used on bona fide credit qualifying streamlines when required on death or divorce situations.
- Must be used – and processed as Rate/Term transactions (not as credit-qualifying streamlines) when deleting borrowers - other than due to death or divorce

## 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, exception approval is required.*
- Second Homes: not allowed
- Investment Properties: allowed only on fixed rate streamline refinances (maximum new base loan is unpaid balance of existing loan, minus any UFMIP refund).

*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"> <li>• FHA will insure mortgages made to lawful permanent resident aliens under the same terms and conditions as U.S. Citizens.</li> <li>• 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.</li> </ul>

Non-Permanent Resident Aliens	<p>Non-Permanent Resident Aliens Acceptable</p> <ul style="list-style-type: none"> <li>• FHA will insure mortgages made to non-permanent resident aliens under the same terms and conditions as U.S. Citizens.</li> <li>• Borrower must be eligible to work in the U.S.</li> <li>• The loan file must contain an Employment Authorization Document (EAD) issued by Bureau of Citizenship and Immigration Services (BCIS). Follow FHA guidelines if the residency status expires within one year.</li> </ul> <p><i>Note: Individuals with any of these VISA types are ineligible borrowers:</i> A-1, A-2, A-3, F-1, F-2, M-1</p>
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### 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*
- 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.

### Assignment of Purchase Contract

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

### Title Vesting

All owners must take title as individuals or FHA eligible trusts. Corporations 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.

- This rule does not apply when a builder is selling a newly built home or is building a home for a homebuyer wishing to use FHA-insured financing.
- This rule does not apply when title is held by a government entity or a financial institution due to a REO foreclosure. All other types of foreclosure sales HUD considers as a prior sale and the necessary time period calculation falls under the anti-property flipping rules.

**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 to the earliest of the purchase contract, application/origination date, or case assignment date (FHA and VA Loans).

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).

**Owned <= 90 days:**

- Maximum 10% increase without documented improvements
- Maximum increase of 20% or \$100,000, whichever is less, with documented improvements.
- Transactions with sales price greater than or equal to a 20% increase over seller's acquisition cost are not allowed.

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.

Specific ways to ensure an arms-length transaction include:

- Seller holds title to the property
- LLCs, corporations or trusts serving as property sellers must meet all applicable state and federal law.
- No pattern or previous flipping activity exists on the property (as evidenced by multiple title transfers within 12 months).
- The property was marketed openly and fairly (Any sales contracts with "assignment of contract of sale" is not allowed).

**Owned 91 days-One year:**

Any price increase greater than 20% must be based on documented detailed improvements made to the property. Appraisers should provide itemized details and project costs, and pictures of the significant improvements made.

Extra due diligence is required whenever the seller is an LLC. Desk or field review by Landsafe is required if the LLC has owned the property less than one year.

**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 family members, business partners or other business affiliates. Exception approval is required for all NAL transactions

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
  - 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)

In addition, the following applies:

~~Accepted only on one-unit owner-occupied purchases and refinances on existing properties.~~ Exception approval is required.

A non-arms length transaction exists whenever the applicant has a personal or business relationship with the seller, builder, developer, real estate agent, appraiser, lender providing the financing, title company or any other interested party. These relationships may influence the transaction and should be reviewed thoroughly. Non-arms length transactions include, but are not limited to affiliates of the applicant;

- Family members related by blood or marriage to the seller.
- Owners, employees or family members of origination lender.
- Builders or developers.
- Renters buying from landlord.
- Trading properties with the seller.
- Employed by family members.

If the borrower is employed by the

- property seller, or
- submitting mortgage broker, or
- lender and was involved in the origination/processing of the loan, then

the following restrictions apply:

- Borrowers must be classified and documented as a self-employed borrower. The DU submission must reflect 'Self-employed'.
- Self Employed Income Analysis Form (Fannie Mae Form 1084) must be completed on every transaction and included in the loan file.
- Borrower must be employed by the current employer (mortgage broker, lender or property seller) for at least the length of time DU requires as the 'self-employment' period.
- Calculate the income from the tax returns as required by DU, or a current pay stub, whichever is lower.
- Exception approval is required.

