Back to Work Economic Events
FHA Guidelines

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<tr><td>CAIVRS</td><td>In accordance with Handbook 4155.1, mortgagees are required to screen borrowers through CAIVRS. If CAIVRS screening indicates that the borrower has had a claim paid within the previous three years on a loan insured on the borrower's behalf by FHA, the lender may submit a request for waiver or resolution of the unresolved CAIVRS indicator.
Prior to submitting the request for waiver or resolution, for loans that meet the requirements found in this Mortgagee Letter, the DE underwriter must:
☐fully underwrite the application to determine all other eligibility requirements have been met; and, approve the loan subject to additional conditions.

On the direct endorsement approval, (HUD 92900-A page 3), indicate in the Additional Conditions under "Other:" "Subject to CAIVRS indicator resolution by FHA."
The Mortgagee may then submit the request, including the following information, to HUD at the address below.
☐A cover sheet indicating CAIVRS clearance request for "Back to Work" FHA Case number, Name(s) of borrower(s) with CAIVRS indicators, Point of Contact for the Mortgagee, Page 3 of the 92900A, signed by the DE underwriter indicating "Subject to CAIVRS indicator resolution by HUD" under "Other".

Send to:
US Department of Housing and Urban Development
Attn: Division Director, Home Mortgage Insurance Division
451 7th St. SW, Room 9266
Washington, DC 20410
HUD will review the request and provide the Lender with affirmation of the decision for waiver or resolution.</td></tr>
<tr><td>HOUSING COUNSELING WEBSITE</td><td>Housing Counseling
1. Satisfactory Housing Counseling: Requirements
To qualify for purposes of establishing Satisfactory Credit following an Economic Event, participants in this FHA initiative must:
☐receive homeownership counseling or a combination of homeownership education and counseling provided that each participant receives, at a minimum, one hour of one-on-one counseling from HUD-approved housing counseling agencies, as defined at 24 C.F.R. §214.100. The counseling must address the cause of the economic event and the actions taken to overcome the economic event and reduce the likelihood of reoccurrence. The housing education may be provided by HUD-approved housing counseling agencies, state housing finance agencies, approved intermediaries or their sub-grantees, or through an on-line course, and be completed a minimum of thirty (30) days but no more than six (6) months prior to submitting a loan application to a lender, as application is defined in Regulation X, implementing the Real Estate Settlement Procedures Act, 24 C.F.R. §3500.2(b).

Housing counseling may be conducted in person, via telephone, via internet, or other methods approved by HUD, and mutually agreed upon by the borrower and housing counseling agency, as provided for in the regulations at 24 CFR §214.300 and in the Housing</td></tr>
</table>

	Counseling Handbook. A list of agencies can be obtained online at http://www.hud.gov/ or by calling 1 (800) 569-4287. ***B. Housing Counseling Fees*** Housing Counseling provided to potential borrowers who experienced an Economic Event may be funded through any means permitted by the HUD Housing Counseling Program, see 24 C.F.R. Part 214 and Handbook 7610.1, Rev-5. (http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/7610.1). However, any housing counseling fee must be charged in accordance with 24 C.F.R. §214.313, and must be reasonable, affordable, customary and commensurate with the services provided. ***C. Required Disclosures*** Housing counseling agencies must provide the following disclosures to all clients: ☐An explicit description of any financial relationships between the agency and any lender; ☐A statement that the borrower is not obligated to pursue a loan with a lender; and ☐A statement that "Completion of this housing counseling program and receipt of a letter of completion of counseling do not qualify {you/the borrower} for an FHA loan. A lender will have to determine if {you/the borrower} qualify for a loan. You understand that you may not be approved for a loan." Furthermore, the agency must provide information on alternative services, programs and products that are available.
SUBCATEGORY	STANDARD
LTV OTHER RESTRICTIONS	• Identity of Interest (see page 5) • Non-Occupant Co-borrower: 1-2 units = max 75% • Non-Occupant Co-borrower = max 75%
STATE RESTRICTIONS & COUNTY LIMITS	• Declining Markets: Max loan amount stated in the LTV/CLTV grids not available in all areas. • All loans must adhere to State and Local Property Laws (carbon monoxide, smoke detectors and lead based paint guidelines) o If the appraiser notes the absence of a working carbon monoxide detector and appraisal is **"Subject To"** - A 1004D will be required evidencing the completion of the requirements. o If the appraiser notes the absence of a working carbon monoxide detector, but appraisal reads, **"AS IS"** – <u>a 1004D will still be required as this is a health and safety issue.</u> o If the appraiser does not mention the absence of a working carbon monoxide detector in the appraisal report, neither a 1004D nor a Lender's Certification evidencing completion will be required in regards to the carbon monoxide detector. • Loan amount county specific (refer to HUD MSA Link below) https://entp.hud.gov/idapp/html/hicostlook.cfm
PROPERTY RESTRICTIONS	• SFR detached and attached units • PUDs • 2 Units • Condominiums o FHA approved condos only o Condo- HOA Certification; ▪ 50% Occupancy required ▪ ≤ 15% HOA dues delinquency ▪ ≤ 30% FHA concentration ▪ Reserves = 10% of budget for capital expenditures & deferred maintenance. ▪ Fidelity Bond Insurance - ≥ 20 units in the project require not less than 3 months aggregate assessments on all units plus reserve funds.

<table>
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HO6 Coverage
Underwriter to complete "Lenders Certification for Individual Unit Financing Form" (located in "Forms" Folder)
NOTE: Condo projects that are subject to expire within 60 days of Application need to contact Corporate Govt. Underwriting for further direction.
</td></tr>
<tr><td>OCCUPANCY</td><td>
Owner Occupied
</td></tr>
<tr><td>UNDERWRITING METHOD</td><td>
Manual Underwrites by DE Underwriter with "Refer" DU due to Economic Events Only
Accept/ Approve Downgrade to Manual Underwrites by DE Underwriter Only
ML 2014-02- Case Numbers Assigned on or After April 21, 2014
<table>
<tr><td>Minimum Decision Credit Score</td><td>Maximum Qualifying Ratios (%)</td><td>Acceptable Compensating Factors</td></tr>
<tr><td>640 and ></td><td>31 / 43</td><td>No Compensating Factor Required</td></tr>
<tr><td>640 and ></td><td>37 / 47</td><td>One of the following:
☐ Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3- 4 units).
☐ New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve month housing payment history with no more than one 30 day late payment.

