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4000.1 Summary of Guidelines

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*This is a Summary of FHA Guidelines taken from the FHA Handbook 4000.1 (last revised 9/30/2016) and recent PBM HUD Audits. It is the most pertinent information for the majority of our transactions, and is outlined for AUS and Manual requirements. For additional information not mentioned in the sections below, refer to the published 9/30/16 FHA Handbook 4000.1. This can be found on the HUD Clips website under Housing Handbooks 4000.1*

**NOTE: PBM FHA Guidelines do not include any additional overlays.**

# FHA Guidelines



<p><b>PRODUCT</b></p>	<ul style="list-style-type: none"> <li>• 30 YEAR (FHA30)</li> <li>• 15 YEAR (FHA15)</li> <li>• 5/1 ARM (FHA51) (<b>Qualify at the Note Rate</b>) <ul style="list-style-type: none"> <li>○ Index: 1 year Treasury Bill</li> <li>○ Caps: 1/1/5</li> </ul> </li> <li>• FHA 203(h) Disaster Program 30 year only (FHA30203H)</li> <li>• FHA Jumbo (FHA30HB) 30 year only</li> <li>• FHA 5/1 Arm Jumbo 30 Year (FHA51HB)</li> <li>• FHA 600-619 credit score (FHAF600)</li> </ul>															
<p><b>AGE OF DOCUMENTATION</b></p>	<ul style="list-style-type: none"> <li>• <b>APPRAISAL:</b> no older than 120 days at time of funding.</li> <li>• <b>CREDIT:</b> no older than 120 days at time of funding.</li> <li>• <b>INCOME:</b> no older than 120 days at time of funding.</li> <li>• <b>ASSETS:</b> no older than 120 days at time of funding.</li> <li>• <b>TERMITE:</b> no older than 120 days at time of funding.</li> </ul>															
<p><b>ADP/SECTION OF THE ACT</b></p>	<p>FHA</p> <table border="1" data-bbox="456 653 1536 816"> <thead> <tr> <th>Section of Act</th> <th>ADP Codes for DE</th> <th>Property/Loan Type</th> </tr> </thead> <tbody> <tr> <td>203 (b)</td> <td>703</td> <td>SFR</td> </tr> <tr> <td>Site 203(b)/ Condo 234(c)</td> <td>734</td> <td>Condo</td> </tr> <tr> <td>203(b)</td> <td>729</td> <td>ARM</td> </tr> <tr> <td>203 (h)</td> <td>703</td> <td>PDMDA</td> </tr> </tbody> </table>	Section of Act	ADP Codes for DE	Property/Loan Type	203 (b)	703	SFR	Site 203(b)/ Condo 234(c)	734	Condo	203(b)	729	ARM	203 (h)	703	PDMDA
Section of Act	ADP Codes for DE	Property/Loan Type														
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Site 203(b)/ Condo 234(c)	734	Condo														
203(b)	729	ARM														
203 (h)	703	PDMDA														
<p><b>LTV/CLTV COUNTY LOAN LIMITS and FHA AND STATE RESTRICTIONS</b></p>	<p><b>LTV / CLTV</b></p> <ul style="list-style-type: none"> <li>• 96.50% Purchase (1 yr. ARM must qualify at 1% above rate if =&gt;95%)</li> <li>• 97.75% Simple Refinance</li> <li>• 97.75% Rate and Term Refinance (with 12 month Occupancy and payment history on current loan.</li> <li>• 85.00% Rate and Term Refinance (with less than 12 months Occupancy and Payment history see restrictions</li> <li>• 85.00% Purchase with Identity of Interest (see Identity of Interest section)</li> <li>• 75.00% Purchase Non Occupying Co-Borrower</li> <li>• 96.50% allowed if borrowers are Family members. Provided not a 2-4 unit or family member is selling to a family member who will be non-occupying co borrower.***See identity of interest to define family member</li> <li>• 103.00% Secondary Financing <ul style="list-style-type: none"> <li>○ Institutional financing only</li> <li>○ The lesser of the sales price or appraised value</li> <li>○ 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. The Underwriters are required to reflect EIN on HUD's FHA Loan Transmittal Summary in conjunction with secondary financing assistance grants, or DPA (Down Payment Assistance) to the borrower when the borrower is receiving an FHA First Mortgage</li> </ul> </li> <li>• 100% 203(h) Purchase (see 203 (h) section in these guidelines)</li> <li>• <b>County Loan Limits</b>  <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a> </li> </ul> <p><b>Restrictions</b></p> <ul style="list-style-type: none"> <li>• Flip Transactions-91-180 days (see appraisal section for requirements)</li> <li>• Property Vesting-No Living or Inter Vivos Revocable Trust</li> <li>• Seller Contributions-Limited to 6% of the <b>lesser</b> of the property's sales price or appraised value.</li> <li>• All Purchase transactions with Real Estate Agents involved require a Transfer Disclosure Statement per California DRE state law.</li> <li>• All Purchase transactions require fully executed purchase contracts. If loan is a FSBO (for sale by owner) with no agent involved, and no purchase contact the escrow instructions must state escrow is only binding contract between parties.</li> </ul>															

# FHA Guidelines



<p><b>LTV/CLTV COUNTY LOAN LIMITS And FHA AND STATE RESTRICTIONS CONTINUED</b></p>	<ul style="list-style-type: none"> <li>• ALL loans require impounds for Taxes and Insurance – See <i>Solar Panels</i> for impound procedure on PACE payoffs.</li> </ul> <p><b>For Refinance transactions:</b></p> <ul style="list-style-type: none"> <li>• For properties acquired by the Borrower within 12 months of the case number assignment date, the Adjusted Value is the lesser of:             <ul style="list-style-type: none"> <li>○ The Borrower’s purchase price, plus any documented improvements made subsequent to the purchase; or</li> <li>○ The Property Value</li> </ul> </li> <li>• Properties acquired by the Borrower within 12 months of case number assignment by inheritance or through a gift from a Family Member may utilize the calculation of Adjusted Value for properties purchased 12 months or greater.</li> </ul>
<p><b>OCCUPANCY AND PROPERTY TYPE</b></p>	<p><b>Occupancy</b></p> <ul style="list-style-type: none"> <li>• Owner Occupancy Only (a minimum of one borrower must occupy as primary residence)</li> </ul> <p><b>Property Type-</b></p> <ul style="list-style-type: none"> <li>• SFR detached and attached units</li> <li>• PUDs</li> <li>• 2-4 Units</li> <li>• 3-4 Units – No non-owner occupants allowed (see income and asset sections for specific requirements. Must have completed form HUD-92561)</li> <li>• Manufactured Homes – see <u><i>FHA-VA Manufactured Home Loans</i></u> in Quick Look Manual</li> <li>• Condominiums             <ul style="list-style-type: none"> <li>○ FHA approved condos only</li> <li>○ Condo- HOA Certification;</li> <li>○ 50% Occupancy/FHA Concentration required</li> <li>○ ≤ 15% HOA dues delinquencies</li> <li>○ ≤ 30% FHA Pre-Sale Requirement for New Construction</li> <li>○ Reserves = 10% of budget for capital expenditures &amp; deferred maintenance.</li> <li>○ Fidelity Bond Insurance - ≥ 20 units in the project require not less than 3 months aggregate assessments on all units plus reserve funds.                 <ul style="list-style-type: none"> <li>▪ HO6 Coverage</li> <li>▪ Underwriter to complete “Lenders Certification for Individual Unit Financing Form” (located in “Forms” Folder)</li> </ul> </li> </ul> </li> </ul> <p><b>NOTE:</b> Condo projects that are subject to expire within 60 days of Application need to contact Corporate Govt. Underwriting for further direction.</p>
<p><b>UNDERWRITING METHOD; FICOS AND RATIOS</b></p>	<p><b>TOTAL (DU/ LP)</b></p> <ul style="list-style-type: none"> <li>○ DTI with AUS approval greater than 55% requires Investor Specific Approval and Corporate 2<sup>nd</sup> signature; additional Pricing hit may apply.</li> <li>○ FICO score required for <u>all borrowers on the loan</u></li> <li>○ Investor Specific Approval required if non-borrowing spouse does not have a social security number.</li> <li>○ <u>LP Allowed with Corporate Exception ONLY</u></li> </ul> <p><b><u>Purchase/ Rate and Term</u></b></p> <ul style="list-style-type: none"> <li>○ <b>580-599 45/55% DTI Max (no exceptions)</b> <ul style="list-style-type: none"> <li>– AUS ~ APPROVE/ELIGIBLE ONLY</li> <li>– Corp. Second Signature <u>and</u> Investor Specific Required</li> <li>– SFR 1 Unit , FHA Fixed/Conforming Products <u>ONLY</u></li> </ul> </li> <li>○ <b>600-619 45/55% DTI Max (no exceptions) FHA Fixed/Conforming Products ONLY</b> <ul style="list-style-type: none"> <li>– Must have AUS APPROVE/ELIGIBLE</li> </ul> </li> <li>○ <b>620&gt; 45/55% DTI AUS~ APPROVE/ELIGIBLE ONLY (To exceed Ratios Corp Investor Specific Required)</b></li> </ul>

# FHA Guidelines



## UNDERWRITING METHOD; FICOS AND RATIOS CONTINUED

- **640 > = 55% DTI** AUS~ APPROVE/ELIGIBLE ONLY
- 91-180 Flip with FICO 600-639 require Investor Specific from Corp

### Cash-Out Refinance

- Minimum 620 > 45/50% DTI AUS~ ACCEPT/ELIGIBLE ONLY (>50-55% Corp Investor Specific Required)
- 640 > = 55% DTI AUS~ ACCEPT/ELIGIBLE ONLY
- **600-619 for FHA Fixed/Conforming Products = DTI 31%/43%; Investor Specific if DTI is greater than 31%/43%**
- **Must Have a DU Approve**
- **LP Allowed with Corporate Exception ONLY**
- Approve/Eligible ONLY (must adhere to documentation & eligibility rules to qualify)

**Final DE Underwriting Decision-** FHA loans are eligible for FHA Insurance Endorsement if the following applies for Total Scorecard-

- TOTAL Scorecard rated the mortgage application Accept
- Underwriter underwrote the appraisal according to standard FHA requirements
- Underwriter reviewed TOTAL Scorecard findings **and** verified that all information entered into TOTAL is consistent with mortgage documentation, **and** is true and complete **and** accurate; **and**
- Mortgage loan meets all FHA requirements applicable to loan receiving a rating of Accept from TOTAL.
- Underwriter must re-score the DU a minimum of one time after the case assignment date **and** TOTAL must reflect the case assignment number per FHA Connection

### **Accept Risk Classifications Requiring a Downgrade to Manual Underwriting**

- The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Scorecard
- Additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage
- The borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts
- The date of the Borrower's bankruptcy discharge as reflected on the Credit Report or Bankruptcy documents is within 2 years from the date of the case number assignment. (*Application taken prior to 2 years requires Investor Specific Corporate. Exception*)
- The case number assignment date is within 3 years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale)... (*Application taken prior to 3 years requires Investor Specific Corporate. Exception*)
- The case number assignment date is within 3 years of the date of the transfer of title through a Foreclosure sale (*Application taken prior to 3 years requires Investor Specific Corporate. Exception*)
- The case number assignment date is within 3 years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure (*Application taken prior to 3 years requires Investor Specific Corporate Exception*)
- The Mortgage Payment History, for any mortgage trade line reported on the credit report used to score the application, requires a downgrade as defined in Housing Obligations/Mortgage Payment History.
- The Borrower has undisclosed mortgage debt that requires a downgrade (refer to Undisclosed Mortgage Debt (TOTAL) for guidance;
- Business income shows a greater than 20% decline over the analysis period (2 years)

### **MANUAL UNDERWRITING DECISION-- Requires a TOTAL SCORECARD Run**

(Requires Investor Specific Corporate Exception)

- **DE Underwriter responsibilities for Manual underwrite-**
- Review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- Determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the Mortgage, and the overall acceptability of the Mortgage for FHA insurance;

# FHA Guidelines



## UNDERWRITING METHOD; FICOS AND RATIOS CONTINUED

- Identify any inconsistencies in information obtained by the Underwriter in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a Mortgage; **and**
- Resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and their resolutions of the inconsistencies in the file.
- The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.
- Loans that require a Downgrade to Manual **MUST** request Exception from Corporate Underwriting and meet following Manual DTI, FICO and Compensating Factors

Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
640 and >	31 / 43	No Compensating Factor Required
640 and >	37 / 47	<p><b>One</b> of the following:</p> <ul style="list-style-type: none"> <li>• Verified and documented cash reserves equal to three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units).</li> <li>• New total monthly mortgage/rent payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less; and there is a documented twelve month housing payment history with no more than one 30 day late payment. If borrower has no current housing payment previous history cannot be cited as a compensating factor.</li> <li>• In cash-out transactions <i>all</i> payments on the mortgage being refinanced must have been made within the month due for the previous 12 months.</li> <li>• Residual Income (see <u>Income</u> section)</li> </ul>
640 and >	40 / 40	<ul style="list-style-type: none"> <li>• Borrower has established credit lines in his/her own name 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).</li> </ul>
640 and >	40 / 50	<p><b>Two</b> of the following:</p> <ul style="list-style-type: none"> <li>• 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)</li> <li>• New total mortgage payment is not more than \$100 or 5% higher than previous total monthly housing payment, whichever is less; and there is documented twelve month housing payment history with no more than one 30 day late payment. If borrower has no current housing payment previous history cannot be cited as compensating factor</li> <li>• In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months</li> <li>• 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).</li> <li>• Residual Income (see <u>Income</u> section).</li> </ul>