*If the borrower is employed by the lender and was not involved in the origination/processing of the loan, exception approval is required, but the restrictions listed above as to self-employment classifications and employment history do not apply.*

## Chain of Title

24 month chain of title required, indicating buyers, sellers, price and date. Any increases in value/price must be justified. The appraisal is not an acceptable source for chain of title information.

*Extra due diligence is required whenever the seller is an LLC. Desk or field review by Landsafe is required if the LLC has owned the property less than one year.*

## **Seasoning**

During first year of ownership (purchase date to application date), use:

- The lesser of current value or acquisition price if a rate/term refinance where the loan being paid off is not an FHA insured mortgage.
- The lesser of current value or price paid at purchase if a cash out transaction, except use current value if the property was inherited in the past year.
- The current appraised value for FHA streamline refinances (with appraisals) and FHA-to-FHA rate/term refinance transactions,

## **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:*

- *Rate/Term transactions and streamlines with appraisals are allowed without further restrictions.*
- *On cash out transactions, the listing agreement must be cancelled six months prior to the application date, or the loan is limited to 70% LTV/CLTV.*
- *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).*

*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.*

## **Cash back limitations on R/T and Streamline refinances**

If the amount back at closing exceeds \$500, loan documents must be re-drawn. Principal curtailments are not allowed.

## **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 the line of credit is not eligible for inclusion in the new mortgage.
- Existing subordinate liens may remain subordinate as long as they meet FHA guidelines on subordinate financing. No new subordinate lien may be opened.

- 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.
- Subordinate financing may remain subordinate to the FHA insured first mortgage, subject to a maximum 85% CLTV, and provided the borrower is qualified with a payment on all liens.
- 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.
- 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).
- *The subject property must be a 1 or 2 unit dwelling.*

### **Streamline Refinance**

The following applies to loans with FHA case assignment dates beginning November 17, 2009. Consult previous Product Summaries for streamline refinances with FHA case numbers assigned before November 17.

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

### **Streamline Refinance without a New Appraisal**

FHA Streamline refinances without an appraisal are accepted by only one investor; therefore if an exception is required, financing may not be available.

#### **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.

#### **Investment properties**

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

- Unpaid Principal Balance
- Minus the MIP refund on the existing loan.

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

#### **More items to consider for Streamline refinances without an appraisal:**

- 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.

## **Streamline Refinance with a New Appraisal**

- Must be an owner occupied primary residence only.
- A new appraisal is required. A re-certification of value is not acceptable.

The maximum base loan amount will be limited to the lesser of the appraised value times 97.75%, or the sum of the following:

- Unpaid Principal Balance
- Current month's interest payment if not already paid
- Up to 30 days of interest to the end of the month of payoff
- Minus the MIP refund
- Prepaid expenses and per diem interest
- FHA allowable closing costs

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

### **Additional Requirements for All Streamline Refinances**

- The mortgage being refinanced must be current.
- Borrower must have made at least 6 scheduled payments on the mortgage being refinanced prior to the date of application.
- Mortgage payment history requirements:
  - Borrowers must be 0X30 *in the past 12 months*, including the months from the trade line reporting date through the month of payoff. For mortgages with less than 12 months payment history, review the borrower's previous mortgage history if reported on the credit report (for borrowers who were first time home buyers, it is not required to obtain a rental reference to complete the 12 month history).
- Final HUD-1 cash to the borrower cannot exceed \$500. Principal curtailments are not allowed.
- Discount points may be charged, but must be paid from borrower's verified assets.
- **"Reduction in Term" streamlines are not eligible, and must be processed as R/T transactions.** This is based on the original term (not the remaining term) of the existing loan.
- No termite inspection is required.
- Re-warranting of Condo projects (based on current information) is not required.
- No CAIVRs number is 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, 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).
  - When the income source is from wages or self-employment, HSOA will obtain a verbal confirmation of employment or self-employment.
  - 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