In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months.
☐ Residual Income</td></tr>
<tr><td>640 and ></td><td>40 / 40</td><td>Borrower has established credit lines in his/her own name open for at least six months but carries no discretionary debt (i.e., monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months).</td></tr>
<tr><td>640 and ></td><td>40 / 50</td><td>Two of the following:
• Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units).
• New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve month housing payment history with no more than one 30 day late payment.

In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months.
• Verified and documented significant additional income that is not considered effective income (i.e., part-time or seasonal income verified for more than one year but less than two years).
• Residual Income.</td></tr>
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QUALIFYING RATIO

- FICO 640
- 31.0% / 4 3.0% DTI (must have a minimum of 1 FICO Score for all borrowers, with 3 merge credit) **NO Exceptions**
- DTI over 31/43 are required to meet the New ML 2014-02 HUD guidelines noted in Underwriting Method

QUALIFYING RATE

Note Rate
- 30 Year (FHAF)

ESCROW WAIVER

- **Not Allowed**
- Impounds **are** required

LIVING OR INTER VIVOS REVOCABLE TRUST

- **Not Allowed**

DOCUMENTATION REQUIREMENTS

- Loan will have to be manually underwritten by an Approved DE Underwriter
    - Page 3 of 92900-A must include underwriter's signature, date and CHUMS #.
    - Page 3 of the 92900-A, Date Approval Expires is 90 calendar days from the oldest exhibit in the file.
      Note-If credit package is updated after approval, the approval expiration date will require updating based on the oldest exhibit.
  - LDP/GSA required on all parties
- CAIVRS required on all borrowers
- LT Signature Section-
    - Signature Section must be completed as follows;
        - Underwriters Signature, Date of Final Approval and Chums ID #
        - Underwriter Chums # must reflect in the appraisal section (Pg 1 of LT)
    - LT Underwriter Comment Attachment

- **File Risk Review-** This form must be completed by the DE Underwriter on all FHA Loans

92900-A Requirements		
FORM	WHO SIGNS	WHEN TO SIGN
URLA Loan Application - Initial	Borrower (s) and Loan Officer	Application
Initial HUD Addendum 92900a pg 1	Loan Officer or Lender for TPO	Application
Initial HUD Addendum 92900a pg 2	Borrower (s) (2 x)	Application
URLA Loan Application - Final	Borrower (s) and Loan Officer	Prior to or at closing
Final HUD Addendum 92900a pg 1	Lender (DE Underwriter or officer authorized to bind)	Initial Approval
Final HUD Addendum 92900a pg 2	Borrower (s) (2 x)	At closing
Final HUD Addendum 92900a pg 3	DE Underwriter	Final Approval
Final HUD Addendum 92900a pg 4	Borrower; Lender	At closing Post closing

CREDIT SCORE RESTRICTIONS

- Full 3 merge credit report required with **all borrowers showing a minimum of one credit scores.**
- All mortgages & Landlord ratings must have a payment history of 0 x 30 in the last 12 months
- Either acceptable 3rd party must document landlord ratings or 12 months cancelled checks.
- Landlord rating mandatory to meet FHA Manual underwrite NO EXCEPTIONS

	• Representative credit score:
	  o Use middle of 3 **or** lowest of 2
	  o Use middle representative score from all borrowers
	• **All borrower(s) (including a Non-Purchasing Spouse) MUST have a valid Social Security Number. <u>NO EXCEPTIONS</u>**

BORROWER ELIGIBILITY	• US Citizens
	• First time homebuyers
	• **Permanent Resident Aliens (Green Cards)**
	A copy of the Green Card is required for all permanent resident aliens whose income and/or assets are being used to qualify for the loan. A copy of the front and back of the card is required and must be included in the loan file.
	  o While the Green Card itself states “Do Not Duplicate” for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have about photocopying.
	• **Non-permanent Aliens (Required Visas)**
	All non-permanent resident aliens must provide evidence of a valid, acceptable visa. A copy of the unexpired visa must be included in the loan file evidencing one of the following visa classes:
	  o **A Series (A-1, A-2, A-3):** These visas are given to officials of foreign governments, immediate family members and support staff. Only those without diplomatic immunity, as verified on the visa, are allowed.
	  o **E-1 Treaty Trader & E-2 Treaty Investor:** this visa is essentially the same as an H-1 or L-1; the title refers to the foreign country’s status with the United States
	  o **G Series (G-1, G-2, G-3, G-4, G-5):** These visas are given to employees of international organizations that are located in the United States. Some examples include the United Nations, Red Cross, World Bank, UNICEF & the International Monetary Fund. Verification that the applicant does not have diplomatic immunity must be obtained from the applicant’s employer and /or by viewing the applicants passport
	  o **H-1 (includes H-1B and H-1C), Temporary Worker:** this is the most common visa given to foreign citizens who are temporarily working in the United States
	  o **L-1, Intra-Company Transferee:** an L-1 visa is given to professional employees whose company’s main office is in a foreign country.
	  o **TN, NAFTA Visa:** Used by Canadian or Mexican citizens for professional or business purposes.
	  o **TC, NAFTA Visa:** Used by Canadian citizens for professional or business purposes
	
	• **Non-occupant co-borrowers**
	It is permissible to add a non-occupant co-borrower to a purchase or a refinance transaction as long as the occupant borrower has an established credit history and credit score. The credit score of the non-occupant co-borrower may not be used to satisfy FHA requirements.
	  o Mortgages with non-occupying co-borrowers are limited to one-unit properties. If the LTV will exceed 75%.
	  o If parents are selling to a child, the parent cannot be the co-borrower with that child on the new mortgage unless the LTV is 75% or less.
	  o For maximum financing the non-occupant borrower must be related by blood, marriage, law or be an unrelated individual that can document evidence of a family-type, longstanding, and substantial relationship.

- Non-occupying co-borrowers must have a principal residence in the U.S. unless exempted due to military service with overseas assignments, or a U.S. citizens living abroad.