# FHA Guidelines



## MIP REQUIREMENTS

**UFMIP MUST be paid in full. The UFMIP can be financed into loan or paid in cash. Cents cannot be financed this must be paid in cash at closing.**

MIP Amounts set forth in this table are effective for **case numbers assigned on or after January 26, 2015.**

Upfront Mortgage Insurance Premium (UFMIP)	
All mortgages: 175 basis points (bps) (1.75%) of the Base Loan Amount	
Exceptions	
<ul style="list-style-type: none"> <li>Streamline Refinance and Simple Refinance mortgages used to refinance a previous FHA-endorsed mortgage on or before May 31, 2009 (See Streamline Refinance guidelines – PBM Manuals &gt; Quick Look Manual &gt; FHA Streamline)</li> </ul>	

Annual Mortgage Insurance Premium (MIP)	
Applies to all mortgages except:	
<ul style="list-style-type: none"> <li>Streamline Refinance and Simple Refinance mortgages used to refinance a previous FHA endorsed mortgage on or before May 31, 2009 (See Streamline Refinance guidelines – PBM Manuals &gt; Quick Look Manual &gt; FHA Streamline)</li> </ul>	

Mortgage Term of More than 15 years			
Base Loan Amount	LTV	MIP (bps)	*Duration
Less than or Equal to \$625,500	≤ 90%	80	11 years
	>90.00% but ≤ 95.00%	80	Mortgage Term
	>95.00%	85	Mortgage Term
Greater than \$625,500	≤90.00%	100	11 years
	>90.00 but ≤ 95.00%	100	Mortgage Term
	>95.00%	105	Mortgage Term

Mortgage Term of Less than or Equal to 15 Years			
Base Loan Amount	LTV	MIP (bps)	Duration
Less than or Equal to \$625,500	≤90.00%	45	11 years
	>90.00%	70	Mortgage Term
Greater than \$625,500	≤78.00%	45	11 years
	>78.00% but ≤90.00%	70	11 years
	>90.00%	95	Mortgage Term

\*For explanation of duration see section below.

**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

# FHA Guidelines



<b>MIP REQUIREMENTS CONTINUED</b>	<p>The new annual MIP for these loans is effective <i>for case numbers assigned on or after June 3, 2013</i></p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th colspan="4">Term ≤ 15 years</th> </tr> <tr> <th>Base Loan Amount</th> <th>LTV</th> <th>Previous MIP</th> <th>New MIP</th> </tr> </thead> <tbody> <tr> <td>Any Amount</td> <td>≤78.00%</td> <td>0bps</td> <td>45bps</td> </tr> </tbody> </table> <p><b>Duration:</b>  <b>For loans with FHA case numbers assigned on or after June 3, 2013, FHA will collect the annual MIP:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul> <p>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.</p> <p>The table below shows the previous and the new duration of annual MIP by amortization term and LTV ratios at origination.</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>TERM</th> <th>LTV (%)</th> <th>PREVIOUS</th> <th>NEW</th> </tr> </thead> <tbody> <tr> <td>≤ 15 yrs.</td> <td>≤ 78</td> <td>No annual MIP</td> <td>11 years</td> </tr> <tr> <td>≤ 15 yrs.</td> <td>&gt; 78-90.00</td> <td>Canceled at 78% LTV</td> <td>11 years</td> </tr> <tr> <td>≤ 15yrs</td> <td>&gt; 90.00</td> <td>Canceled at 78% LTV</td> <td>Loan Term</td> </tr> <tr> <td>&gt; 15 yrs.</td> <td>≤ 78</td> <td>5 years</td> <td>11 years</td> </tr> <tr> <td>&gt; 15yrs</td> <td>&gt; 78-90.00</td> <td>Canceled at 78% LTV &amp; 5 years</td> <td>11 years</td> </tr> <tr> <td>&gt; 15 yrs.</td> <td>&gt; 90.00</td> <td>Canceled at 78% LTV &amp; 5 years</td> <td>Loan Term</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li><b>FHA UPFRONT MIP REFUND-</b> <ul style="list-style-type: none"> <li>All refinanced loans with unearned UPFRONT FHA MIP must be credited to the unpaid principal balance at closing.</li> <li>The refund can be found on the FHA Refinance Authorization statement in FHA Connection.</li> <li>The unearned UPFRONT MIP is deducted from the current unpaid principal balance to calculate the new loan amount.</li> </ul> </li> </ul>	Term ≤ 15 years				Base Loan Amount	LTV	Previous MIP	New MIP	Any Amount	≤78.00%	0bps	45bps	TERM	LTV (%)	PREVIOUS	NEW	≤ 15 yrs.	≤ 78	No annual MIP	11 years	≤ 15 yrs.	> 78-90.00	Canceled at 78% LTV	11 years	≤ 15yrs	> 90.00	Canceled at 78% LTV	Loan Term	> 15 yrs.	≤ 78	5 years	11 years	> 15yrs	> 78-90.00	Canceled at 78% LTV & 5 years	11 years	> 15 yrs.	> 90.00	Canceled at 78% LTV & 5 years	Loan Term
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<b>IDENTITY OF INTEREST</b>	<ul style="list-style-type: none"> <li><b>Identity of Interest (Non ARMs Length)</b> <ul style="list-style-type: none"> <li>Identity-of-interest is defined as a sales transaction between parties with family relationships or business relationships.</li> <li>Identity-of-interest transactions on <u>principal residences</u> are restricted to a maximum LTV ratio of 85%. Maximum LTV percentage for transaction where a tenant-landlord relationship exists at time of contract execution is restricted to 85%.</li> <li>Financing above the 85% maximum for identity-of-interest transactions is permitted under certain circumstances, as described below;</li> </ul> </li> </ul>																																								



# FHA Guidelines



IDENTITY OF INTEREST CONTINUED	EXCEPTION	DESCRIPTION
	Family Member Purchase	<p>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;</p> <ul style="list-style-type: none"> <li>• 85% of the appraised value, or</li> <li>• The appropriate LTV factor applied to the sales price, plus or minus required adjustments.</li> </ul> <p><b>NOTE:</b> 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 <b>OR</b> Borrower purchases as their principal residence the principal residence of another family member.</p>
	Tenant Purchase	<p>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.</p> <p>NOTE: A lease or other written evidence to verify occupancy is required.</p>
	Builder’s Employee Purchase	<p>An employee of a builder purchases one of the builder’s new homes or models as a principal residence.</p>
	Corporate Transfer	<p>A corporation</p> <ul style="list-style-type: none"> <li>• Transfers an employee to another location</li> <li>• Purchases the employee’s home, and</li> <li>• Sells the home to another employee</li> </ul>
<p><u>For the purpose of Identity of Interest transactions, the definition of family member includes:</u> regardless of actual or perceived sexual orientation, gender identity or legal marital status-</p> <ul style="list-style-type: none"> <li>○ Child, parent, or grandparent (A child is defined as a son, stepson, daughter, or stepdaughter. A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent)</li> <li>○ Spouse or Domestic Partner</li> <li>○ Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption</li> <li>○ Foster child</li> <li>○ Brother or stepbrother</li> <li>○ Sister or stepsister</li> <li>○ Uncle or Aunt</li> <li>○ Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the borrower.</li> </ul> <p><b>NOTE A COUSIN IS NO LONGER ALLOWED AS A FAMILY MEMBER</b></p>		

# FHA Guidelines



## 92900-A AND LOAN TRANSMITTAL

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

### INITIAL 92900-A

- Page 1 of 92900-A must include Loan Officers Signature and date loan application was taken.
- Page 2 of 92900-A must include the borrower(s) signature and date loan application was completed. (*forms must be in the file prior to underwriter approval*)

### FINAL 92900-A

- Page 1 of 92900-A must include underwriter's signature and date loan approved
- Page 3 of 92900-A Completed according to Approval:
  - **AUS** - requires underwriter's signature, printed name and title
  - Conditional Commitment with DE name and CHUMS number
  - **Manual/Refer** - requires DE signature, printed name and CHUMS number
- Page 3 of 92900-A, Approval date = the Final DU or Manual approval date
- Page 3 of 92900-A, Expiration date = expiration date on Conditional Commitment (HUD 929800)

### Loan Transmittal (Signature Section must be completed as follows)

- **TOTAL Approval-**
  - Signature Line to read "FHA TOTAL SCORECARD"
  - Dated same date of Final DU approval excepted by DE Underwriter
  - CHUMS number will reflect "ZFHA"
- **MANUAL Approval** (Signature Section must be completed as follows)
  - Signature Line will be DE Underwriters Signature
  - Dated same date of Final approval by DE Underwriter
  - CHUMS number will reflect DE's FHA CHUMS number

## 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. 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**

A borrower may be eligible for FHA financing provided:

    - The property will be borrower’s principal residence;
    - The borrower has a valid SSN, except if employed by the World Bank, a foreign embassy or equivalent employer identified by HUD;
    - The borrower is eligible to work in the US as evidenced by EAD card issued by USCIS **and**
    - The borrower satisfies the same requirements, terms and conditions as those for US citizens. The EAD card is required to substantiate work status. If the EAD card will expire within (1) year and a prior history of residency status renewals exists, the underwriter may assume that the continuation will be granted. If there are no prior renewals, the underwriter must determine the likelihood of renewal based on information from the USCIS. (this would be proof of registration for renewal in process with the USCIS website)
    - **DACA-EAD-CARD=Borrowers with EAD Cards issued under DACA (Deferred Action For Childhood Arrivals) – Form I-821D (EAD Code C33) are ineligible for FHA Financing. Validate the Category Code on EAD Card.**

A borrower residing in the US by virtue of refugee or asylee status is granted by the USCIS will be automatically eligible to work in the country. The EAD card is not required, but documentation substantiating the refugee or asylee status is required in the file.
- APPROVED VISAS**
- **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.
  - **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
  - **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
  - **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
  - **L-1, Intra-Company Transferee:** an L-1 visa is given to professional employees whose company’s main office is in a foreign country.
  - **TN, NAFTA Visa:** Used by Canadian or Mexican citizens for professional or business purposes.
  - **TC, NAFTA Visa:** Used by Canadian citizens for professional or business purposes
  - **If there is NO proof of prior renewal** on the Visa, the likelihood needs to be validated by the USCIS or loan will not qualify for FHA financing.
  - **If the current Visa is expiring in less than 12 months from closing-** proof of likelihood of continued renewal must be documented. A copy of prior approval and proof the borrower is current in application with USCIS is one form. If they are not within the time frame to file their application documentation must be provided by borrower from the USCIS proving they have had prior renewal or loan will not qualify for FHA financing.

## DOCUMENTATION REQUIREMENTS

### LDP/GSA required on all parties:

- Underwriter to initial the condition for LDP/GSA validation *or*
- Underwriter to sign the bottom of PBM LDP/GSA worksheet
  - Borrower(s)
    - Run by full legal name (no AKAs are required unless the last name is different); or
    - Run by Social Security Number
  - Seller(s)
  - Listing and selling real estate agent
  - Loan originator
  - Loan processor
  - Underwriter
  - Appraiser
  - 203(k) consultant
  - Closing Agent
  - Title Company

### CAIVRS required on all borrowers also required for Non-Borrowing Spouse

- Underwriters may not rely on clear CAIVRS approval when there is an independent evidence of conflicting delinquent Federal obligations. The Underwriter must
  - Document the resolution of any conflicting information, and
  - Contact the appropriate Homeownership Center (HOC) for instructions or documentation to support the borrower's eligibility if the
    - ✓ CAIVRS message seems erroneous, or
    - ✓ Date of claim payment needs to be established.
- The HOC may provide PBM with
  - Information about
    - ✓ when the three-year waiting period described in HUD 4155.1 4.A.2.g will elapse, or
    - ✓ erroneous social security numbers, and
  - Instructions on processing requirements for other HUD-related defaults and claims.
- The Fully executed Amendatory/Escape Clauses are required for **all** FHA and CHF30 loans and **MUST** be signed and dated by all parties prior to the CD approval.
- Make sure you are reviewing the Purchase Contracts and/or escrow instructions for fully executed Amendatory/Escape Clause verbiage.

### Amendatory Escape Clause

- If the purchase contract or escrow instructions are not reflecting the Amendatory/Escape Clause verbiage at time of loan approval then **Underwriters must condition for executed forms as PTD condition**. These forms must be executed prior to loan Closing Documents can be issued.
- The Amendatory/Escape Clause signed/dated by borrower(s) **CANNOT** be a Prior to Funding condition.
- If the Amendatory / Escape clause verbiage is included in the purchase contract or escrow instructions no separate document is needed.
- If there is an increase in the sales price from the original Amendatory Clause, then a revised Amendatory Clause will be required to be fully executed with new sales price.
- If Amendatory / Escape clause verbiage is **not** in the purchase agreement or escrow instructions, you **MUST** have a separate document signed and dated by all parties **prior to loan closing**.
  - **DOC DRAWER MUST** review the Amendatory/Escape Clause forms prior to issuing closing documents to make sure they are fully executed by all parties **prior to the issuance of Closing Documents or documents cannot be drawn**.

**DOCUMENTATION  
REQUIREMENTS  
CONTINUED**

- Issuance of CD will be delayed if the form(s) are not fully executed by all parties prior to CD issuance.
- There are situations with non-traditional sellers (Fannie Mae, Freddie Mac, federal, state and local government agencies, and mortgagees disposing of REO assets) where this requirement does not apply.