- For wage earners and self-employed borrowers, SLCs will obtain a verbal VOE of current employment and self-employment within 5 business days prior to closing. The information verified must match the 1003, and the borrower must have started employment on or before the initial application date. Upon completion of the verbal VOE, the SLC will also sign and date the FHA Streamline Refinance Certification of Employment.
- For all other income sources, Underwriters will complete the FHA Streamline Refinance Certification of Employment at the time of underwriting.
- 4506-Ts signed by borrowers must be included in the loan submission; it will not be validated before closing unless the underwriter has reason to question the employment. (Borrowers will sign another 4506 at closing)
- Assets needed for closing must be verified with one month bank statements.
- Monthly payment listed on the credit report may be used to document the current obligation. If the payment is not listed, or if Borrowers state it is inaccurate, document their current housing obligation with a copy of their most recent monthly billing, next payment coupon, 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:**
  - An investor may not have an interest in more than 7 contiguous rental units in an area.
  - Mortgage payment cannot incur any increase in payment.
  - Allowed only on Fixed Rate Mortgages and only on streamlines without appraisals
- Second mortgages must be subordinated. **CLTV cannot exceed 125%** (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.
- Borrowers may be NOT be deleted on a credit qualifying streamline, except for death or divorce; all other deletions of borrowers must be processed as regular Rate/Term refinances.
- Death or divorce: If remaining borrower has made <=6 payments since the death or divorce to application date, credit qualifying is required; if more than 6 payments, credit qualifying is not required.
- HSOA Net Tangible Benefit form is no longer required.
- If the FHA Case Assignment includes the message: "Warning: Refinanced Indemnification Case", the loan is not eligible as a Streamline refinance.

### Tangible Net Benefit

- **Reduction in Total Mortgage Payment (PITI):** FHA now requires a comparison of the full qualifying housing payment (P&I, insurances, taxes, HOA dues, ground rents, etc). The new total mortgage payment must be at least 5 percent lower than the total mortgage payment for the mortgage being refinanced. Example: Total mortgage payment on the existing FHA-insured mortgage is \$895; the total mortgage payment for the new FHA-insured mortgage must be \$850 or less.
  - **Underwriters must condition for this final PITI to be re-calculated after final escrow payment amounts for taxes and insurances are confirmed. "Maximum PITI cannot exceed \$XX"** (with XX being the current PITI times 95% -rounded down to the nearest dollar).
  - This means borrowers should provide their most recent payment coupon/billing statement, and if applicable, evidence of the payment for HOA dues.
  - This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b), from a 235 to 203(b), and any other scenario not listed below.
- **Fixed Rate to One-year ARM (not currently offered by HSOA):** Fixed rate mortgages may be refinanced to a one-year ARM provided that the interest rate on the new mortgage is at least 2 percentage points below the interest rate of the current mortgage.
- **One-year ARM to Fixed Rate:** The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the one-year ARM.
- **Hybrid ARMs to Fixed Rate:** The total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent. Example: total mortgage payment on the hybrid ARM is \$895; the total mortgage payment for the new fixed rate mortgage must be \$1,074 or less.

- If a borrower has received a notice of an interest rate change, that scheduled payment change may be used for calculating the payment difference. This does not apply to changes in tax and insurance escrow amounts.

### **Underwriter requirements**

Underwriters will confirm case assignment date; for loans with FHA cases assigned on and after November 17, 2009, will review for all FHA and HSOA 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**

**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 – 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				
Final Inspection by FHA Compliance Inspector (Form 92051)	X	X		X	X or URAR showing 100% complete	X or URAR showing 100% complete
Final inspection by Local Building Inspection		FHA Or X	X			
Building Permit	X		X		X	
Occupancy Certificate	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.

#### 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: As indicated above, all must be completed by an FHA Compliance Inspector, not the appraiser.

#### 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.

## Financed Properties

Borrower may own no more than one FHA loan with maximum financing.

A borrower may not own more than one FHA insured property unless:

- Borrower is relocating to another area not within reasonable commuting distance of present home; OR
- Borrower had to vacate a residence that will remain occupied by a co-mortgagor due to new marriage or divorce; OR
- Borrower is a non-occupying Co-borrower for a family member on another FHA mortgage. OR
- An increase in family size, which has resulted in the present house being ill equipped to meet the family's needs.
  - The borrower must provide satisfactory evidence of the increase in dependents and how the property no longer meets the family's needs.
  - Borrower must also pay down the outstanding mortgage balance on the present property to 75%. A current appraisal must be used to determine loan-to-value compliance.