- **Non-Purchasing Spouse**
  Any non-purchasing spouse must have a valid Social Security Number. If the non purchasing spouse does not have a valid Social Security Number, the credit report will not be valid, therefore, not acceptable as AUS Approve/Eligible.
- **Identity of Interest (Non ARMs Length)**
  Identity-of-interest transactions on principal residences are restricted to a maximum LTV ratio of 85%. Identity-of-interest is defined as a sales transaction between parties with family relationships or business relationships. Financing above the 85% maximum for identity-of-interest transactions is permitted under certain circumstances, as described below;

EXCEPTION	DESCRIPTION
Family Member Purchase	A family member purchases another family member's home as a principal residence. If the property is sold from one family member to another and is the seller's investment property, the maximum mortgage is the lesser of; • 85% of the appraised value, or • The appropriate LTV factor applied to the sales price, plus or minus required adjustments. NOTE: The 85% limit may be waived if the family member has been a tenant in the property for at least six months immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy.
Tenant Purchase	A current tenant, including a family member tenant, purchases the property where he/she has rented for at least six months immediately predating the sales contract. NOTE: A lease or other written evidence to verify occupancy is required. The maximum mortgage calculation is not affected by a sales transaction between a tenant and a landlord with no identity-of-interest relationship
Builder's Employee Purchase	An employee of a builder purchases on of the builder's new homes or models as a principal residence.
Corporate Transfer	A corporation • Transfers an employee to another location • Purchases the employee's home, and • Sells the home to another employee •

For the purpose of Identity of Interest transactions, the definition of family member includes:

- Child, parent, or grandparent
- Spouse
- Legally adopted son or daughter, including a child who is placed with the

	borrower by an authorized agency for legal adoption, and o Foster child **Note:** A child is defined as a son, stepson, daughter, or stepdaughter. A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent. • All Borrowers must provide evidence of a Valid Social Security Number. (i.e. Social Security card, pay stub, W-2, print out from Social Security Admin.) A printed copy of the Inco Check or Interthinx is also acceptable.
LOSS OF EMPLOYMENT, INCOME AND POST ECONOMIC ;EVENT INCOME	**Loss of Employment** The DE Underwriter must verify and document the Loss of Employment by obtaining: • A written Verification of Employment (VOE) evidencing the termination date or in cases where the prior employer is no longer in business: • a written termination notice, <u>or</u> • other publicly available documentation of the business closure, <u>and</u> • documentation of receipt of unemployment income. <u>Should the underwriter not be able to validate the pervious employment with one of the sources noted above, the loan will not qualify for a Back to Work FHA loan.</u> **Loss of Income** The DE Underwriter must verify and document the Borrower's Household Income <u>prior to Loss of Income</u> by obtaining: • a written VOE evidencing prior income; or • signed tax returns or W-2s evidencing prior income for Economic Event income For a Loss of Income based on seasonal employment, the lender must verify and document a two-year history of seasonal employment in the same field just prior to the Loss of Income, in addition to meeting the documentation requirement above. For a Loss of Income based on part-time employment, the lender must verify and document a two-year history of continuous part-time employment just prior to the Loss of Income in addition to meeting the documentation requirement above. **(<u>Household income is income received by all borrower(s) on the old mortgage or rental lease if no mortgage loan at time of loss of income</u>)** **Post Economic Event Income** The DE Underwriter must verify and document the Borrower's Household Income after the onset of the Economic Event in accordance with the guidance in Handbook 4155.1 Chapter 4 sections D-E & ML 12-3. • Overtime, bonus or commission <u>MUST</u> be validated separately if current income is less than 2 yrs and will be used to qualify for new loan, per 4155.1 manual conditions for current employment. If income cannot be validated separately, (IE-base, commission, overtime or bonus) borrower(s) cannot use income (IE. Commission, overtime or bonus) to qualify on new loan.)

EMPLOYMENT VERIFICATION AND INCOME TYPES	**The DE Underwriter must analyze the documentation to determine the <u>Loss of Employment and/or Loss of Income resulted in a minimum twenty (20) percent reduction in income for a minimum of a concessive six (6) months from time of onset loss date.</u>**
	
	<u>Note: Even if the Household Member (as defined in ML 2013-26) is not an applicant on the current loan, the lender is responsible for obtaining the necessary authorizations to verify Household Members employment or income as part of the requirement to document reduction in household income</u>
	
	• Must meet all employment conditions per ***<u>FHA 4155.1, Chapter 4 sections D and E</u>***
	• Verbal or Full Verification of Employment required at the time of underwriting.
	• Verbal Verification of Employment (VVOE) dated within 10 days prior to the Note date.
	• **Self Employed Borrowers (4155.1 Chapter 4, Section D.4.a –g; ML 2012-3)**
	  o A P&L and balance sheet is required if more than a calendar quarter has elapsed since date of most recent calendar or fiscal-year end tax return was filed by the borrower.
	    ▪ Additionally, if income used to qualify the borrower exceeds the two-year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.
	  o Borrowers, who have significantly declining income compared to the previous 2 years, require an explanation from accountant as to the stability of self-employment income.
	  o Self-Employed income should be reviewed carefully. Borrower(s) business needs to substantiate the cost of the business, as well as the monthly income the borrower(s) receive as owners. Business should show that income and expenses can be maintained per P&L and Balance Sheet.
	• **Social Security Administration (SSA) income(4155.1 Chapter 4, Section D.2.k)** including, but not limited to, Supplemental Security Income (SSI), Social Security Disability Insurance (SSDI), and Social Security income, can be used to qualify the borrower if the income has been verified, and is likely to continue for at least a three year period from the date of closing.
	  o Lender must verify income by obtaining from the borrower any of the following documents:
	    ▪ Federal tax returns;
	    ▪ The most recent bank statement evidencing receipt of income from the SSA;
	    ▪ A Proof of Income letter or "Benefits Letter" that evidences income from the SSA. (Visit www.ssa.gov for an explanation of types of letters issued by the SSA
	  o In addition to verification of income, the lender must document the continuance of this income by obtaining from the borrower;
	    ▪ A copy of the last Notice of Award letter which states the SSA's determination on the borrower's eligibility for SSA income, **or**
	    ▪ Equivalent document that establishes award benefits to the borrower
	    ▪ If any income from the SSA is due to expire within three years from the date of loan closing, that income may only be considered as a compensating factor.
	  o If the Notice of Award or equivalent document does not have a defined expiration date, the lender shall consider the income effective and likely to continue. The lender should not request additional documentation from the borrower to demonstrate continuance of Social Security Admin income. Under no circumstances may lenders inquire into or request documentation concerning the nature of the disability or the medical condition of the borrower.
	    NOTE: Pending or current re-evaluation of medical eligibility for benefit payment is not considered an indication that the benefit payment is not likely to continue
	    NOTE: An initial Notice of Award letter (or its equivalent) may specify a start date for receipt of income in the future. Lenders may consider this income as effective