**Real Estate Certification-**

- Borrower, Seller and Real Estate Agent or Broker involved in the sales transaction must certify, to the best of their knowledge and belief, that (1) the terms and conditions of the sales contract are true and (2) any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.
- A separate certification is not needed if the sale contract contains a statement (time of the essence clause) that (1) there are no other agreements between parties and the terms constitute the entire agreement between the parties, and (2) all parties are signatories to the sales contract submitted at the time of underwriting.
- If you use the contract as the RE Certification, the one in the PBM file will need to be removed. If it remains in the file and is executed it will need to be completed with the contract date.

**File Risk Review-** This form must be completed by the DE Underwriter on all FHA Loans with the exception of the regular FHA Streamline (Effective Immediately). The form is located in the "Forms" section of the PBM Manual.

**4506-T**

- Each borrower (regardless of income source) must complete and sign separate IRS Form 4506-T at application and again with loan documents.
- 4506-T Form must be signed and dated at application and again with loan documents for all Tax returns in the loan file.
  - Example: If you have 1040's and 1120's in the loan file, a separate 4506-T form is required to be signed and dated for the 1040's and 1120's.
- 4506-T form signed and dated **MUST** be processed (transcripts) for all tax returns in the loan file that are being used for income qualifying only. i.e. 1040's, 1120'S and 1065's. 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.
- Record of account will only need to be processed if the current or previous year's tax returns in the file reflect borrower(s) owed for either year.

**4506-T W-2 Only with W2 Transcripts**

- W-2 only income documentation with W-2 transcripts -No Investor Specific required.
- W-2 income can be derived from Base income and Overtime
  - Overtime income must be broken out on LT, 1003, and DU.
  - Overtime must meet PBM 4000.1 guidelines to qualify
  - You will not be allowed to use commission or bonus income to qualify on a W-2 only
- 4506-T Record of Account not required.

**4506T W-2 Only Without W2 Transcripts**

- W-2 only income without W2 transcripts must be submitted for an **Investor Specific Exception** along with a full *Work Number* VOE with last two years earnings obtained
- 4506-T Record of Accounts not required.

**Note:** Investor may pull 4506T if the borrower(s) job title constitutes the filing of 2106 expenses

**DOCUMENTATION  
REQUIREMENTS  
CONTINUED**

**2017 Tax Return Transcripts**

Loans Funded on or after June 15, 2018 must include the 2017 Tax Return Transcripts to be eligible for purchase. "No record found" not allowed after this period.

If a borrower has filed an extension, we require:

1. Evidence in the file that the Extension was filed, **and**
2. A 2017 Tax Transcript showing "No Record of return filed," **and**
3. For salaried borrowers: A 2016 transcript **and** current paycheck stub, **and** 2017 W-2
4. For self-employed borrowers; A 2017 transcript **and** P & L **and** Balance Sheet for 2017
5. For retired borrowers: In Cases where the borrower is not required to file, transcripts are still required. If "No Results" feedback is received, provide a copy of the feedback in the Loan file with supporting income documentation.

**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) **NOTE:** 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-Loan Estimate fees.
- Maximum allowable short sale fees that can be paid by the borrower (refer to General Assets section; Real Estate Agent Fees).
- These fees and payments cannot be financed into the loan amount and must be included on the Closing Disclosure. 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 Closing Disclosure 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.

**All faxed documents** The Underwriter must authenticate all documents received electronically by examining the source identifiers (e.g., the fax banner header or the sender's email address) or contacting the source of the document by telephone to verify the document's validity. The Underwriter must document the name and telephone number of the individual with whom the Underwriter verified the validity of the document.

**DOCUMENTATION  
REQUIREMENTS  
CONTINUED**

**Internet downloads** The Underwriter must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. The Underwriter must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting the Underwriter's visit to the URL and website.

- Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.
- For additional income not mentioned in this section please refer to the FHA Handbook 4000.1 for requirements. This can be found on the HUD Clips website under Housing Handbook

**Sales Contract and Supporting Documentation-**

- All purchasers listed on the sale contract must be borrowers and
- Only borrowers sign the sales contract
- An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements
- Family Member of the purchaser, who is not a borrower, may be listed on the sale contract without modification or removal (see identity of interest for list of parties deemed as family members)

# FHA Guidelines



<p><b>CREDIT SCORE RESTRICTIONS</b></p>	<ul style="list-style-type: none"> <li>▪ Full 3 merge Credit Report with all borrowers showing a minimum of 1 credit score.</li> <li>▪ All mortgages must have a mortgage history of 0 x 30 in the last 12 months (Or Investor Specific exception request must be obtained by Corporate Underwriting)</li> <li>▪ Representative credit score:             <ul style="list-style-type: none"> <li>○ Use middle of 3 <b>or</b> lowest of 2</li> <li>○ Use middle representative score from all borrowers</li> </ul> </li> <li>▪ All borrower(s) (including a Non-Purchasing Spouse) <b>MUST</b> have a valid- legally obtained – Social Security Number or an Exception must be granted from Corporate. This includes any borrower with known SSN (Social Security) issues.</li> <li>▪ <b>Non-Purchasing Spouse/ Non-Purchasing Domestic Partner</b> <ul style="list-style-type: none"> <li>○ Any non-purchasing spouse/ Domestic Partner must have a valid Social Security Number. If the non-purchasing spouse does not have a valid Social Security Number, the credit report will need to comply with guidelines below-</li> </ul> </li> <li>▪ You are required to obtain a credit report for the non-borrowing spouse/domestic partner (aka non-purchasing spouse)             <ul style="list-style-type: none"> <li>○ If the non-borrowing spouse/domestic partner does not have a legally issued SSN, the credit report cannot be obtained using a “fill-in” SSN (e.g. 999-99-9999 or number variation). The report must be obtained using the non-borrowing spouse’s Full Name, birth date, and address ONLY (if directed by the Credit Agency all zeroes is allowed).</li> <li>○ If at time credit was obtained and non-borrowing spouse/ domestic partner provided the TIN or an illegal SSN and credit report was obtained using these numbers this credit report would be unacceptable for the loan. Once a SSN is found to be invalid or a TIN is used as SSN, a credit report with only non-borrowing spouse/domestic partner’s name, birth date and address <b>MUST</b> be run due to invalid original credit report. Any debts from both reports must be used to qualify.</li> </ul> </li> <li>▪ The non-borrowing spouse must sign “Authorization to Pull Credit on Non-Borrowing Spouse” form.             <ul style="list-style-type: none"> <li>○ <b>Note:</b> <i>This guidance does not constitute authorization for anyone to run credit under an alternative name or social security number.</i></li> <li>○ <b>Note:</b> <i>If your non-borrowing spouse/domestic partner does not have a social security number the file must be submitted to Corporate for an Investor Specific Exception as noted above.</i></li> </ul> </li> </ul>
<p><b>CREDIT AND LIABILITIES REQUIREMENTS</b></p>	<ul style="list-style-type: none"> <li>▪ <b>Maximum Number of FHA Financed and Other Properties</b></li> <li>▪ Maximum number of FHA Financed Properties= 1 (See exception below)</li> <li>▪ Maximum number of Total Financed Properties = 4</li> <li>▪ <b>TOTAL/Manual Payment History</b></li> <li>▪ Underwriters must analyze the borrower’s credit history in accordance with the Accept Risk Classification requirements found in the Underwriting Method Section.</li> <li>▪ Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all closed-end debts are less than or equal to 5% of the borrower’s gross monthly income or payments will be required to be included in total DTI for qualification.</li> <li>▪ Accounts may not be paid down in order to meet this requirement.</li> <li>▪ Loan secured against deposited funds, where repayment may be obtained through extinguishing the asset are not considered as a debt for repayment to qualify</li> <li>▪ Underwriter must document all funds used to pay off debt prior to closing came from an acceptable source (see source of funds section in assets)</li> </ul>



# FHA Guidelines



<b>CREDIT AND LIABILITIES REQUIREMENTS CONTINUED</b>	<b>EXCEPTIONS FOR MULTIPLE FINANCED PROPERTIES</b>	
	<b>Policy Exceptions</b>	<b>Eligibility Requirements</b>
	RELOCATION	<ul style="list-style-type: none"> <li>• A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing property covered by an FHA-insured Mortgage if the Borrower is: <ul style="list-style-type: none"> <li>○ Relocating or has relocated for an employment-related reason; <b>and</b></li> <li>○ Is establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower’s current Principal Residence;</li> </ul> </li> <li>• If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured Mortgage on a new Principal Residence, provided the relocation meets the two requirements above.</li> </ul>
	INCREASE IN FAMILY SIZE	<ul style="list-style-type: none"> <li>• A borrower may be eligible for another house with an FHA-insured Mortgage if the Borrower provides satisfactory evidence that: <ul style="list-style-type: none"> <li>○ The Borrower has had an increase in legal dependents and the Property now fails to meet family needs; <b>and</b></li> <li>○ The loan-to-value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding Mortgage balance and a current residential appraisal.</li> </ul> </li> </ul>
	VACATING A JOINTLY-OWNED PROPERTY	<ul style="list-style-type: none"> <li>• A borrower may be eligible for another FHA-insured Mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.</li> </ul>
NON-OCCUPYING CO-BORROWER	<ul style="list-style-type: none"> <li>• A non-occupying co-Borrower on an existing FHA-Insured Mortgage may qualify for an FHA-insured Mortgage on a new Property to be their own Principal Residence.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Age of Credit Report</b></li> <li>• If a credit report is over 45 days old at funding, a Soft-Pull credit report must be obtained (no FICOs required) to determine any changes.</li> <li>• If there are no significant changes to the Soft-Pull Report compared to the original credit report, the original credit report can be used to fund the loan but <u>CANNOT</u> be older than 120 days at funding.</li> <li>• If there are significant changes to the Soft-Pull Report, including any new debt or significant increases in credit balances/payments, a new credit report must be pulled and re-submitted to DU/LP. <u>The file must then be re-underwritten to include the new credit and DU/LP findings.</u></li> <li>• <b>NOTE:</b> A copy of the Soft-Pull is to be placed under Branch Documents in the loan file.</li> <li>• Non-Traditional credit NOT allowed</li> <li>• Revolving Credit Cards to be paid off to qualify <u>See Revolving Credit for guidelines.</u></li> <li>• If accounts are not closed, the DE Underwriter must document the reason why payments are not considered a factor in borrower(s) ability to repay loan. (i.e. borrower has proof that account has no purchase activity for the last 12 months).</li> <li>• <b>Authorized User Accounts-</b></li> <li>• <b>TOTAL/MANUAL</b></li> <li>• Underwriter must include in borrower liabilities</li> <li>• Exception can be granted if the underwriter can document that the primary account holder has made all required payments on the account for the previous 12 months. <i>HOWEVER</i>, if less than 3 payments have been required in the previous 12 months the payment must be included.</li> </ul>		

**CREDIT  
AND  
LIABILITIES  
REQUIREMENTS  
CONTINUED**

- **Credit Inquires**
- **TOTAL**-will be determined by DU approval
- **MANUAL**-requires a written explanation for all inquiries in last 90 days and borrower to acknowledge no additional debts resulted in inquires.
  
- **Obligations not considered debt include:**
- **TOTAL/MANUAL**
- Medical collections
- Federal, state, and local taxes, if not delinquent and no payments are required (IRS and State tax liens (Refer to Federal Tax lien Section)
- Automatic deductions from savings, when not associated with another type of obligation
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- Collateralized loans secured by depository accounts
- Utilities
- Child care
- Commuting costs
- Union dues
- Insurance, other than property insurance
- Open accounts with zero balances
- Voluntary deductions, when not associated with another type of obligation.
  
- **Undisclosed Mortgage Debt (TOTAL)**
  - When an existing debt or obligation that is secured by a Mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, the Underwriter must obtain a verification of Mortgage directly from the Servicer.
  - The mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:
    - A current delinquency;
    - Any delinquency within 12 months of the case number assignment date; or
    - More than two 30 Day late payments within 24 months of the case number assignment date
  - A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late Mortgage Payments.
- **MANUAL UNDERWRITE:** A 12 month payment history must be obtained, if not disclosed on the credit report for all mortgages. A mortgage rating from the mortgage servicer must be obtained and retained in the loan file. If less than 12 months history then previous mortgage or rental history is required.
  
- **Undisclosed Debt other than Mortgage (TOTAL)**
- When a debt or obligation (other than a mortgage) not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process the underwriter must:
  - Verify the actual monthly payment amount;
  - Re-submit the mortgage for evaluation by **TOTAL** if the cumulative change in the amount of the liabilities that must be included in the borrower's debt increases by more than \$100 per month; and
  - Determine that any funds borrowed were not/will not be used for the borrower's minimum required investment
- **Debt Examples-** (Alimony, Child Support, Time Shares, Mortgage Insurance and Property Taxes not Impounded on rental property, Mortgage payment to private parties on property borrower(s) holds title on)

**CREDIT  
AND  
LIABILITIES  
REQUIREMENTS  
CONTINUED**

- **Undisclosed Debt other than Mortgage (MANUAL)**
  - Not on application and/or Credit report and not considered by DU Approval.
  - Underwriter to verify the actual monthly payment amount;
  - Include the payment amount in the agreement in the borrower’s monthly liabilities and debt; and
  - Determine that any unsecured funds borrowed were not/will not be used for the borrower’s minimum required investment.
  - Underwriter must document all undisclosed debt and support for the analysis of the borrower’s debt.
  - *Debt Examples-* (Alimony, Child Support, Time Shares, Mortgage Insurance and Property Taxes not Impounded on rental property, Mortgage payment to private parties on property borrower(s) hold title on)
  
- **Federal Debt (TOTAL/MANUAL)**
  - Federal Debt refers to debt owed to the federal government for which regular payments are being made
  - The amount of the required payment must be included in the borrower’s total debt
  - The underwriter must include documentation from the federal agency evidencing the repayment agreement and verification that at least one payment has been made per the terms of the agreement.
  - If AUS is a REFER, a Corporate Investor Specific for Manual downgrade is required.
  - If the borrower does not have a current payment plan in place at the time of application, the Federal Tax Debt will need to be paid in full to qualify for FHA financing.
  