## **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.

## **HSOA Exposure Limitations**

*The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower. HSOA will finance up to 3 properties for a borrower not to exceed an aggregate amount of \$1,500,000.*

*If the aggregate dollar amount of all loans to one applicant from HSOA (including the amount of the new loan) exceeds \$650,000, the loan request may require approval by Credit Policy.*

# **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 must be executed before closing, with findings acceptably validated. An additional 4506-T must also be signed at closing.*
- *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.*

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 Deed-in-lieu of foreclosure** 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
  - **Chapter 7 Bankruptcy** is dated within two years prior to the date of the application
  - **Mortgage late payments** – see Section 3- Credit; Mortgage Lates
- Credit Policy concurrence of overall unacceptable risk factors is required.***

### **"Refer" AUS Findings and Manual Downgrades**

Loans with a Refer finding, or are manually downgraded by the underwriter require a supervisory underwriting acceptance and Exception approval.

In addition, the DE underwriter must underwrite the appraisal according to standard FHA guidelines.

## Age of Documentation

- *Conditional Commitments: 120 days, effective with FHA case numbers assigned on and after January 1, 2010.*
- HUD REO appraisals: 6 months if effective date is before April 1, 2010; 120 days on and after April 1, 2010
- 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.

Updated credit reports are required when the existing credit report is expiring, or when there are material changes to the reported information. HSOA will NOT accept an updated credit report solely because the credit score has improved.

Summary: If rental income is used to qualify, borrower's most recent two years tax returns must reflect ownership of rental properties. With this documentation of rental ownership history, tax returns will be used to calculate the income for those properties purchased prior to the most recent calendar year. Leases may be used only for those properties acquired after the last calendar year.

If borrower does not have a two year history, rental income cannot be used to qualify.

## 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.

### Minimum trade lines

*Each borrower must have sufficient credit depth such that:*

- **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.*

*Eligible trade lines are standard reporting creditors, and do not include authorized user accounts, judgments, 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 2X30 on all mortgages in the 12 months prior to application.
- *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.

**Short Sales or Pre-Foreclosures, Short Pay-offs or Re-Structured Debt**

*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.*

**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.

**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.*

**Chapter 7 Bankruptcy**

Minimum time from discharge to application date is 2 years. Mortgages included and discharged through a bankruptcy are considered a foreclosure, and must meet the foreclosure timeframes.

**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.

**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.

**Credit Inquiries**

*If the credit report indicates that a creditor has made an inquiry within the previous 90 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.*

## Disputed Tradelines

Transactions with disputed accounts require a manual **underwrite and meet manual underwriting requirements**. If the disputed tradeline is determined to be insignificant, no further action is required, other than to reflect the decision as a manual underwrite and a notation of the dispute being considered insignificant..

If the disputed tradeline is determined to be significant, and

- 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.
- the 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

## Collections and Charge-Off Payment Requirements

Collections and Charge-offs (**including medical collections and charge-offs**) must be paid off, with source of funds verified, in either of the following scenarios:

- *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.*
- *Any individual collection item  $\geq$  \$250 or all collection accounts if the aggregate unpaid balance of all collections  $\geq$  \$1,000. For example, if the total is equal to or greater than \$1,000, all items must be paid off, regardless of the individual item balances. If the total is  $<$  \$1,000, only the individual items with balances  $\geq$  \$250 must be paid off.*

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)

HSA will obtain a verbal confirmation of current employment or self-employment within 5 business days prior to funding the loan. This applies to all loans, including streamline refinances.

#### Verbal VOE requirements for self-employed income:

HSA must verify the existence of the borrower's business

- from a third party, such as a CPA, regulatory agency, 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.

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

## Salaried Borrowers

- Evidence of a two-year history of employment is required.
- Documentation required:
  - Written VOE with most recent paystub OR
  - Paystubs for the most recent 30 day period showing year-to-date income (same employer); and
  - W-2 forms for the past 2 years; and
  - Verbal VOE

## Borrowers Re-entering the Workforce

Borrowers who are re-entering the workforce 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.