EMPLOYMENT VERIFICATION AND INCOME TYPES CONTINUED	income as of the start date specified in the Notice of Award Letter. The borrower must have other income to qualify for the mortgage until the start date for receipt of income. **NOTE:** Other forms of long-term disability income (such as worker's compensation or private insurance) may be considered qualifying income with a reasonable expectation of continuance. Lenders should use procedures similar to those noted above to verify such income. • **Temporary Disability** – Borrowers with a continuous 2 year work history who are currently receiving temporary disability (**i.e. maternity leave, workman's comp etc.)** must provide the follow information from the HR Dept of Borrower's employer; 1. Position held at the time of leave is available to borrower upon return to work at the same income. 2. Human Resource Dept to state the date borrower is to return to full time employment 3. Borrower to provide letter of intent to return to work. Letter must state date of return. 4. Borrower's temporary income can be used to qualify only if all of the information above is provided. • **New Employment** – (**Follow 4155.1 Chapter 4 Section D)** o Borrowers about to start a new job and has a guaranteed, non-revocable contract for employment that will begin within 60 days of loan closing, the income is acceptable for qualifying purposes. o Lender must verify that the borrower will have sufficient income or cash reserves to support the mortgage payments and any other obligations during the interim between loan closing and the start of employment. o If the loan will close more than 60 days before the borrower's employment begins, the loan is not eligible. • **Part-Time/Second Job Income (4155.1 Chapter 4, Section D.2.d)-** Part-Time & Second Job income can be used to qualify the borrower if the lender documents; o The borrower has worked at the part-time or second job uninterrupted for the past two years, **and** o Borrower(s) plan to continue Part-time or second job income received for less than two years may be included as effective income, provided that the lender justifies and documents that the income is likely to continue. Part-time or second job income not meeting the qualifying requirements may be considered compensating factor only. NOTE: For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours. • **All faxed documents** must clearly identify the name and number of the party who is verifying Borrower(s) information. PBM must be able to verify the information given is accurate. • **Internet downloads** are acceptable as long as they include, name, title and number of the person who has verified borrower(s) information. Internet downloads must also include the URL address, date and time printed. • **Employment Gaps- (4155.1 Chapter 4, Section D.1.a & D.2.a)** • For employment gaps greater than 6 months, borrower must be on the new job a minimum of 6 months in order to use the income to qualify.

ASSETS	• Must meet all asset conditions per ***4155.1 Chapter 5, Sections A- C*** • Verify, document and determine acceptability of assets being utilized • **All faxed documents** must clearly identify depository/investment firm's name, account number and source of information. PBM must be able to verify the information given is accurate. • **Internet downloads** are acceptable as long as they include, name, title and number of the person who has verified borrower(s) information. Internet downloads must also include the URL address, date and time printed. • Acceptable sources of funds; o **Depository Accounts-** if a Verification of Deposit (VOD) is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, then obtain statement(s) for the most recent 2 months to verify sufficient funds to close. NOTE: If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the borrower has full access and use of the funds. o **Gift funds** – See **Down Payment Criteria** Section for gift requirements o **Stocks and Bonds** – obtain brokerage statement(s) for each account for the most recent 2 months. The borrower(s) actual receipt of funds must be verified and documented if used for down payment. o **Retirement Accounts- obtain** the most recent statements for each account to verify sufficient funds to close. Document the terms and conditions for withdrawal and/or borrowing and that the borrower is eligible for withdrawals. Use only 60% of the amount in the account unless the borrower presents documentation supporting a greater amount after subtracting any taxes or penalties for early withdrawal. The borrower(s) actual receipt of funds must be verified and documented only if used for funds to close. **NOTE:** When a retirement account is used for down payment and/or closing costs only 60% of the remaining balance is allowed for reserves. **Remember**, when liquidating funds against a retirement or 401k account, underwriter must deduct the liquidated funds prior to the 60% calculation. o **Sale of Home/Real Estate-** obtain a HUD-1 or the equivalent closing statement to evidence the sale of the property. If his or her company is transferring the borrower under a guaranteed sales plan, obtain an executed buyout agreement and accompanying settlement statement indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt. o **Earnest Money Deposit-** Verify and document the deposit amount and source of funds, if the amount of the earnest money deposit; ▪ Exceeds 2 percent of the sales price, or ▪ Appears excessive based on the borrower's history of accumulating savings. • **Large Deposits-** If there is a large increase in an account, or the account was recently opened, borrower must provide a credible explanation and document the source of funds. All large deposits exceeding income deposits must be sourced and seasoned.
RESERVES	• 1 or 2 Unit – 2 Months reserves for PITIA Mandatory for Manual underwriting • Funds received from subject transaction cannot be counted to meet the reserve requirements. (i.e. cash received from a refinance transaction) • See **asset section** for acceptable sources of funds.

SUBORDINATE FINANCING	• **Must meet all 4155.1 Chapter 5, Section B.4.h; C.1 – 16** • Subordinate Financing allowed (Institutional financing only) • The CLTV is limited to 100% (of the lesser of the sales price or appraised value) when the FHA first lien is combined with a subordinate lien from an instrumentality of government or government agency that is providing down payment and/or closing cost assistance in the form of secondary financing.
SELLER CONTRIBUTIONS	• Limited to 6% of the **lesser** of the property's sales price or appraised value

MIP REQUIREMENTS

UFMIP For Case Number Assignments on or after 4/18/2011

GREATER THAN 15 YEAR TERMS			**15 YEAR OR LESS TERMS**		
LTV	UFMIP	ANNUAL	LTV	UFMIP	ANNUAL
> 95%	1.00%	1.15%	> 90%	1.00%	0.50%
≤ 95%	1.00%	1.10%	≤ 90%	1.00%	0.25%

UFMIP For Case Number Assignments on or after 4/9/2012

GREATER THAN 15 YEAR TERMS			**15 YEAR OR LESS TERMS**		
≤ 95%	1.75%	1.20%	≤ 90%	1.75%	0.35%
> 95%	1.75%	1.25%	> 90%	1.75%	0.60%

UFMIP For Case Number Assignments on or after 6/11/2012

GREATER THAN 15 YEAR TERMS				**15 YEAR OR LESS TERMS**		
Base Loan Amount	LTV	UFMIP	ANNUAL	LTV	UFMIP	ANNUAL
≤ 625,500	≤ 95 %	1.75%	1.20%	≤ 90%	1.75%	0.35%
≤ 625,500	> 95%	1.75%	1.25%	>90%	1.75%	0.60%
> 625,500	≤ 95%	1.75%	1.45%	≤ 90%	1.75%	0.60%
>625,500	> 95%	1.75%	1.50%	> 90%	1.75%	0.85%

All MIPs in this table are effective for case numbers assigned on or after April 1, 2013