- **Delinquent Federal Tax Liens (TOTAL/MANUAL)**
  - If a borrower currently has outstanding IRS or State tax liens or is in a current payment arrangement of 3 concurrent months or greater: add the debt to the DU, confirm 1003 declaration page item “F” is reflected a “YES” and re-run DU to determine AUS Approval.
  - Confirm the DU has a finding for Tax lien in order to validate the AUS Approval for Federal Tax Liens.
  - If the AUS is a REFER Corporate Investor Specific for Manual down grade is required.
  - If the borrower does not have a concurrent 3 month payment plan in place at time of application the Federal Tax Lien will need to be paid in full to qualify for FHA financing.
  
- **Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt-(i.e. outstanding student loans, back owed property taxes and judgments)**

Loans are not eligible for FHA financing for a borrower with delinquent federal non-tax debt, including deficiency Judgments and other debts associated with past FHA insured mortgages. The underwriter is required to determine whether the borrower(s) have delinquent federal non-tax debt and debt must be cleared to qualify. This can be obtained from delinquent federal debt noted in public records, credit reports or equivalent, and must be check all borrowers against the Credit Alert Verification Reporting System (CAIVRS)
  
- **Verification of delinquent Federal Non-tax debt-**

Underwriter must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt is identified through CAIVRS, the underwriter must contact the creditor agency using the contract phone number and debt reference number reflected on the CAIVRS report. All documentation to validate delinquent debt is clear must be in file.
  
- **Bankruptcy**
  - **TOTAL (Chap 7 & Chap 13)**
  - Underwriter must document that the bankruptcy has passed the required 2 year time frame from the discharge and to ordering of the case number.

**CREDIT  
AND  
LIABILITIES  
REQUIREMENTS  
CONTINUED**

- If case number was issued before the 2 year time frame the loan must be down-graded to a manual underwrite.
- Underwriter must review the credit report for discharged date. If date is not reflected on the credit report, a copy of the bankruptcy and discharge are required.

**Bankruptcy**

- **MANUAL- (Chap 7)**
- Underwriter must document that the bankruptcy has been discharged for greater than 2 years at time of case assignment.
- 2 years established since Bankruptcy the borrower has re-established good credit or chosen not to incur new credit obligations.
- <2 years but not <12 months since Bankruptcy borrower may qualify if Underwriter can show that the bankruptcy was caused by extenuating circumstances beyond the borrower's control and has since exhibited a documented ability to manage their financial affairs in a responsible manner.
- **MANUAL (Chap 13)**
- Underwriter must verify that the Chapter 13 has been in a pay-out status with the Trustee for minimum of 12 months with as agreed payment history.
- The case number cannot be ordered prior to the 12 month requirement.
- Borrower must provide written notice from the Trustee for new loan.
- If the credit report did not reflect the Chapter13 discharge date or status the borrower will need to provide a copy of the full bankruptcy papers and Trustee agreement.
- Underwriter must validate the current situation indicates that the borrower's previous issues resulting in the bankruptcy are not likely to continue.

**Pre-Foreclosure Sale (short sales)** –refers to sale of real estate resulting in less than the amount owned on the property and the current lien holder agrees to receive a lesser proceed and forgive the deficiency balance on the real estate.

- **TOTAL**
- Underwriter must document the passage of 3 years since the date of the Short Sale to date of application.
- The 3 year period begins on the date of the transfer of title by Short Sale
- If Case number was issued before 3 years of title transfer, down grade to a manual underwrite required and extenuating circumstances must be met.
- Credit report should reflect foreclosure date. If date is not noted Underwriter will need copies of the Short Sale documents prior to loan approval.
- **MANUAL**
- Loan applications taken prior to 3 year short sale require Corporate Investor Specific approval.
- Case number and appraisal cannot be issued until after the 3 year short sale requirement is met or underwriter will be required to meet Extenuating circumstance conditions below.
- Case numbers and appraisals issued after the 3 year short sale and receiving DU Refer can be manually underwritten per 4000.1 manual underwriting guidelines.
- **Current at time of Short Sale-**
- Borrowers with less than 3 years Short Sale date **MUST** meet the following requirements:
  - All mortgage payments on prior mortgage were made on time within the month due of the 12 month period preceding the Short Sale **and**
  - Installment debt payments for the same time period were also made within the month due.
- **Exception for Extenuating Circumstances**
- Short Sale was a result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, **and**
- the borrower has re-established good credit since the Short Sale
- Borrower must provide letter of explanation and documentation supporting the circumstance was beyond borrower control.

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- ***Non-Qualified extenuating circumstance***
- Divorce is not considered an extenuating circumstance. An exception may be granted if borrower’s mortgage was current at the time of the divorce and ex-spouse received the property and a subsequent short sale occurred.
- The inability to sell the property due to job transfer or relocation to another area does not qualify as an extenuating circumstance.
  
- **FORECLOSURE & DEED-IN-LIEU OF FORECLOSURE (Title Transfer is “Date of Trustee Sale” as noted on deed. If no date noted then recording date must be used)**
- ***TOTAL/MANUAL***
- Underwriter must verify the Foreclosure or Deed-In-Lieu of Foreclosure (DIL) in which title transferred from the borrower was greater than 3 years of the case number assignment.
- Credit report should reflect foreclosure/DIL date. If date is not noted Underwriter will need copies of the foreclosure/DIL documents prior to loan approval.
- If the 3 year time frame is not met the loan must be downgraded to a Manual
- If account is a Timeshare see *Installment Debts* section
  
- ***MANUAL Foreclosure/DIL Exception***
- Foreclosure/ DIL was a result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, **and**
- the borrower has re-established good credit since the Foreclosure/DIL
- Borrower must provide letter of explanation and documentation of circumstance beyond borrower control.
- ***Non-Qualified extenuating circumstance***
- Divorce is not considered an extenuating circumstance. An exception may be granted if borrower’s mortgage was current at the time of the divorce and ex-spouse received the property and a subsequent short sale occurred.
- The inability to sell the property due to job transfer or relocation to another area does not qualify as an extenuating circumstance.
- If account is a Timeshare see *Installment Debts* section
  
- JUDGMENT**-refers to debt or monetary liability of borrower and spouse/legal domestic partner in a community property state unless excluded by state law, created by court or adjudicating body.
- ***TOTAL/MANUAL***
- Underwriter must verify that court-ordered Judgments are resolved or paid off prior to closing.
- Judgments in a community property state require the spouse/legal domestic partner must also be resolved or paid off at closing, with exception of obligations excluded by state law.
- Underwriter must require copy of payment in full, if paid prior to settlement
- Underwriter must require payoff statement from creditor if paid at closing.
- **Total/Manual Exception**
- A judgment is considered resolved if the borrower has entered into a valid agreement with the creditor to make regular payments on the debt.
- Borrower must have made timely payments for 3 months as agreed per agreement **and**
- Judgment will not supersede the FHA insured mortgage lien.
- Borrower cannot prepay scheduled payment in order to meet the required minimum of 3 months of payments.
- Underwriter will be required to include payments in liabilities
- Underwriter must have a copy of the payment agreement and evidence that the payments were made in accordance with the agreement and for at least 3 months concurrently.
- Underwriter will need a subordination agreement from creditor for any judgment that is not paid in full prior to or at closing.

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**Deferred Obligations** -deferred obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

- **TOTAL/MANUAL-**
- Written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. Proof of the actual monthly payment obligation, if available.
- Calculation of monthly obligation. Use actual payment to be paid on a deferred liability, whenever available. . If not available for installment debt, utilize the terms of the debt or 5% of the outstanding balance to establish the monthly payment.

**Student Loans-** Student loans refer to liabilities incurred for educational purposes.

- **TOTAL/MANUAL -**
- All student loans must be included in borrower’s liabilities, regardless of the payment type or status of payment.
- If the payment used for monthly obligation is:
  - Less than 1 percent of the outstanding balance reported on the borrower’s credit report **and**;
  - Less than the monthly payment reported on the borrower’s credit report;
    - The underwriter **must** obtain written documentation of the actual monthly payment, the payment status and evidence of the outstanding balance and terms from the creditor
- Calculation of the monthly obligation-- regardless of the payment status, the Underwriter must use **either**:
  - the greater of:
    - 1 percent of the outstanding balance on the loan; *or*
    - The monthly payment reported on the borrower’s credit report; **or**
    - The actual documented payment, provided the payment will fully amortize the loan over its term

**Housing Obligation/Mortgage Payments**

- **TOTAL**
- **Purchase & Rate and Term Refinance-** Loan will require downgrading to manual if late payments within the last 12 months. (Investor Specific Exception required if 1 or more payments have been late in last 12 months)
- Late payments greater than 2 months are not allowed
- Downgrading to manual underwriting required if borrower has current mortgage late payments that are not rating on credit report. Credit supplement rating would only be allowed for Manually- downgraded loan.
- **Cash-Out Refinance-** Loan will require to be downgraded to a Manual if any payments on Mortgage and/or Line of Credit payments reflect current delinquency or delinquency within the last 12 months.
- Underwriter will need to review the terms of the modification to insure that all payments have been made in accordance with the modification agreement for the time period of the modification to determine if any late housing history. Payment history must be a minimum of 12 months paid as agreed since modification.

**Housing Obligation/Mortgage Payments**

- **MANUAL**
- **Payment History on Housing Obligations (Manual)** – The underwriter must determine the Borrower’s Housing Obligation payment history through:
  - The Credit report;
  - Verification of rent received directly from the landlord (for landlords with no Identity of Interest with the Borrower);
  - Verification of Mortgage received directly from the Servicer; or
  - A review of canceled checks that cover the most recent 12-month period.

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- The underwriter must verify and document the previous 12 months' housing history.
- For borrowers who indicate they are living rent-free, the underwriter must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.
- A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payment.
- **Rate/Term and Simple Refinance Transactions - MANUAL**
- For all mortgages on all properties with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due
- For all mortgages on all properties with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all mortgages
- The borrower must have made the payments for all Mortgages secured by the subject Property for the month prior to mortgage Disbursement
- If the Mortgage on the subject Property is not reported in the Borrower's credit report, the underwriter must obtain a verification of Mortgage to evidence payment history for the previous 12 months.
- If not reflected on credit report, copy of current Rental or Mortgage history for last 12 months required from Landlord or Lien Holder.
- If no VOR/VOM is required then copy of 12 months canceled checks is required
- If borrower indicates they are living rent-free, the Underwriter must obtain verification from property owner where they are residing that the borrower has been living rent-free **and** that amount of time the borrower has been living rent free.
- **Cash-Out Refinance:** Follow **MANUAL** guidelines for Mortgage Payment History

**Installment Loans/Debt-**(excluding Student loans) refer to loans not secured by real estate that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan. Child Support, Alimony and Maintenance are court-ordered and **must** be considered as a monthly liability **and** debt. (For Alimony only see Income Alimony section for alternative to reduced income calculation in lieu of counting as debt)

- **TOTAL/MANUAL**
- Monthly payments shown on credit report is utilized to calculate the monthly debts, no further documentation is required.
- Loans/debt not reflected on the credit report need to have monthly payment or loan agreements. Payments would need to be added to **TOTAL** from statement or agreements
- If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an installment loan, refer to the *Deferred Obligations* section.
- A loan secured by an interest in a timeshare must be considered an Installment Loan and not a housing obligation, even in the event of a foreclosure.

**Revolving Charge Accounts--**Credit report to document the terms, balance and payment on account.

- **TOTAL**
- If the payment is not reflected on credit report a copy of the current monthly statement or 5% of the outstanding balance is used.
- Revolving debt to be paid at closing to qualify-
  - DU must reflect condition for evidence of payoff of debt in file
  - Underwriter must condition for debts to be paid in full at closing; with copy of revolving payment statement to verify full payoff amount at closing.
  - Funds must come from acceptable source (see assets for acceptable source of funds)
  - Accounts paid at closing are not required to be closed.

**CREDIT  
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**Revolving Charge Accounts -**

- **MANUAL**
- If the payment is not reflected on credit report a copy of the current monthly statement or 5% of the outstanding balance is used.
- Credit supplement showing account closed allowed
- Paid at closing debt to qualify allowed
- Underwriter required to justify reason for allowing paid debt at closing to qualify

**30 Day Accounts**

- **TOTAL/MANUAL**
- The underwriter must verify the borrower paid the outstanding balance in full on every 30 Day Account each month for the past 12 Months. Credit Supplement can be used to utilized history
- 30 day accounts that are verified to be paid every 30 days will not be required to be included in the monthly debt.
- If the credit report reflects any late payments in the last 12 months, underwriter will be required to utilize 5% payment of outstanding balance.
- Underwriter must be able to document that the borrower has the available funds to pay off the balance in excess of the funds and reserves required to close the loan.

**Contingent Liabilities** - a Contingent Liability refers to a liability that may result in the obligation to repay only when a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

- **TOTAL/MANUAL**
- **Standard** - The underwriter must include monthly payments on contingent liabilities in the calculation of the borrower's monthly obligations unless the underwriter verifies and documents that there is no possibility that the debt holder will pursue debt collection against the borrower should the other party default or the other legally obligated party has made 12 months of timely payments
- **Calculation of Monthly Obligation** - the underwriter must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.
- **Required Documentation**
  - **Mortgage Assumptions**- the underwriter must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the borrower's name
  - **Co-Signed Liabilities**- if the co-signed liability is not included in the monthly obligation, the underwriter must obtain documentation to evidence that other party to the debt has an as agreed payment history for current previous 12 months and evidence account paid by other party.
  - **Court Ordered Divorce Decree**- the Underwriter must obtain a copy of the divorce decree ordering the spouse/domestic partner to make payments.