## Other Income

Includes bonuses, overtime, commissions, additional part-time employment or unemployment

- Sources of other income may be used to qualify the borrower, provided it has been received for the past two years and there are reasonable prospects of its continuance. A 12 to 24 month history may be considered if there are compensating factors that reasonably offset the shorter income history.
- Commission Income
  - 24 month average is required
  - Schedule A of the borrower's tax returns must be obtained to document unreimbursed business expenses. A 24-month average of the expenses must be deducted from income.
- Bonus and Overtime
  - 24 month average is required
  - If received less than two years may be considered on a case-by-case basis. The earnings trend over that period of time of receipt must be established and analyzed; adequate documentation must be provided; the employer must state the bonus or overtime is likely to continue; and the reasoning for using this income must be justified.
- Part-time Income – Defined as jobs taken in addition to the normal regular employment to supplement the borrower's income. If a borrower's regular employment is simply less than a typical 40 hour work week, the stability of that income should be evaluated as any other regular on-going primary employment (i.e. a registered nurse that has been working 24 hours per week for the last year. This is the borrower primary job, even though less than 40 hours, and it should be included as effective income).

## Self-Employed Borrowers

A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed.

- Must have been established for a minimum of 2 years. A 12-24 months history will be considered provided the borrower has at least 2 years previous successful employment (or a combination of 1 year employment and 1 year formal education or training) in that occupation, or a related occupation.
- Must have a signed 4506
- Copies of the past two years' signed individual federal income tax returns.
- Copies of the past two years' signed business income tax returns if the business is a corporation or an "S" corporation, or partnership.
- **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 2010, if 2008 and 2009 returns are provided, the P&L may be waived per above; if 2007 and 2008 are provided, then P&Ls and balance sheets are required for 2009 and YTD 2010).

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.

### **Alimony, Child Support and Separate Maintenance Payments**

If an applicant chooses to disclose the aforementioned items, proof evidencing the continuance of such payments for the next three (3) years is required.

- The borrower must provide a copy of the divorce decree, legal separation agreement or voluntary payment agreement, and
- Evidence that payments have been received during the last twelve months. Acceptable evidence includes cancelled checks, deposit slips, tax returns, court records, etc.
- Periods of less than 12 months may be acceptable provided the payer's ability and willingness to make timely payments is adequately documented.
- Child support income may be grossed up.

### **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**

#### **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.\** FHA recommends that underwriters also obtain evidence of the security deposit and/or 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 either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. 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. *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 had a mortgage insured by FHA, eligibility for a second FHA insured mortgage can only occur under the exemptions described in handbook HUD-4155.1 REV-5, paragraph 1-2. Refer to HUD's Mortgagee Letter 2008-25 for details.

#### 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:

	Standard Documentation	With exception approval
Documentation requirements	VOD with one month bank statement, or  2 months bank statements	One month bank statement
Accepted on:	All transactions	FHA TOTAL 'accept/approve' and not a manual downgrade

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 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: Documentation as to the source is generally required when non-payroll deposits exceed \$1,000, either individually or in aggregate, over a month’s statement.
- Non-qualifying streamlines: Sourcing of large deposits is not required.

**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.*

<b>Bank Account Holder’s names</b>	<b>Eligibility</b>
<i>Personal</i>	<i>Accepted without restriction</i>
<i>Personal and a business name</i>	<i>Allowed, subject to:</i> <ul style="list-style-type: none"> <li>• <i>tax returns are filed as a Sole Proprietor using Schedule C</i></li> <li>• <i>borrower is the sole owner of the business</i></li> <li>• <i>Two year financial review is made of the business tax returns.</i></li> <li>• <i>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.</i></li> </ul>
<i>Business name</i>	<i>Not accepted</i>

**Loan from Family Members**

Family members are permitted to lend, on a secured or unsecured basis, 100% of the borrower’ required cash investment which may include the minimum contribution, down payment, closing costs, prepaids, and discount points. 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.

**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.

“\*” indicates that exceptions will be considered.

- 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.

### Unacceptable Sources

- Sweat Equity

### Earnest money deposits

Generally expected to be documented as being paid and the funds sourced as coming from borrowers' accounts.