Term > 15 years			
Base Loan Amount	**LTV**	**Previous MIP**	**New MIP**
≤ $625,500	≤ 95.00%	120bps	130bps
≤ $625,500	> 95.00%	125bps	135bps
>$625,500	≤95.00%	145bps	150bps
>$625,500	>95.00%	150bps	155bps
Terms ≤ 15 Years			
Base Loan Amount	**LTV**	**Previous MIP**	**New MIP**
≤$625,500	78.01%-90.00%	35bps	45bps
≤$625,500	>90.00%	60bps	70bps
>$625,500	78.01%-90.00%	60bps	70bps
>$625,500	>90.00%	85bps	95bps

The new annual MIP for these loans is effective for case numbers assigned on or after June 3, 2013

Term ≤ 15 years			
Base Loan Amount	**LTV**	**Previous MIP**	**New MIP**
Any Amount	≤78.00%	0bps	45bps

	For loans with FHA case numbers assigned on or after June 3, 2013, FHA will collect the annual MIP: • For all mortgages regardless of their amortization terms, any mortgage involving an original principal obligation (excluding financed Up-Front MIP (UFMIP) less than or equal to 90 percent LTV, the annual MIP will be assessed until the end of the mortgage term or for the first 11 years of the mortgage term, whichever occurs first. • For any mortgage involving an original principal obligation (excluding financed UFMIP) with an LTV greater than 90 percent, FHA will assess the annual MIP until the end of the mortgage term or for the first 30 years of the term, whichever occurs first. Note: FHA calculates LTV as a percentage by dividing the loan amount (prior to the financing of any UFMIP) by lesser of the purchase price (if applicable) or the appraised value of the home. For streamline refinances with appraisals, FHA uses the original appraised value of the property to calculate the LTV. The table below shows the previous and the new duration of annual MIP by amortization term and LTV ratios at origination.

TERM	LTV (%)	PREVIOUS	NEW
≤ 15 yrs	≤ 78	No annual MIP	11 years
≤ 15 yrs	> 78-90.00	Cancelled at 78% LTV	11 years
≤ 15yrs	> 90.00	Cancelled at 78% LTV	Loan Term
> 15 yrs	≤ 78	5 years	11 years
> 15yrs	> 78-90.00	Cancelled at 78% LTV & 5 years	11 years
> 15 yrs	> 90.00	Cancelled at 78% LTV & 5 years	Loan Term

TEMPORARY BUYDOWNS	Not Allowed
DOWNPAYMENT CRITERIA	• Borrower(s) minimum down payment requirements 3.5% of the **lesser** of the appraised value of property or sales price and any borrower closing costs & fees. • Borrowers that pay any costs out of closing (**POC**) i.e. appraisal, credit etc. and will be applying that cost towards their 3.5% down payment, must document and source that the funds came from and cleared borrowers account, prior to Final Loan Approval and/or Loan Docs. If a credit card is used, those funds **cannot** be applied towards the 3.5% down payment. • Acceptable sources of funds: o Earnest money deposit o Checking and savings accounts o Savings Bonds o IRAs o 401K & Keogh accounts o Stocks & Bonds o Thrift Savings o Sales proceeds o Sale of personal property o Gift (**from an acceptable source/fully documented**) • Gift Requirements o It is the Underwriter's responsibility to review and clear all conditions that apply

<table>
<tr><td>DOWNPAYMENT CRITERIA CONT.</td><td>
to the gift funds.

If gift conditions are moved to “Prior to Funding” they will be required to be “UTR” Underwriter to Review” condition ONLY. Funding dept. will NOT be allowed to clear gift funds condition.
Underwriter or Underwriting Manager with a DE Authority must clear condition.
If someone other than the original DE Underwriter clears condition, the DE clearing the UTR Conditions will be required to notate that they cleared the gift funds on the LT with their Chums#.

<table>
<tr><th>If the gift funds….</th><th>Then…..</th></tr>
<tr><td>Are in the borrower’s account</td><td>Obtain
A copy of the withdrawal document showing that the withdrawal is from the donor’s account, and
The borrower’s deposit slip & bank statement showing the deposit</td></tr>
<tr><td>Are to be provided at closing, and
Are in the form of a certified check from the donor’s account</td><td>Obtain
Bank statement showing the withdrawal from donor’s account, and
Copy of the certified check</td></tr>
<tr><td>Are to be provided at closing, and
Are in the form of a cashiers check, money order, official check or other type of bank check</td><td>Have the donor provide a withdrawal document or cancelled check for the amount of the gift, showing that the funds came from the donor’s personal account</td></tr>
<tr><td>When funds are being wired directly from the donor’s account into escrow/title obtain a copy of the Wire Transfer Advice.</td><td>The Wire Transfer Advice must reference the donor’s account number or Bank name and donor name as noted on the gift letter.</td></tr>
<tr><td>Are being borrowed by the donor, and
documentation from the bank or other savings account is not available</td><td>Have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the lender</td></tr>
</table>
IMPORTANT: Cash on Hand is NOT an acceptable source of gift funds
</td></tr>
<tr><td>OTHER REAL ESTATE</td><td>Max number of financed properties = 4
Max number of FHA loans = 1</td></tr>
<tr><td>MISCELLANEOUS CRITERIA</td><td>Each borrower (regardless of income source) must complete and sign separate IRS Form 4506-T at application and again with loan documents.
4506T requirements (follow D/U requirements); Process 4506T based on AUS findings. If most recent year has an extension a 4506 must be processed, state “no record”, a copy of the extension must be obtained, and evidence of any monies owed must be documented paid to the IRS or evidence of refund. In cases of W-2, borrowers with extensions a 4506 for the W-2 should be processed for the extension year.
If 4506T results reflect income/loss information that we did not have documented in our file we must require two years 1040’s that match the 4506 results. AT NO TIME CAN THE W2 RESULTS REPLACE THE REQUIRED 4506T RESULTS</td></tr>
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<u>2012 Tax Return Transcripts</u>
Loans closed on or after June 15, 2013 must include the 2012 Tax Return Transcripts to be eligible for purchase. If a borrower has filed an extension, we require:

Evidence in the file that the extension was filed, and
A 2012 Tax Transcript showing “No record of return filed”

Note: Loans that do not require income (non-credit qualifying FHA Streamlines) are exempt.

Short Sale Fees paid by the borrower – Borrowers may pay additional fees and payments in connection with purchasing a short sale property that are typically the responsibility of the seller. Examples of short sale fees and payments include, but are not limited to the following:

Short sales processing (i.e., short sale negotiation fees, buyer discount fees, short sale buyer fees) <u>NOTE</u>: The Short sale processing fee is not a common and customary charge and must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction.
Negotiated short payoff to a subordinate lien holder, and
Payment of delinquent taxes or delinquent homeowner association (HOA) dues.