**Collection Account**

- **TOTAL/MANUAL**- if the credit report(s) used in the TOTAL Mortgage Scorecard or MANUAL analysis show cumulative outstanding collection account balance of \$2,000 or greater, then:
  - Verify that the debt is paid in full at the time of or prior to the settlement using acceptable sources of funds\*\*\*\*(Evidence of payment in full if paid prior to settlement; OR the payoff statement if paid at settlement )
  - Verify that the Borrower has made payment arrangements with the creditor and include the monthly payment in the borrower's DTI \*\*\* (copy of the payment arrangement with creditor required) or



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- If payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include the monthly payment in the borrower's DTI. If 5% used no documentation is required.
- Non-purchasing Spouse/Domestic Partner accounts for borrowers in a community property state are considered in \$2,000 cumulative balances.

**Charge Off Accounts**

- **TOTAL**-If the credit report reflects a Charged Off account the debt has been deemed written off by the creditor. No further action is required.
- **MANUAL**- Charge off account refers to a borrower's loan or debt that has been written off by the creditor. The underwriter must determine if the charge off accounts were a result of:
  - The borrower's disregard or financial obligations; or
  - borrower's inability to manage debt or extenuating circumstances.

**Disputed Derogatory Credit Accounts**

- **TOTAL**
- Disputed accounts refer to disputed Charge Off Accounts, Disputed Collection accounts and Disputed accounts with late payments in the last 24 months.
- If the credit report indicates that the borrower has \$1,000 or more collectively in Disputed Derogatory Credit the loan will be required to be downgraded to MANUAL
- Disputed Derogatory Credit account(s) of a non-borrowing spouse/domestic partner in a community property state are not included in the cumulative balance for downgrade.
- Disputed collections (regardless of dollar amount) are still required to meet Collection (**TOTAL/MANUAL**) guidelines for cumulative balances of \$2,000.
- **MANUAL**
- If the borrower has \$1,000 or more collectively in disputed derogatory credit account the monthly payment must be included in the DTI
- Disputed Derogatory Credit accounts of a non-borrower spouse/domestic partner in a community property state are not included in the cumulative balance.
- EXCLUSIONS FROM CUMULATIVE BALANCE FOR TOTAL/MANUAL INCLUDE
  - Disputed medical accounts and
  - Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, the borrower must provide a copy of the police report or other documentation from the creditor to support the stats of the accounts.

**Non-Derogatory Disputed Accounts and Disputed Accounts not Indicated on Credit**

- NON-DEROGATORY DISPUTED ACCOUNT INCLUDE THE FOLLOWING
  - Disputed account with Zero balance
  - Disputed accounts with late payment aged 24 months or greater
  - Disputed accounts that are current and paid as agreed
- **TOTAL/MANUAL**
- If the borrower is disputing non-derogatory account or is disputing an account not on the credit report a Manual downgrade is NOT required
- The Underwriter must analyze the effect of the disputed account on the ability to repay the mortgage. This must be explained on the LT attachment.
- If the borrower indicates the payment on the credit report is incorrect a statement must be provided for underwriter review.
- Non-derogatory disputed accounts are excluded from the \$1,000 accumulative balance limit.
- Disputed collections (regardless of dollar amount) are still required to meet Collection (**TOTAL/MANUAL**) guidelines for cumulative balances of \$2,000.

**CREDIT AND LIABILITIES  
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**Private savings Clubs**

- **TOTAL/MANUAL**
- If the borrower(s) is/are obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the borrower(s) total debt for DTI
- The Underwriter must have verified and documented the establishment and duration of the borrower's membership in the club and the amount of the borrower's required contribution to the club.
- The Underwriter must obtain the club's account ledgers and receipts and verification from the club treasurer that the club is still active.

**Business Debt In Borrower's Name**

- **TOTAL/MANUAL**
- When the borrower reports liabilities on credit report are attributed to the borrower's business the debt **MUST** be counted in the borrower DTI calculation unless:
  - The borrower's business can document the debt is being paid by the business with evidence of 12 months payment history and
  - The debt was considered in the cash flow analysis of the Borrower's business (The debt is considered in the cash flow analysis where the borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of the payments documented as paid by the business funds).
  - Where the borrower's tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.
- For additional credit not mentioned in this section please refer to the FHA Handbook 4000.1 for requirements. This can be found on the HUD Clips website under Housing Handbooks.

**Non-Borrowing Spouse/ Domestic Partner Debt**

- **TOTAL/MANUAL**
- All non-borrowing spouse/domestic partner debts must be counted in the borrower's liabilities.
- Debts that were obtained by the non-borrowing spouse/domestic partner in a community property state prior to the marriage that are not to be counted must be validated with a attorney's opinion letter specific to the case that the debts would not be considered community property. (No cut and paste from state, county or legal websites will be allowed).
- Non-Borrowing Spouse/ Domestic Partner-- Underwriter must obtain consent and authorization to verify their SSN and pull credit report. This authorization form must also be provided to PBM on all Wholesale and Correspondent loans.

**Legal Separation/Divorce**

- **TOTAL/MANUAL**
- Borrower's legal separation must be signed and recorded with the court.
- Separation agreement must reflect all debts itemized out for each party.
- Debts must reflect account numbers and name of creditor to be omitted from qualification as former spouse debt.
- The borrower may be eligible for an FHA loan if the divorce decree or legal separation agreement awarded the property and responsibility for the payment to the former spouse.
- The borrower is NOT eligible if FHA paid a claim on his/her mortgage in default prior to the divorce.

**EMPLOYMENT AND  
INCOME  
REQUIREMENTS**

**Employment and Income Requirements-**

- Employment history must be verified and effective income must be used to qualify the borrower(s), be reasonable likely to continue through at least the first 2 years of the loan and meet the specific requirements described below.
- Underwriter must review frequent changes in employment more than 3 times in the last 12 months or has changed line of work, the underwriter must take additional steps to verify and document the stability of the borrower’s employment. Additional analysis is not required for fields of employment that regularly require a borrower to work for various employers (such as Temp Companies or Union trades). Underwriter will be required to document with transcripts of training if new position or prove a continued increase in income and benefits or income not allowed.
- The underwriter can only consider income if it is legally derived and reported as income on borrower’s tax returns
- Negative income must be subtracted from the borrower’s gross monthly income and not treated as recurring monthly liability
- Alimony- the borrower’s income can be reduced by the amount of the monthly obligation in lieu of counting as liability. If this is done the debt would not need to be included in the liabilities.
- Most recent pay stubs covering minimum of 30 days consecutive days, that show the borrower’s YTD earnings
- Verbal VOE, Full VOE or W-2’s only will be required to validate income for a regular salaried employee
- 2 Years tax returns for borrower’s who are Self-Employed with all schedules
- 2 Years tax returns for borrower’s employed by own Corporation and/or LLC with all schedules

**Primary Employment**

- **TOTAL/MANUAL**
- Salaried employee use current salary for effective income
- Hourly employee use hourly rate if borrowers pay history clearly shows borrowers hours do not vary from pay period to pay period
- Hourly employee with varying hours will need to be averaged over the previous 2 years. If the underwriter can document an increase in pay rate the most recent 12-month average if hours at current pay rate can be used.

**Part-Time Employment (Less than 40 hours per week)**

- **TOTAL/MANUAL**
- Underwriter can use income to qualify from part-time job if borrower has worked a part-time job uninterrupted for the past 2 years and the current position is reasonably likely to continue.
- Underwriter must average the income over the previous 2 years
- If Underwriter can document an increase in pay rate a 12-month average of hours at current pay rate can be used.

**Overtime and Bonus Income**

- **TOTAL/MANUAL**
- Income received over and above normal salary
- Underwriter can use income to qualify if the borrower(s) have received for past 2 years and is reasonably likely to continue
- Periods of overtime and bonus income less than 2 years may be considered effective income if the underwriter documents that the overtime and bonus income has been consistently earned over a period of not less than one year and is likely to continue per employer.
- Overtime and bonus income from current year decreases by 20% or more from the previous year, underwriter can only use current year’s income.

**EMPLOYMENT  
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**Seasonal Employment** (Employment that is not year round regardless of the number of hours)

- **TOTAL/MANUAL**
- Income must have been received for full 2 years in same line of work and it is reasonably likely to continue
- Unemployment income can be considered effective income for off time on seasonal work. This income must be documented for a full 2 year period and likely to continue to be used to qualify
- Underwriter must use a full 2 year average in calculating the income to qualify

**Employed by Family-Owned Business** (borrower must not have ownership in family business)

- **TOTAL/MANUAL**
- Underwriter must verify and document that the Borrower is not an owner in the family-owned business
- Validation of ownership must be in the form of Official business document, which can include Corporate Resolutions, Business Organizational documents, Business Tax Returns, Schedule K-1 (IRS form 1065) or an official letter from a certified public accountant on their business letter head.
- Borrower will be required to provide copies of personal tax returns (1040, 1040E) or 4605T Tax transcripts.
- Income to qualify- Salaried employees can use current salary as long as Underwriter can determine it is likely to continue.
- Income to qualify- Hourly employee will need to be averaged over a Full 2 year period

**Commission Income-** (income paid contingent upon conducting business transactions or performance of a service)

- **TOTAL/MANUAL**
- The income from commission is effective income if the borrower has earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue
- Commission income less than or equal to 25% of the borrower's total earnings traditional or alternative employment documentation required
- Commission income greater than 25% of borrower's total earnings, signed tax returns, including all applicable schedules for last 2 years is required. If no tax returns are provided processed 4506 transcripts must be obtained for last 2 years.
- Calculating income underwriter will need to use the lesser of:
  - (A) The average net commission income earned over the previous 2 years, or the length of time commission income has been earned if less than 2 years; or
  - (B) The average net commission income earned over the previous one year. The underwriter must calculate net commission income by subtracting the unreimbursed business expenses from the gross commission income.
- The Underwriter must reduce the effective income by the amount of any unreimbursed employee business expenses shown on borrower's Schedule A from personal 1040 returns.

**Self Employed Borrowers** (income generated by a business in which the borrower has a 25% or greater interest. Income can be derived from Sole Proprietorships; Corporations; Limited Liability or "S" Corporations and partnerships)

- **TOTAL**
- Borrowers self-employed between 1 and 2 years , underwriter can only consider the income effective if the borrower was previously employed in the same line of work in which the borrower is self-employed or in a related occupation for at least 2 years.
- Income from a business with annual earnings that are stable or increasing is acceptable
- Income from businesses showing greater than 20% decline in income will require manual downgrade.
- Tax returns both Individual and Business are required for last 2 years, including all schedules.

**EMPLOYMENT  
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- Business tax returns are not required if (1) individual taxes show increasing self-employed income of past 2 years, (2) Funds to closer are not coming from business account AND (3) mortgage is not a cash out refinance.
- Profit and Loss Statements and Balance Sheets are required if more than a calendar quarter has elapsed since date of the most recent calendar or fiscal year end filed by borrower. (This would mean that a P&L and Balance Sheet would be due as of April 1 or after)
- Balance Sheet will not be required for Schedule C borrowers  
If the borrower's income exceeds the 2 year average of the tax returns, and Audited P&L or signed Quarterly tax returns must be provided.
- **MANUAL (Additional requirements to above when downgrade to Manual)**
- If the income is reflecting greater than 20% decline over a two year period Underwriter must document that the business income is now stable or will not be allowed to be used to qualify.
- Income may be considered stable after a 20% reduction if the underwriter can document the reduction in income was a result of extenuating circumstances. The borrower can document the income has been stable or increasing for a minimum of 12 months and the borrower qualifies utilizing the reduced income.
- Underwriter must obtain a business credit report for all corporations and "S" corporations.

**VERBAL VOE**

- A Verbal VOE is required for **all** income types:
  - **Hourly, salaried, part-time, second jobs** – all require a verbal VOE performed at time of approval and at funding
  - **Self-Employed borrowers (Schedule C, Corporations, S-Corporations, Partnerships and LLC)** are required to have a third-party verbal VOE. The borrower(s) self-employment must be validated to verify that the borrower is in fact self-employed.
    - If the borrower is self-employed Schedule C and self-prepares income tax returns, provide one of the following to support self-employment:
      - Current business license from the city;
      - Business card with borrower and business's name with website that can be verified; or
      - Verify business through on-line advertising (such as Google or Facebook)

**EMPLOYMENT GAPS**

- **TOTAL/MANUAL**
- If borrower has an employment gap of 6 months or greater (an extended absence), underwriter may consider income if income can be verified and documented as follows- **(1)** borrower has been employed with current job for at least 6 months at time of case number assignment **and (2)** a 2 year work history prior to absence can be verified with standard or alternative VOE.

**PAST EMPLOYMENT DOCUMENTATION**

- **TOTAL/MANUAL**
- Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:
  - The current employer confirms a two year employment history, or a paystub reflects a hiring date
  - Only Base pay is used to qualify (no Overtime or Bonus Income)
  - The Borrower executes IRS Form 4506, Request for copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS form 8821, Tax Information Authorization, for the previous two tax years.
- If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Mortgage must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

**EMPLOYMENT  
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REQUIREMENTS  
CONTINUED**

- W-2(s)
- VOE(s)
- Electronic verification acceptable to FHA
- Evidence supporting enrollment in school or the military during the most recent two full years.