### 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.
- List donor's name, address and phone number, relationship to borrower and dollar amount of gift on the gift letter, signed by the donor and borrower.
- For gift funds already on deposit in the borrower's account, document the transfer of funds by obtaining a copy of the donor's withdrawal document or cancelled check, along with the borrower's deposit slip or bank statement showing the deposit. **Note: if the donor's cancelled check is a bank check, or a personal check that isn't 'cancelled' by the bank, provide a copy of the donor's bank statement showing the withdrawal from the donor's account. If the donor's cancelled check is a personal check, the donor's bank statement is not required.**
- If the gift funds are not deposited to the borrower's account prior to closing, the following must be obtained:
  - Verification the closing agent received funds from the donor, including proof of withdrawal, for the amount of the gift. The use of cashier checks, money order, official check or any other type of bank check will be acceptable provided the donor provides a withdrawal document for the amount of the gift showing the funds came from the donor's own personal account.
  - In addition, if the funds were a withdrawal from donor's accounts, provide a copy of the donor's bank statement showing the donor had sufficient assets on deposit. If the donor borrowed the gift funds, documentation must be provided that the funds were borrowed from an acceptable source, i.e., not from a party to the transaction including the mortgage lender.
- Cash on hand is not an acceptable source of the donor's gift funds.

Note: Non-Profit Organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes funds to the non-profit organization are no longer acceptable as gifts.

## Reserves

1 & 2 units - no reserve requirement

3 & 4 units - 3 months PITI

## Seller Proration Credits

Seller real estate tax pro-rations to be received or credited at closing may not be considered at the time of underwriting as the source of the applicant's minimum investment or for any other required funds to close, including discount points, closing costs and/or pre-pays. (It is acceptable for the credits to be given on the Settlement Statement, thereby reducing the amount of cash brought to closing.)

# 6. Ratios

## Qualifying Ratios

DU Approved loans – Ratios evaluated by DU.

DU Refer loans qualifying ratios are 31% / 43%. The ratios may be exceeded 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.

The following is a list of most common acceptable FHA compensating factors:

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the mortgage over the past 12-24 months.
- The borrower makes a large down payment (ten percent or more) toward the purchase of the property.
- The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
- 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. In determining if an asset can be included as cash reserves or cash to close, the underwriter must judge whether or not the asset is liquid or readily convertible to cash and can be done so absent retirement or job termination. Also see Verification of Funds to Close - IRA's Thrift Savings Plans etc. Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. "Assets" such as equity in other properties and proceeds from cash out refinance are not to be considered as cash reserves. Similarly, funds from gifts from any source are not to be included as cash reserves.
- The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computation).
- The borrower has the potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as a result of relocation of the primary wage-earner, and the secondary wage-earner has an established history of employment, is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. The underwriter must document the availability of such possible employment.

## 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 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.
- 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

### 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.

Beginning with FHA Case numbers assigned on and after February 15, 2010, appraisals must be ordered via Home Saving's HVCC 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 HVCC 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 unacceptable. 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

### 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.

Effective with appraisals completed on and after April 1, 2009, 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.

#### **Inspection**

Septic or other inspections may be required at the discretion of the appraiser or underwriter.

#### **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 predicated 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 Connect.

#### **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.

#### **Disaster Areas on Streamlines without Appraisals**

If the property county was declared a FEMA disaster area during the 12 months prior to application date, to ensure the property has not been damaged, obtain an exterior inspection by an FHA-approved inspector, to ensure the property has not been damaged. Alternatively, the 2075 DU Property Inspection Report, completed by an FHA roster appraiser, will be sufficient as long as it produces results evidencing the subject property has not sustained any damage from the disaster that affected the area. If it does indicate there is damage, then a

1004D, from an FHA inspector, is required evidencing what that damage is and then another evidencing the damage has been repaired.

### **Work Completion Escrows**

Subject to approval by HSOA management, escrow holdback allowed for minor repairs not exceeding \$3,333 in cost; contractor bids/invoices are required. All work must be completed within 10 business days. Final inspection and photos required. Originator's fees will be withheld until all funds disbursed.

### **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]). 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.
- 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); 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) days of the month to receive the credit.

**Non-Purchasing 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:

- A credit report for the non-purchasing 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.
- If the debts are the sole responsibility of the non-purchasing spouse and the DTI is excessive, the DTI alone should not be considered as the sole basis for declining an otherwise approvable loan.
- 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

“\*” indicates that exceptions will be considered.

Mortgage Broker Fee Agreement

The HSOA Mortgage Broker Fee Agreement - completed, signed and dated is required with every wholesale submission. Any amendments (required for any increases in fees) must be signed and dated by all parties prior to drawing docs. State Fee disclosures are accepted in CA, CO, NY, SC, and WI, in lieu of the Mortgage Broker Fee Agreement.

**Lender ID Number**

FHA: 22443-0999-6