NOTE: the above referenced fees are non-GFE fees.
Maximum allowable short sale fees that can be paid by the borrower are 3% of the sales price.
These fees and payments cannon be financed into the loan amount and must be included on the HUD-1 settlement statement. Borrowers must fund the cost of the additional fees and payments with their own funds. The additional funds to complete the transaction must be documented.
The sales contract will identify if the property being purchased is a short sale property.
The transaction must be an arm’s length (i.e., all parties are unaffiliated and unrelated).
Underwriter must diligently review the purchase transaction for unusual fees, payments, and other possible “Red Flags” that could indicate fraudulent activity related to the short sale.

Document Requirements –

The sales contract executed by all parties with details of the additional fees and payments.
A copy of the executed arm’s length affidavit(s) verifying all parties (borrower, seller, listing and buying agents) are unaffiliated and un related)
The HUD-1 Settlement Statement that includes all borrower paid short sale fees and payments, and
Source of client’s funds used to cover the short sale fees and payments.

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<td>APPRAISAL REQUIREMENTS</td>
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One full appraisal required
FHA Certified Appraiser
1004D as required by appraisal or DE Underwriters conditions
Age of Appraisal
Appraisal report is good for 120 days, but if appraisal is 90 days or older at underwriting, the following will be required;
Underwriter to condition loan:
“Recertification required if loan not funded on or before Conditional Commitment Expiration date”
A recertification of value performed by the original appraiser on a 1004D only.
If the appraisal does exceed 120 days, the case # must be cancelled and a new case # issued, prior to ordering the new appraisal.
See FHA Case Number Cancellation Process in Policy & Procedures

</td>
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	• **Non Permitted Room Additions require;** o The quality of the work to be described in the appraisal and deemed acceptable "Workmanlike Quality" by the appraiser. o The addition does not result in a change in the number of units comprising the subject property. (i.e. a 1 unit converted into a 2 unit) o If the appraiser gives the unpermitted addition value, the appraiser must be able to demonstrate market acceptance by the use of comparable sales with similar addition footage as the subject property. o Non-permitted additions are typical for the market area and a typical buyer would consider the "unpermitted" additional square footage to be part of the overall square footage of the property. o The appraiser has no reason to believe the addition would not pass inspection for a permit. • **New Construction-** • New construction must be 90% or more completed, including existing less than one year old. • ***New Construction required completed forms*** 1. Builder's Certification of Plans, Specifications and Site, form HUD-92541 2. Builder's Warranty, form HUD-92544 3. Building Permit and Certification of Occupancy or 10-year Warranty and Final Inspection signed and dated by the City/County Building Department. 4. Wood Infestation Report (Termite Soil) NPMA 99a and 99b 5. Local Health Authority well water analysis or septic report, where applicable. 6. 1004D Section can only be used if appraiser conditions are only borrower preference items (Flooring, appliances and counter tops) 7. Compliance Inspection Report-HUD-92051 required for all new construction Condo projects. Form to be completed by HUD Fee Inspector Only. The list of inspector can be found on FHA Connection. 8. Compliance Inspection Report- HUD-92051 required if any of the following - ▪ Off- Site Improvements Incomplete (Streets, Sidewalks, items that effect the home value & access) ▪ On- Site Improvements Incomplete (Roofs, Driveways, Landscaping, Fencing, Plumbing, Drywall, Walkways, Cabinets, etc.) • ***New Construction 100% complete (Existing less than one year old)*** 1. Builder's Certification of Plans, Specifications and Site, form HUD-92541 2. Builder's Warranty, form HUD-92544 3. Wood Infestation Report (Termite Soil) NPMA 99a and 99b 4. Local Health Authority well water analysis or septic report, where applicable. 5. 1004D can be used to clear any borrower preference items 6. Compliance Inspection Report-HUD-92051 required for all new construction Condo projects. Form to be completed by HUD Fee Inspector Only. The list of inspector can be found on FHA Connection

SATISFACTORY CREDIT ANALYSIS **OVERALL CREDIT** **RETAIL CREDIT** **INSTALLMENT CREDIT**	**Satisfactory Credit: Requirements** The lender may deem a borrower to have Satisfactory Credit if: • the borrower's credit history is clear of late housing or installment debt payments, and major derogatory credit issues on revolving accounts; • Any open mortgage is current and shows twelve (12) months satisfactory payment history. Mortgages may have been brought current through loan modification, which may be "temporary" or "permanent" so long as all payments have been documented as being received in accordance with the modification agreement(s); • Rental history shows current and twelve(12) months satisfactory payment history if no current mortgage payments; and • The borrower meets the requirements of this ML. • Borrower must have shown good credit management with "as agreed" credit prior to economic event. The DE Underwriter must analyze the documentation to determine the Loss of Employment and/or Loss of Income resulted in a minimum twenty (20) percent reduction in income for a minimum of six (6) months. **<u>Note:</u>** <u>Even if the Household Member (as defined in ML 2013-26) is not an applicant on the current loan, the lender is responsible for obtaining the necessary authorizations to verify Household Members employment or income as part of the requirement to document reduction in household income at time of the Economic Event Loss</u> The DE Underwriter must first analyze and document – 1. all delinquent accounts and 2. all indications of derogatory credit, including collections and judgments, bankruptcies, foreclosures, deeds-in-lieu, short sales, and other credit problems, to determine whether associated late payment, credit deficiencies or other credit problems were the result of an Economic Event, or an inability to manage debt or a general disregard for managing financial obligations. To establish that borrower's derogatory credit was the result of an Economic Event, the lender must review the credit report and determine that: • the borrower exhibited Satisfactory Credit prior to the Economic Event Onset; • the borrower's derogatory credit occurred after the Economic Event Onset, and • the borrower has re-established • Inquiries on Credit Report- Detailed letter of explanation (LOE) required the borrower. **NOTE:** These inquiries that may potentially result in obligations incurred by the borrower(s) for other mortgages, auto loans, leases, or other installment loans must be explained. • **Age of Credit Report**- If a credit report is 45 days or older at funding, a soft-pull credit report must be pulled (no FICO needed) to determine any changes. • If there are no changes on soft-pull report compared to original credit report, the original credit report can be used to fund the loan, but CANNOT be older than 90 days at funding. • If there are changes to the credit, file must be re underwritten to include the changes. • Non-Traditional credit **NOT** allowed • Credit Cards are not allowed to be paid off to qualify, unless all funds being used to pay off the credit cards are borrower(s) own funds (**401K or gift not allowed**). • **Disputed Accounts** – Disputed credit accounts are generally not considered in the borrower's credit report, FHA requires loans of borrowers with derogatory disputed accounts of $1,000 or more (excluding medical) to be manually underwritten.