**ADDRESSING TEMPORARY REDUCTION IN INCOME**

▪ **TOTAL/MANUAL**

- Borrowers with temporary reduction of income due to short-term disability or similar temporary leave may be consider borrowers current income if the following can be verified and documented- **(1.)** the borrower intends to return to work **(2.)** the borrower has the right to return to work **and (3.)** borrower qualifies for mortgage taking into account any reduction of income due to the circumstance.
- If the borrower is returning to work before or at the time of first PITIA due date, pre-leave income can be used.
- If the borrower is returning to work after the first PITIA due date, the borrower current income plus available surplus liquid assets reserves, above and beyond any already required reserves, as income supplement up to the amount of the borrower’s pre-leave income
- The underwriter can use monthly income for supplement for total amount of surplus reserves divided by the number of months between the 1<sup>st</sup> payment date and the borrower’s intended date of return to work.
- Underwriter will need to have a written statement from the borrower confirming intent to return to work and date of return.
- Underwriter will need current employer to confirm borrows eligibility to return to work after temporary leave **and**
- Underwriter will need documentation of sufficient liquid assets, in accordance with Source of Funds, used to supplement borrower’s income

**DISABILITY BENEFITS** (Benefits received from SSA, VA, other public agencies or private disability insurance)

▪ **TOTAL/MANUAL**

- Underwriter must use most recent amount of benefits received for income.
- Underwriter must verify and document the borrower’s receipt of benefits
- Underwriter must document the establishment of awarded benefits
- Underwriter to determine if any benefits are to expire within 3 years from date of application. If so the income cannot be used to qualify
- Underwriter can assume the income likely to continue if the Notice of Award Letter or equivalent document does not define an expiration date.
- Underwriter **CANNOT** rely on pending or current re-evaluation of medical eligibility for benefits payment continuance.
- Under NO circumstance may PBM inquire into or request documentation concerning the nature of the disability or medical condition of borrower.
- **SSA – Social Security Disability**
- Underwriter must obtain a copy of the last Notice of Award Letter or equivalent document and one of the following: (a) Federal tax returns (b) most recent bank statement evidencing receipt of income (c) proof of income letter also known as “Budget Letter” or “Benefits Letter evidencing income (d) copy of borrower’s 1099 issued for the last tax year from Social Security Benefit.
- 115% Gross Up on all validated non-taxable earnings.
- **VA Disability**
- Underwriter must obtain copy of Verification of VA Benefits showing amount of assistance and the expiration date of benefits **and** 1 of the following **(a)**federal tax return **(b)**Most recent bank statement evidencing receipt of income
- If the Benefits letter does not have a defined expiration date, the underwriter may consider the income effective and reasonably likely to continue for at least three years.

**EMPLOYMENT  
AND  
INCOME  
REQUIREMENTS  
CONTINUED**

- **Private Disability**
- Underwriter must obtain copy of Disability benefits from private disability insurance provider showing amount of assistance and the expiration date of benefits **and** 1 of the following (a) Federal Tax returns (b) most recent bank statement evidencing receipt of income

**ALIMONY, CHILD SUPPORT AND MAINTENANCE INCOME**

**TOTAL/MANUAL**

- **Required Documentation**
- Underwriter must have copy of fully executed final divorce decree, legal separation agreement, court order or voluntary payment agreement with 12 months of canceled checks, deposit slips, or tax returns.
- **Calculating Effective Income**
- When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent **three** months, the underwriter may use the current payment to calculate the effective income.
- When using evidence of voluntary payments, if the borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent **six** months, the underwriter may use the current payment to calculate effective income.
  - If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent six months, the underwriter must use the average of the income received over the previous two years to calculate effective income
  - If Alimony, Child Support and Maintenance Income have been received for less than two years, the underwriter must use the average over the time of receipt.
- Underwriter must have evidence income will continue for at least 3 years.

**AUTOMOBILE ALLOWANCES (2106 Expense)** (refers to allowance that exceeds actual auto allowance)

**TOTAL/MANUAL**

- Underwriter must verify and document automobile allowance received from employer for previous 2 years
- Underwriter must also obtain IRS form 2106 for previous 2 years
- Underwriter must subtract automobile expenses as show on IRS form 2106 from automobile allowance before calculating income
- If borrower uses the standard per-mile rate in calculating automobile expenses, portion that IRS considers depreciation may be added back to income
- Underwriter must consider car payment and any loss from calculation of difference between the actual expenditures and the expense account allowance as a Liability to the borrower in their DTI
- Meals and Entertainment covered from auto allowance would need to be included as expense in 2106.

**SOCIAL SECURITY/ PENSION/ INDIVIDUAL RETIRMENT INCOME**

**TOTAL/MANUAL**

- Underwriter must validate all income with awards letters or IRA/401K statements showing income will continue for the next 3 years.
- Validation of receipt of income must be obtained from SSA, Pension or Retirement letter validating amount received monthly **and** 1 of the following (a) Federal tax returns (b) most recent bank statement
- If income for Retirement has not been received for a 2 year period an average of the income received for the less than 2 year period must be used to qualify.

**EMPLOYMENT  
AND  
INCOME  
REQUIREMENTS  
CONTINUED**

**MORTGAGE CREDIT CERTIFICATE (MCC)**

- **Definition**
  - Mortgage Credit Certificates refer to government mortgage payment subsidies other than Section 8 Homeownership Vouchers.
- **Required Documentation:**
  - The Underwriter must verify and document that the Government Entity subsidizes the Borrower's Mortgage Payment either through direct payments or tax rebates:
- **Calculating Effective Income:**
  - Unless proof of direct deposit to servicer from MCC agency is obtained, Mortgage Credit Certificate ***must be used as an income credit***.
  - If documentation to show direct deposit to servicer from MCC agency is obtained, MCC can be ***deducted*** from PITI payment.
  - The Underwriter must use the current subsidy rate calculate the Effective Income.
- **A CalHFA MCC Credit may not be used for credit qualifying purposes**
- **Note:** MCC's require an investor-specific exception.  
**Note:** All MCC post-closing compliance requirements must be cleared and imaged in loan file prior to Insuring.

**RENTAL INCOME (TOTAL)**

**Definition-**Rental income refers to income received or to be received from subject property or other real estate holdings

**Rental Income Received from the Subject Property(TOTAL)-**

- **Standard** - The underwriter may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements. Rental income from the subject property may be considered Effective Income when the property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment property.
- **Required Documentation** - Documentation varies depending upon the length of time the borrower has owned the property.
  - **Limited or No History of Rental Income.-** Where the borrower does not have a history of Rental Income from the subject since the previous tax filing:
    - **Two- to Four-Units:** The underwriter must verify and document the proposed rental income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases.
    - **Three- to Four-Units: Self Sufficiency Rental Income Eligibility** – Net-self-sufficiency rental income refers to the rental income produced by the subject property over and above the PITIA
      - PITIA divided by the monthly net self-sufficiency rental income may not exceed 100% for 3-4 unit property.
      - Net self-sufficiency rental income is calculated by using the appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and subtracting the greater of the appraiser's estimate for vacancies and maintenance, or 25% of the fair market rent.
    - **One Unit:** The underwriter must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report; Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule; and Fannie Mae Form 216/Freddie Mac Form 998, Operating Income Statement, showing fair market rent and, if available, the prospective lease.



**EMPLOYMENT AND  
INCOME REQUIREMENTS  
CONTINUED**

- **History of Rental Income-** Where the borrower has a history of rental income from the subject since the previous tax filing, the underwriter must verify and document the existing rental income by obtaining the Borrower's most recent tax returns, including Schedule E, from the previous two years. For Properties with less than two years of Rental Income history, the underwriter must document the date of acquisition by providing the deed, Closing Disclosure, or similar legal document.
- **Calculation of Effective Income –** the Underwriter must add the net subject property Rental Income to the Borrower's gross income. The Underwriter may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.
  - **Limited or No History of Rental Income –** to calculate the Effective Income from the subject Property where the Borrower does not have a history of Rental Income from the subject Property since the previous tax filing, the Underwriter must use the lesser of:
    - The monthly operating income reported on Freddie Mac Form 998; or
    - 75 percent of the lesser of:
      - Fair market rent reported by the Appraiser; or
      - The rent reflected in the lease or other rental agreement
  - **History of Rental Income –** The underwriter must calculate the Rental Income by averaging the amount shown on Schedule E. Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss. If the property has been owned for less than two years, the underwriter must annualize the rental income for the length of time the property has been owned.

**Rental Income from other Real Estate Holdings (TOTAL) –**

- **Standard** - Rental income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met.
  - If Rental Income is being derived from the Property being vacated by the Borrower, borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence.
  - The underwriter must obtain a lease agreement of at least one year's duration after the mortgage is closed and evidence of the payment of the security deposit or first month's rent.
  - **Limited or No History of Rental Income – Required documentation (TOTAL)**
  - Where the borrower does not have a history of rental income for the property since previous tax filing, including Property being vacated by the Borrower, the underwriter must obtain an appraisal evidencing market rent and that the Borrower has at least 25% equity in the property. The appraisal is not required to be completed by an FHA Roster Appraiser
    - **Two- to Four-Units –** the underwriter must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report) and, if available, the prospective leases.
    - **Three- to Four Units – Self Sufficiency Rental Income Eligibility –** Net Self-sufficiency rental income refers to the rental income produced by the subject property over and above the PITIA
      - PITIA divided by the monthly net self-sufficiency rental income may not exceed 100% for 3-4 unit property
      - Net self-sufficiency rental income is calculated by using the appraiser's estimate of fair market rent from all units including the unit the borrower chooses for occupancy, and subtracting the greater of the appraiser's estimate for vacancies and maintenance, or 25% of the fair market rent.

# FHA Guidelines



## EMPLOYMENT AND INCOME REQUIREMENTS CONTINUED

- **One Unit** – the underwriter must verify and document the proposed Rental Income by obtaining a Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report, Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule, and Fannie Mae Form 216/Freddie Mac Form 998, Operating Income Statement, showing fair market rent and, if available, the prospective lease.
- **History of Rental Income** – The underwriter must obtain the borrower’s last two years’ tax returns with Schedule E
- **Calculation of Effective Net Rental Income-**
  - **Limited or No History of Rental Income**–to calculate the effective net rental income the underwriter must deduct the principal, interest, taxes and Insurance (PITI) from the lesser of:
    - The monthly operating income reported on Freddie Mac Form 998; or
    - 75 Percent of the lesser of:
      - Fair market rent reported by the Appraiser; or
      - The rent reflected in the lease or other rental agreement.
  - **History of Net Rental Income** - The Underwriter must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all Properties included on the Schedule E.
    - Depreciation shown on Schedule E may be added back to the net income or loss.
    - If the property has been owned for less than two years, the underwriter must annualize the rental income for the length of time the property has been owned
    - For properties with less than two years of rental income history, the underwriter must document the date of acquisition by providing the deed, Closing Disclosure or similar legal document
    - Positive net Rental Income must be added to the Borrower’s Effective Income. Negative net Rental income must be included as a debt/liability.
- **MANUAL**
- **History of Rental Income-** Underwriter to document and verify the existing rental income with existing lease, rental history over the previous 24 months that is free of unexplained gaps greater than 3 months and most recent 2 years tax returns including Schedule E. If owned less than two years must prove acquisition date and annualize the rental income for length of time owned.
- **Rental Income from other Real Estate Holdings** – Rental income from other rental property other than subject. This would also include vacating of primary residence
- **Primary Residence to Rental. (also known as departing residence)**
  - (a) The borrower must be relocating to an area more than 100 miles from current Principal Residence to use as income. Or debt must be used to qualify.
  - (b) Lease agreement of at least one year’s duration after the mortgage is closed and evidence of the payment of the security deposit or first month’s rent.
- **Limited or No History of Rental Income-** rental income can only be used to qualify if the underwriter reviews an appraisal evidencing market rent and 25% equity in property. (appraisal need not be FHA roster appraiser)
  - 1 Unit Underwriter must verify and document the proposed rental income from appraisal showing fair market rent and if available the prospective lease.
  - 2-4 UNITS- Underwriter must verify and document the proposed rental income from appraisal showing fair market rent and if available the prospective leases.
  - 3-4 Units- Self-Sufficiency Rental Income Eligibility- Net self- sufficiency rental income refers to the rental income produced by the subject property over and above the PITIA.

**EMPLOYMENT AND  
INCOME REQUIREMENTS  
CONTINUED**

- PITIA divided by the monthly net self-sufficiency rental income may not exceed 100% for 3-4 unit property
- Net self-sufficiency rental income is calculated by using the appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and subtracting the greater of the appraiser's estimate for vacancies and maintenance, or 25% of the fair market rent.
- Borrower to provide last 2 years Federal Tax Returns.
- **Calculation of Income**
- **Limited or No History-** Underwriter must use lesser of
  - (a) the month operation income per appraisal or
  - (b) 75% of either fair market rent per appraisal or rent reflected in lease Agreement
- **History of Net Rental Income-** 2 years Schedule- E income averaging amount shown. Provided property will remain owned by borrower as rental. If owned less than two years must prove acquisition date and annualize the rental income for length of time owned. Depreciation may be added back to the net income or loss.
- **Investment Income –**
- Underwriter must have 2 year tax returns.

**CAPITAL GAINS AND LOSSES-** (refer to profit/loss that results from a disposition of a capital asset, (stock, bond, or real estate) where the amount realized on the disposition exceeds/is less than purchase price. Then gain or loss must be considered when determining the income when an individual has a constant turnover of assets resulting in gains or losses.