- FHA has revised the policy on manual downgrades to reflect the risk associated with derogatory disputed accounts for factors such as age and size of outstanding balance.

IF	And	Then
the Automated Underwriting System using the TOTAL Mortgage Scorecard rates the mortgage as an Accept,	the total outstanding balance of all disputed derogatory credit accounts (excluding medical) is less than $1000	downgrade to a manual underwrite is not required
	disputed derogatory credit accounts (excluding medical) have an aggregate balance equal to or in excess of $1000	downgrade to a manual underwrite

- *Non-Purchasing Spouse* - Disputed derogatory credit accounts of a non-purchasing spouse in a community property state are ***not included*** in the cumulative balance for purposes of determining if the mortgage application is downgraded to a *"Refer"*
- *Medical Accounts* – Disputed medical accounts are excluded from the $1,000 limit and do not require documentation. Disputed derogatory credit accounts resulting from identity theft, credit card theft, or unauthorized use, etc., ***are also excluded*** from the $1,000 limit. However, the lender must provide a credit report, letter from the creditor, or other appropriate documentation to support the dispute, such as a police report disputing the fraudulent charges in the case binder.
- Disputed derogatory credit accounts are defined as:
  - disputed charge off accounts,
  - disputed collection accounts, and
  - disputed accounts with late payments in the last 24 months.

- **Collection Accounts** – To mitigate the risk of collections and the borrower's ability to repay the mortgage, FHA is requiring the lender to follow the guidelines on collection accounts with an aggregate balance equal to or greater than $2,000, as described below.

IF	And	Then
the Automated Underwriting System using the TOTAL Mortgage Scorecard rates the mortgage as an Accept,	the cumulative outstanding balance of all collection of all borrowers is less than $2000	the lender is not required to consider or evaluate collection accounts
	the cumulative outstanding balance of all collections of all borrowers is equal to or greater than $2000	the lender must include monthly payments in the borrower's debt-to-income ratio as stated in HUD 4155.1 4.C.2.e for accounts that will remain open subsequent to closing.

	o *Non-Purchasing Spouse* – Collection accounts of a non-purchasing spouse in a community property state ***are included*** in the cumulative balance. A lender must analyze the impact of the borrower's ability to pay all collection accounts, including those of the non-purchasing spouse (with the exception of obligations excluded by state law) in accordance with the guidance stated in HUD 4155.1 4.A.5.b and 4.C.2.e. o *Medical Accounts* – Medical collections and charge offs are excluded from this guidance. **OR** to document the 2-year period. • Lender is responsible to include that following liabilities; • Debts disclosed on the borrower(s) credit report • Debts disclosed on the borrower(s) mortgage loan application • Alimony • Child support • Separate maintenance agreements • Negative rent on other real estate owned • Mortgage debt (PITI) on other real estate owned • Installment debt **NOTE:** Because of the tax treatment of alimony, the lender may reduce the borrower's monthly gross income by the amount of the alimony payments rather than include it as a debt obligation. If this option is chosen, **do not** include the alimony payment as a liability. **NOTE:** Installment debts with fewer than ten payments remaining maybe excluded from the ratio calculation. However, payments that could significantly impact the DTI, greater than $100, may not be excluded. • Underwriter is required to review bank statements (if applicable) for any recurring debts that could result in payments not included on the credit report or loan application. These payments could impact the DTI (i.e. auto loan, automatic withdrawals, credit cards, school loans, time shares, child support not documented by a divorce decree etc.) • **Non-Purchasing Spouse-** Except for obligations specifically excluded by state law, the debts of the non-purchasing spouse must be included in the borrower's qualifying ratios. The underwriter must determine if the liabilities will have an impact on the borrower's ability to make the mortgage payment. • **Co-Signed Obligations-** If the individual applying for an FHA-insured mortgage is a co-signer or is otherwise co-obligated (co-obligated meaning both parties must be financially liable for the debt in order to exclude the debt from the DTI.) on a car loan, student loan, mortgage, or any other obligation – contingent liability applies unless; • The lender obtains documented proof that the primary obligor has been making payments during the previous 12 months on a regular basis, **and** • Does not have a history of delinquent payments on the loan, **and** • A copy of the contract etc. to show all parties are financially liable for the loan.
BANKRUPTCY	**Economic Event-Related Chapter 7 Bankruptcy** The DE Underwriter must verify and document that: • a minimum of twelve (12) months have elapsed since the date of discharge of the bankruptcy; and • bankruptcy was the <u>result of the Economic Event.</u> • Bankruptcy filed to stop NOD would default to foreclosure guidelines.

	Economic Event-Related Chapter 13 Bankruptcy The DE Underwriter must verify and document that: • The Chapter 13 Bankruptcy was discharged prior to loan application and all required bankruptcy payments were made on-time, or a minimum of twelve (12) months of the pay-out period under the bankruptcy has elapsed and all required bankruptcy payments were made on time; and • Bankruptcy was the result of the Economic Event. If the Chapter 13 Bankruptcy was not discharged prior to loan application, the lender must also verify and document that the borrower has received written permission from the Bankruptcy Court to enter into the subject mortgage transaction. **Dismissed Bankruptcy-** Chapter 13 and/ or 7 Bankruptcies that were dismissed are not allowed on this program.
FORECLOSURE OR DEED IN LIEU	**Economic Event-Related Mortgage Foreclosure** The DE Underwriter must verify and document that: • a minimum of twelve (12) months have elapsed since the date of foreclosure or deed-in-lieu; and • foreclosure or deed-in-lieu was the result of the Economic Event
SHORT SALE	**Economic Event-Related Short Sale** The DE Underwriter must verify and document that: • a minimum of (12) months have elapsed since the date of sale; and • short sale was the result of the Economic Event.
LOAN MODIFICATIONS	• Borrower to provide a copy of the Loan Modification Agreement • Borrower to provide a Letter of Explanation (LOE) regarding financial hardship at the time of Loan Modification Approval (if applicable) or explain the reason a Loan Modification was completed. • DE Underwriter to determine if financial hardship (if applicable) is still a factor for qualifying or determine if the financial hardship has been resolved.

HUD MORTGAGE REJECTS	• On the screen shot for the Mortgage Reject, write on any free space:
	  o **"SEE ATTACHED DOCUMENTATION REGARDING REJECT OVERTURN/ REBUTTAL".**
	• On your LT, be sure to write in UW Comment section:
	  o "**SEE ATTACHED UW NOTES INCLUDING INFO ON MORTGAGE REJECT OVERTURN**"
	• On your UW Notes, be sure to give a **detailed explanation** on what is different or has changed that supported overturning the prior reject. Underline that portion (don't forget, highlighter doesn't show up on what is seen by FHA or investors). If it is a critical comment, place it in **bold** or all CAPS or at least underline it.
	• On the actual documentation used to support the overturn, write directly on the supporting documentation "**used to support overturn of original mortgage reject**". **Writing notes on paperwork in the files regardless of loan type is now highly encouraged.**
	
	NOTE: See Policy and Procedures **Section N – Mortgage Credit Reject Verification Process** for further details on HUD Mortgage Rejects.

TERMITE REPORTS	• When a termite report is required, **ALL** Section 1 items must be cleared by the termite company or a licensed contractor and a termite report clearance must be issued prior to funding. If the clearance states items were completed by others and appear to be completed in a workman like manner. The party that performed the work must meet guidelines noted below & a copy of the bill for completed work must be provided. • Section 2 items that are required to be repaired are listed in the table below. The items listed below are the most critical items, but there are other items that may require repair (i.e. Health & safety, structural, misc repairs) Any Section 2 items that are not listed below, but are questionable, should be reviewed with Corporate Underwriting for determination of repair requirements.

Section 2 Items	Requirement for Completion
Any indication of water leak or stain on ceilings	Inspected and/or repaired by licensed roofer
All other major water leaks or stains (includes Hot Water Heater)	Inspected and repaired by a licensed plumber or general contractor. The appraiser or termite company may inspect minor leaks
Loose or broken toilets	Inspected by appraiser or a licensed contractor
Broken or inoperable faucets	Inspected by appraiser or a licensed contractor
Broken or inoperable doors	Inspected by appraiser or a licensed contractor
Mold	Inspected and repaired by a licensed Mold Abatement Company
Broken or cracked windows	Repaired by a licensed contractor
Structural wood replacement or repairs	Structural wood repairs: i.e. A general or building contractor must complete removal & replacement of a patio deck, stairs, walls or beams. **All wood that is replaced or repaired must be painted.** Exposed wood of any kind is not acceptable. **The inspector must state that the wood has been primed and/or painted**
Cosmetic wood replacement or repairs	Cosmetic wood repairs: i.e. doors, door jams, a licensed contractor, or the seller can complete floor molding. **All wood that is replaced or repaired must be painted.** Exposed wood of any kind is not acceptable. **The inspector must state that the wood has been primed and/or painted.**

HUD REO PROPERTIES	o Repairs and improvements required by the appraiser as essential for property eligibility may be added to the sales price before calculating the mortgage amount. For the cost of repairs and improvements to be eligible for inclusion in the mortgage amount, the sales contract or addendum must identify the borrower has an escrow repair allowance. The amount that may be added to the sales price before calculating the maximum mortgage amount is the lowest of: o The appraisers estimate of repairs and improvements; or o The amount of the contractors bid, if available. o Only repairs and improvements required by HUD and/or appraiser may be included. o The amount that cannot be financed into the mortgage will become part of the borrower's required cash investment. o Lender must establish an escrow account to ensure completion of all required repairs. o Maximum loan amount: o Value or sales price (+) repairs (less) 3.5% = base loan amount (+) UFMIP financed = Maximum Loan Amount (not to exceed 100% LTV) o HUD Appraisals- o HUD provides an FHA "as-is" appraisal for establishing market value.

	o Validity period- HUD appraisals are valid for a period of 120 days from the effective date of the appraisal. Appraisal validity period can be extended up to 30 additional days in order to close escrow. Contract MUST be ratified prior to the 120 day expiration date to allow the 30 day extension o If the appraisal expires, it is the buyer's responsibility to pay any associated fees for a new appraisal. Neither HUD nor BLB will order or pay for it. o HUD will not renegotiate or adjust the purchase price after contract ratification. o If a buyer is securing FHA financing, the lender will be required to use HUD's FHA "as-is" appraisal unless HUD's appraisal is over 4 months old at the time of contract acceptance. A second appraisal may not be ordered to support a higher purchase price. In the event the appraisal is over 4 months old at the time of contract ratification, the buyer will be required to obtain a new FHA "as-is" appraisal at the buyers expense. o If the buyer is securing a loan that does not involve FHA financing, then the buyer's lender will order a new appraisal on the property at the buyer's expense, regardless of whether they overbid the property or not. o Pools: Pools are not be filled at any time. o HUD REO Properties do not require pools to be filled, which differs from front-end FHA transactions. o Pools are not required to be covered as long as there is a secure fence surrounding the backyard. o FHA lenders are to obtain an "as-is" statement from the buyer accepting the pool in "as-is" condition. o NOTE: DE Underwriter to condition for pool to be filled with (water or dirt) as repair escrow completion requirement. o FHA 203(b) with Escrow Repairs- o The MPR Repairs cannot total more than $4,999. o The repair credit is never a credit to the buyer. Borrowers financed escrow repair funds that are not used to pay for repair will be applied as a principal reduction. o PBM allows up to 30 days after closing for MPR repairs to be completed. Once the repairs have been completed, the lender will inspect the contractor's work and disburse the funds to the appropriate parties. o The repair escrow only applies to the FHA 203(b) financing. The repair escrow does not apply to financing outside of 203(b) or to cash purchases. o Condominium Projects - FHA case numbers cannot be requested unless to the project is approved. Expired, withdrawn or projects exceeding the FHA Concentration percentage will not have case numbers assigned. o Exceptions to this requirement are: o FHA to FHA streamline refinance o HUD REO transactions o Projects meeting the site condominium definition and requirements.
COMPENSATING FACTORS	**<u>Compensating factors used for mortgage approval must be supported by documentation.</u>** • The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months. • The borrower makes a large down payment (ten percent or more) towards the purchase of the property. • The borrower has demonstrated an ability to accumulate savings and a conservative attitude towards 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 lender must judge whether or not the asset is liquid or readily convertible to cash and can be done so absent of retirement or job termination. 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 the proceeds from a 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 computations). • The borrower has a potential for increased earnings, as indicated by job training or education in the borrower's profession. The home 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 DE Underwriter must document the availability of such possible employment.***
PBM FHA Guidelines are based on FHA Guidelines (4155.1 & 4155.2), FHA Total Mortgage Scorecard and recent PBM HUD Audits. As a result of the HUD Audits and HUD Insuring Reviews PBM gathered information to include in our guidelines. **NOTE:** PBM FHA Guidelines **do not** include any additional overlays.	