- Underwriter must obtain 3 years tax returns to evaluate and earning or loss trend.
- If the trend is a gain, it may be added as income
- If the trend is a loss, it must be deducted from the total income.

**TRUST ACCOUNTS –**

- Verify and document the existence of the Trust Agreement or other trustee statement.
- Verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.
- Verify that regular payments will continue for at least three years
- Use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

**ANNUITIES OR SIMILAR –**

- Verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for at least three years
- Obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

**NOTES RECEIVABLE INCOME –**

- Verify and document the existence of the note
- Verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or canceled checks
- Verify 3 years' continuance of note income.
- Use the current rate of income to calculate effective income
  - For borrowers whose Notes Receivable Income fluctuates, use the average of the Notes Receivable Income received over the previous year to calculate effective income.

**EMPLOYMENT AND  
INCOME REQUIREMENTS  
CONTINUED**

**OTHER PUBLIC ASSISTANCE (TOTAL/MANUAL)** – refers to income received from government assistance programs

- **Required Documentation**
  - Verify and document the income received from the government agency
  - If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.
  - If the documentation does not have a defined expiration date, the underwriter may consider the income effective and reasonably likely to continue
- Calculation of Effective Income
  - The underwriter must use the current rate of Public Assistance received to calculate Effective Income.

**NON-TAXABLE INCOME (GROSSING UP)** – Non-taxable income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- Some portion of Social Security Income;
- Some federal government employee retirement income
- Railroad Retirement benefits;
- Some state government Retirement Income;
- Certain types of disability and Public Assistance payments;
- Child Support;
- Military allowances; and
- Other income that is documented as being exempt from federal income taxes
- **Required Documentation:**
- Document and support the amount of income to be Grossed Up for any Non-Taxable Income source and the current tax rate applicable to the Borrower’s income that is being Grossed Up.
- **Calculation of Effective Income:**
- The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower’s gross income.
- The percentage that may be added cannot exceed the greater of 115% or the appropriate tax rate based on the borrower’s tax return for the previous year
  - If the borrower was not required to file a federal tax return for the previous tax reporting period, gross up by 115%
  - The underwriter may not make any additional adjustments or allowances based on the number of the Borrower’s dependents.

**RESIDUAL INCOME** – Residual income is calculated as total Effective Income of all occupying borrowers less:

- State income taxes;
  - Federal income taxes
  - Municipal or other income taxes;
  - Retirement or Social Security;
  - Total fixed payment
  - Estimated maintenance and utilities
  - Job related expenses (e.g., child care); and
  - The amount of the Gross UP of any Non-Taxable Income.
  - Use Federal, state and Social Security tax charts
  - For estimated maintenance and utilities, underwriters must multiply the Gross Living Area by the maintenance and utility factor \$.14
- Example: \$.14 x 1,000 square feet = \$140.00*

# FHA Guidelines



**EMPLOYMENT AND  
INCOME REQUIREMENTS  
CONTINUED**

For additional income not mentioned in this section please refer to the FHA Handbook 4000.1 for requirements. This can be found on the HUD Clips website under Housing Handbooks

<b>Table of Residual Income by Region For loan amounts of \$79,999 and below</b>				
Family size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
Over 5	Add \$75 for each additional member up to a family of 7			

<b>For Loan Amounts of \$80,000 and above</b>				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$899	\$899	\$990
4	\$1,025	\$1,003	\$1,003	\$1,003
5	\$1,062	\$1,039	\$1,039	\$1,158
Over 5	Add \$80 for each additional member up to a family of 7			

## ASSETS AND ASSET REQUIREMENTS

- GENERAL ASSET-** Underwriters may only consider assets derived from acceptable sources in accordance with the HUD requirements below
- ***TOTAL/MANUAL***
  - Earnest Money Deposit-
  - Underwriter must verify deposit amount and source of funds on EMD exceeding 1% of the sales price or is excessive based on the borrower history of accumulating savings.
  - Verification of EMD should be from copy of canceled check, receipt of funds from Escrow , VOD or Bank Statement that show average balance sufficient to cover amount of EMD check or Gift funds (if gift see Personal & Equity)
  - Cash to Close.
  - Underwriter must document all funds used for closing, including those to satisfy debt.
  - Underwriter must verify and document borrower has sufficient funds from an acceptable source to close loan.
  - *PURCHASE* Funds to close are difference between total cost of sale and loan amount.
  - *REFINANCE*-Funds to close are difference between total cost of payoff of liens and new loan amount.
  - Estimating Settlement Requirement- Underwriters are required to audit the estimated Closing Disclosure for following costs are customary and justified.
  - Origination Fee must be reasonable and customary (See Premium Pricing)
  - Discount Points can only be charge if the borrower is obtaining a rate that requires a cost. This will be considered part of closing costs
  - Prepaid Items- include flood insurance, hazard insurance premiums, MIPs, real estate taxes and per diem interest. These charges must comply with CFPB requirements.
  - Non-Realty or Personal Property-(chattel) amount cannot be used to calculate the base loan amount. Borrower must pay as additional funds to close from total cash to close.
  - Up-Front MIP Premium- this is either financed into the loan or paid in cash as a closing cost in total cash to close.
  - Real estate Agent Fees-if the borrower agrees to pay for any real estate agent fees directly to the agent, they must be paid as closing cost in total cash to close.
  - Repair and Improvements- if loan is a refinance the costs can be financed into the loan. If Purchase or Streamline loan funds are to be added in total cash to close.
  - Premium Pricing – refers to credit from lender for interest rate chosen cost. May be used to pay borrower’s actual closing costs and /or prepaid items.
  - Closing paid in this manner do not need to be included as part of interest party limitation. Premium pricing must be disclosed as follows:
    - a) must be in accordance with RESPA
    - b) must be used to reduce the principal balance if credit amount exceeds the actual dollar amount of closing costs and prepaid expenses **and**
    - c) may not be used for payment of debts, collections accounts, escrow shortages or missed mortgage payment or Judgments
  - Interested Party Contributions-Interest party credit may apply to closing cost and prepaid items including any items paid outside closing (POC).  
The refund of the borrowers (POC) may be used toward the borrowers Mortgage Required Investment (MRI) **IF** the underwriter can document that POC was paid from borrower’s own allowable source of funds. (a credit card is not allowable source of funds
  - Real estate Tax Credits- Where the real estate taxes are paid in arrears, the seller’s real estate tax credit may be used to meet the MRI. **IF** the underwriter documents that the borrower had sufficient assets to meet the MRI and borrower paid closing cost at time of loan approval. The Underwriter will need to note on the LT Attachment in the asset section the breakdown of funds for MRI

<p><b>ASSETS AND ASSET REQUIREMENTS CONTINUED</b></p>	<p><b>RESERVES</b> (all assets submitted to either AUS or Manual must be verified and documented)</p> <ul style="list-style-type: none"> <li>• <b>TOTAL</b></li> <li>• Underwriter to verify and document liquid assets minus the total funds the borrower is required to pay at closing.</li> <li>• Reserves do not include:             <ul style="list-style-type: none"> <li>○ <b>a)</b> the amount of cash taken at settlement in cash-out loan</li> <li>○ <b>b)</b> incidental cash received at settlement in other loan</li> <li>○ <b>c)</b> equity in other property</li> <li>○ <b>d)</b> borrowed funds from any source</li> </ul> </li> <li>• 3-4 Units underwriter must verify and document reserves equivalent to 3 months PITIA after closing (gift funds cannot be used to obtain reserves, must be borrowers funds)</li> <li>• <b>MANUAL</b></li> <li>• 1-2 Units- Underwriter must verify and document reserves equivalent to 1 month PITIA after closing</li> <li>• 3-4 Units underwriter must verify and document reserves equivalent to 3 months PITIA after closing (gift funds cannot be used to obtain reserves, must be borrowers funds)</li> </ul> <p><b>BORROWER MINIMUM REQUIRED INVESTMENT-</b>(MRI is the borrower contribution in cash or its equivalent which represents at least 3.5% of adjusted value.)</p> <ul style="list-style-type: none"> <li>• <b>TOTAL</b></li> <li>• Underwriter may only allow the borrower’s MRI to be provided by a source permissible by HUD. (See Source of Funds section)</li> <li>• MRI <b>cannot</b> come from a) seller of property b) person or Entity who will financially benefit from transaction Indirectly or Directly c) anyone reimbursed, directly or indirectly, by any party included in <u>A or B</u>.</li> <li>• Underwriter must verify that if any funds from one of the above sources is used in the closing it is only used for Closing Cost or Prepaid items</li> <li>• Underwriter should condition the loan for proof of funds transferred by government entity as a PTF for funder.</li> <li>• If funds come from a government entity that is approved by HUD, the following items must be present at closing. A) canceled check, wire transfer or other draw request showing that prior to or at time of closing the government entity had authorized a draw of the funds for MRI and came from government entity account or             <ul style="list-style-type: none"> <li><b>a)</b> a letter from the government entity, signed by authorized official, establishing funds to be provided for MRI at or before closing.</li> </ul> <p><i>**When letter from government entity is submitted, the precise language of the letter may vary, Underwriter must review funds provided belonged to the governmental entity at of before closing.</i></p> <p><i>EXAMPLE-</i></p> <ul style="list-style-type: none"> <li><i>a) the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds towards the borrower’s MRI</i></li> <li><i>b) the Governmental Entity has, at or before closing incurred a legally enforceable obligation to provide the funds towards the Borrower’s MRI</i></li> <li><i>c) the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds towards the borrower’s MRI.</i></li> </ul> </li> </ul> <p><b>SOURCE OF FUNDS-</b> are liquid assets for cash to close and reserves</p> <ul style="list-style-type: none"> <li>• <b>TOTAL/MANUAL (CASH ON HAND IS NOT ALLOWED)</b></li> <li>• Underwriter must verify that Checking and Savings account held by borrower(s) are with a financial institution with assets in US dollars</li> <li>• If accounts were opened recently and the recent deposits are more than 1% of the borrower(s) average balance, underwriter needs to document all deposits.</li> <li>• Underwriter needs to confirm that not new debt was created to establish new accounts.</li> <li>• Borrower(s) who don’t hold accounts solely will need a written statement of full access and use of funds from non-borrower/account holder.</li> </ul>
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<b>ASSETS AND ASSET REQUIREMENTS CONTINUED</b>	<ul style="list-style-type: none"> <li>• <b>Assets-</b> can be validated with one of the following             <ul style="list-style-type: none"> <li>a) VOD (verification of deposit) &amp; Current Bank Statement</li> <li>b) Bank statement showing previous month's ending balance for most recent month. If most recent month's balance is not reflected on statement the most recent 2 months bank statements will be required</li> </ul> </li> <li>• <b>Large Deposits-</b>All large deposits exceeding 1% of adjusted value must be sourced and seasoned</li> <li>• <b>Retirement Accounts-</b> <ul style="list-style-type: none"> <li>• Underwriter may use up to 60% of the value of asset, less any existing loans borrower currently is in repayment on.</li> <li>• The portion of assets not used to meet closing requirements after 60% adjustment can be used for reserves.</li> <li>• Underwriter must obtain a copy of the most recent monthly or quarterly statement to verify and document the amount of borrower's account.</li> <li>• Underwriter also needs to verify and document the borrower's eligibility to withdraw funds, terms and conditions of withdrawal from retirement account.</li> </ul> </li> <li>• <b>Stocks and Bonds</b> <ul style="list-style-type: none"> <li>• Underwriter must have 2 most recent months or a quarterly statement to verify assets.</li> <li>• Underwriter to verify that if held with a brokerage account. If not held with brokerage account underwriter must determine the current value of the stocks and bonds through a 3<sup>rd</sup> party verification and copies of the bond and stock certificate.</li> <li>• Government savings bonds are valued at the original purchase price, unless there is verification of value and the bonds are eligible for redeemed at closing</li> </ul> </li> </ul> <p><b>GIFT (Personal) Cash on Hand is not Acceptable from donor</b></p> <ul style="list-style-type: none"> <li>• <b>TOTAL/MANUAL</b> <ul style="list-style-type: none"> <li><i>All FHA loans must be run through DU on the Web or in the Portal when gift funds are used to qualify. The total amount of the gift funds must be entered into DU, not just the amount of the gift that was used for the down payment.</i></li> </ul> </li> <li>• <u>Underwriter's responsibility</u> to review and clear an outright gift of the cash investment is from an acceptable donor and must meet Source Requirement section</li> <li>• Underwriter must determine NO MATTER WHEN gift funds are received.</li> <li>• They came from an acceptable source below:</li> <li>• <u>The definition of an Acceptable Source</u> <ul style="list-style-type: none"> <li>• A government Agency or Public Entity that has a program providing homeownership assistance to 1)low or moderate income families 2)first time homebuyers</li> <li>• Borrower's employer or labor union</li> <li>• A close friend with clearly defined and documented interest in the borrower</li> <li>• Charitable organization</li> <li>• Borrower's Family Member</li> </ul> </li> <li>• <u>The definition of family member includes:</u> <ul style="list-style-type: none"> <li>• Child, parent, or grandparent (A child is defined as a son, stepson, daughter, or stepdaughter. A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent</li> <li>• Spouse or Domestic Partner</li> <li>• Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption</li> <li>• Foster child</li> <li>• Brother or stepbrother</li> <li>• Sister or stepsister</li> <li>• Uncle or Aunt</li> <li>• Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother- in law, or sister-in-law of the borrower.</li> </ul> </li> </ul> <p style="text-align: center;"><b>NOTE: A COUSIN IS NO LONGER ALLOWED AS A FAMILY MEMBER</b></p>
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**ASSETS  
AND  
ASSET REQUIREMENTS  
CONTINUED**

- **Gift letter documentation**
- Gift letter with 1) donor's name, address and phone number 2) donor's relationship to borrower 3) dollar amount of the gift 4) statement that no repayment is required.
- **Gift Transfer**
- Underwriter must verify and document the transfer of the gift funds from the donor to the borrower in accordance with requirements below

<b>If the gift funds....</b>	<b>Then.....</b>
Are in the borrower's account	<b>Obtain</b> <ul style="list-style-type: none"> <li>• A copy of the donors bank statement document the withdrawal is from the donor's account, <b>and</b></li> <li>• Evidence showing the deposit</li> <li>• In borrower account.</li> </ul>
Are not in the borrower's account	<b>Obtain</b> <ul style="list-style-type: none"> <li>• Bank statement showing the withdrawal from donor's account, <b>and</b></li> <li>• Copy of the certified check, money order, cashier's check, other official check or wire transfer</li> </ul>
Paid Directly to Settlement Agent	<ul style="list-style-type: none"> <li>• Verify that the settlement agent received the funds from the donor(s) for amount on gift letter <b>and</b> funds were from acceptable source. Wire must reflect bank name, account number and dollar amount noted on gift letter.</li> <li>• <b>Donor is required to provide bank statements with all pages to source ability to gift funds.</b></li> </ul>
Funds are borrowed by the donor	<ul style="list-style-type: none"> <li>• Documentation from the bank or other savings account <b>and</b></li> <li>• If not available donor to provide written evidence funds were borrowed from an acceptable source, not a party to the transaction.</li> </ul>

- Underwriter needs to verify that at NO time are the gift funds provided by PBM or its Affiliates
- **Gift of Equity**
- Only a family member may provide a gift of equity on property being sold to another family member.
- Gift letter with 1) donor's name, address and phone number 2) donor's relationship to borrower 3) dollar amount of the gift 4) statement that no repayment is required.

**INTERESTED PARTY CONTRIBUTIONS** (refers to Sellers, Real Estate Agents, Builders, Developers or other parties with interest in the transaction. An interested party contribution refers to payment by the interested party or combination of parties, toward the borrower's origination fee, other closing costs and discount points)

- **TOTAL/MANUAL**
- An Interested Party can contribute up to 6 percent of the sales price. This can be applied to the following
  - borrower's origination fee
  - borrower's closing costs
  - borrower's discount points
  - payments of mortgage interest for fixed rate mortgages only
  - Monthly closing MIP
  - Payment of UFMIP (Upfront Mortgage Insurance Premium)

Underwriter will be required to review Settlement statement, Note LT and sales contract to determine if interested parties contribution that exceed 6%. All funds exceeding 6% are considered an Inducement to Purchase:

<p><b>ASSETS AND ASSET REQUIREMENTS CONTINUED</b></p>	<p><b>INDUCEMENTS TO PURCHASE</b></p> <ul style="list-style-type: none"> <li>• <b>TOTAL/MANUAL</b></li> <li>• Underwriter would be required to reduce the adjusted value of the property dollar-for-dollar for all funds exceeding 6% contribution before new base loan amount can be calculated Inducements include but are not limited to             <ul style="list-style-type: none"> <li>• contributions exceeding 6 percent of the purchase price;</li> <li>• contributions exceeding the origination fees, other closing costs and discount points;</li> <li>• decorating allowances;</li> <li>• repair allowances;</li> <li>• excess rent credit;</li> <li>• moving costs;</li> <li>• paying off consumer debt;</li> <li>• Personal Property;</li> <li>• sales commission on the Borrower’s present residence; and</li> <li>• Below market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.</li> <li>• Pre-payment of Solar Lease at close</li> </ul> </li> </ul> <p><b>PERSONAL PROPERTY</b></p> <ul style="list-style-type: none"> <li>• <b>TOTAL/MANUAL</b></li> <li>• The Underwriter need to analysis the contract and settlement statement for replacement of personal property items listed below would not be considered inducement to purchase provided the replacement is prior to settlement and no cash allowance is given to the borrower. The inclusion of these times in the sale contract are also not considered an inducement to purchase if items are customary for the area             <ul style="list-style-type: none"> <li>○ Range</li> <li>○ Refrigerator</li> <li>○ Dishwasher</li> <li>○ Washer</li> <li>○ Dryer</li> <li>○ Carpeting</li> <li>○ window treatment</li> <li>○ other items determined appropriate by the HOC</li> </ul> </li> </ul> <p><b>SALES COMMISSION</b></p> <ul style="list-style-type: none"> <li>• <b>TOTAL/MANUAL</b> (Inducement to purchase on sale commissions)</li> <li>• Underwriter needs to review the sales contract of a borrower to make sure the seller and/or interest parties are NOT paying the borrower’s portion of the sales commission on the sale of borrower’s present residence (when borrower is selling current residence or investment to purchase new home).</li> <li>• Underwriter must review sales contracts of borrower’s primary residence when selling to confirm if borrower is paying no commission on present sale and paying commission on new purchase to same broker or agent involved in both transactions.</li> </ul> <p><b>SELLER CREDIT OF RENT BELOW FAIR MARKET</b></p> <ul style="list-style-type: none"> <li>• <b>TOTAL/MANUAL</b></li> <li>• Underwriter needs to review sales contracts when the borrower is purchasing from current landlord for receipt of any rental credits.</li> <li>• If rental credits exist then the underwriter needs to confirm that the rent the borrower has been paying (would apply to rent fee with landlord) less than Fair Market Rent.</li> <li>• The underwriter should determine the fair market rent with a Rent-o-Meter rating.</li> <li>• If Rent paid is under fair market we would have an inducement to purchase transaction.</li> </ul>
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**ASSETS AND ASSET  
REQUIREMENTS  
CONTINUED**

**DOWN PAYMENT ASSISTANCE , SECONDARY FINANCING**

- **TOTAL**
- Underwriter must validate that Down Payment assistance is not paying any of the following items--- Installment loans, Credit Cards, Collections, Judgments, Liens, Similar debts
- Underwriters are required to reflect EIN on HUD’s FHA Loan Underwriting and Transmittal Summary in conjunction with secondary financing assistance grants, or DPA (Down Payment Assistance) to the borrower when the borrower is receiving an FHA First Mortgage
- Down Payment assistance must come from an approved and acceptable origination
- **CHF30 (Grant):** See Guidelines in Quick Look Manual

**SALE OF PERSONAL PROPERTY** (refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectables)

- **TOTAL/MANUAL**
- Underwriter must verify when a borrower uses the sale of personal property to obtain cash for closing.
- Underwriter can only use the lesser of the estimated value or that actual sales price when determining the cash assets for closing.
- Underwriter must review a satisfactory estimate of the value of the item, copy of the bill of sale, evidence of receipt of funds and proof of deposit of funds in borrower’s account.
- Underwriter must confirm that value estimate is one of the following...published value estimated issued by organizations like auto dealer, philatelic or numismatic association or an appraisal from a qualified appraiser with no financial interest in the transaction.

**SALE OF REAL PROPERTY**

- **TOTAL/MANUAL**
- Underwriter must obtain a copy of the final settlement statement (or similar legal document) documenting the actual sale and the net sale proceeds
- Underwriter must document and verify that the transaction was arm-length and the borrower was entitle to net sale proceeds
- Borrowers who sell or trades in a Manufactured home to a Manufactured dealer for cash is expectable.
- Borrower trade-in cannot result in cash back to the borrower from the dealer or independent 3<sup>rd</sup> party
- Underwriter must validate the Trade Equity with installment sales contract or other agreement evidencing the transaction.

**REAL ESTATE COMMISSION FROM SALE OF SUBJECT PROPERTY**

- **TOTAL/MANUAL**
- If borrower is a current licensed Real Estate Agent and is representing themselves in the purchase transaction of our loan, commission earned from the sales transaction to our borrower can be used for the borrowers MRI.
- A Family member also representing the borrower can use their commission towards the borrowers MRI (see identity of interest section for definition of family member)
- Underwriter must verify and document that the borrower or family member giving commission as a gift, is a licensed agent and entitled to the commission from the sale of property being purchased.

For additional assets not mentioned in this section please refer to the FHA Handbook 4000.1 for requirements. This can be found on the HUD Clips website under Housing Handbooks

**RENT CREDITS (TOTAL/Manual)**

- Rent credits refer to the amount of the rental payment that exceeds the Appraiser’s estimate of fair market rent
- The Underwriter may use the cumulative amount of rental payments that exceeds the Appraiser’s estimate of fair market rent towards the MRI
- The Underwriter must obtain the rent with option to purchase agreement, the Appraiser’s estimate of market rent, and evidence of receipt of payments.

## APPRAISAL REQUIREMENTS

### APPRAISAL

- One full appraisal required
- FHA Certified Appraiser
- The effective date (inspection date) of the appraisal cannot be before the FHA case number assignment date unless the underwriter certifies that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed pursuant to FHA guidelines.
- Carbon monoxide (CO) and smoke detectors are required per CA State health and safety code. If not present and installed at time of appraisal proof CO and/or smoke detectors are installed is required with either:
  - 1004D
  - Lender certification
  - Third Party Certification
- 1004D as required by appraisal or DE Underwriters conditions
- Approved water supply (see 4000.1 Underwriting property for guidelines)
- Utilities must be located on easements with local government or appropriate utility body. (if not must be confirmed that is recorded on the deed record.)
- Connected to public/community sewage or onsite sewage disposal system acceptable to local health department
- All utilities need to be examined by the Appraiser. Appraiser must notify PBM of any inadequate operation of any utilities (e.g., gas or water disconnected) and identify who will certify that the utilities are now in working order (either the Appraiser or PBM).
- Appliances that are to remain and that contribute to the market value are operational (refrigerators, ranges/ovens, dishwashers, disposals, microwaves and washers/dryers).
- All homes must meet all MPR per HUD and local building ordinance – i.e. Stationary Storage Tanks, Mechanical Components and Utilities, and Plumbing Systems
- Review chain of title for any possible property flipping under 90 days. If so home is not eligible for financing with FHA. Underwriter needs to review chain of title when
  - property have flipped in last 12 months for identity of interest transactions (See 91-180 Day Flip for requirements)
- **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 ONLY) on a 1004D.
- If the appraisal does exceed 120 days, the case number must be canceled and a new case number issued, **prior to** ordering the new appraisal.
- Link to calculate 120 days period [www.timeanddate.com](http://www.timeanddate.com) (click Hyperlink & open)
- See FHA Case Number Cancellation Process in Policy & Procedures

# FHA Guidelines



**APPRAISAL REQUIREMENTS CONTINUED**

- **91-180 Day Flip- (seller acquired property in under six months)**
  - See chart below

**FHA Flip Appraisals Requirements**

- **3 Day Wait Period-ECOA Delivery Timing Rule Applies When 2 Appraisals Are Issued**

- **On A- 91-180 Days >100%**

• <b>Seller Acquisition time period</b>	• <b>91-180 Days</b>	• <b>91-180 Days</b>
• <b>Seller Acquisition vs. Appreciation</b>	• <b>&lt;100%*</b>	• <b>=or&gt;100%*</b>
• <b>Appraisals</b>	• <b>(1) Appraisal</b>	• <b>2<sup>nd</sup> Appraisal required</b>
• <b>Appraisal Logging</b>	• <b>Per FHA Connection</b>	<ul style="list-style-type: none"> <li>• Retained for Case Binder.</li> <li>• Log 2<sup>nd</sup> appraisal if greater than 100% of Acquisition.</li> <li>• No greater than 5% variance allowed.</li> <li>• Second appraisal cannot be charged to the borrower. Must be paid by seller, realtor or PBM (lender credit cannot be used to cover appraisal fee)</li> </ul>
• <b>FHA Flip Appraisal Red Flag Checklist</b>	• Underwriter to complete the FHA Flip Appraisal Checklist. This checklist is located in PBM Manual under Policy and Procedures in "Forms" Folder.	

- **\*Acquisition vs. Appreciation:** this is when a seller's acquisitions vs. appreciation is equal to or greater than 100%
- **Example** – Seller Acquisition \$100,000 & Borrowers Sales Price \$200,000 (Seller's appreciation = 100%)

- |   |   |
|---|---|
| • <b>Flip Requirements and Restrictions</b> | <ul style="list-style-type: none"> <li>• The name on the title report must match the seller's name on the purchase contract</li> <li>• If the seller is entity (LLC trust, etc.), documentation showing legal registration of the entity such as articles of incorporation with the seal, or a business license.</li> <li>• The Borrowers can have no affiliation with the entity of any kind.</li> <li>• The subject transaction cannot include a transfer of personal property or other special arrangements between buyer &amp; seller.</li> </ul> |
|---|---|

**APPRAISAL  
REQUIREMENTS  
CONTINUED**

- **Exceptions to FHA property flipping restrictions are made for:**

- Properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- Resales by HUD under its real estate owned (REO) program
- Sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies
- Sales of properties by nonprofits approved to purchase HUD-owned Single Family properties at a discount with resale restrictions
- Sales of properties that are acquired by the seller by inheritance
- Sales of properties by state and federally- chartered financial institutions and Government-Sponsored Enterprises (GSE) (e.g. Fannie Mae or Freddie Mac);
- Sales of properties by local and state government agencies; and
- Sales of properties within Presidentially Declared Major Disaster Areas (PDMDA), only upon issuance of a notice of an exception from HUD
- The restrictions listed above do not apply to a builder selling a newly built house or building a house for a borrower planning to use FHA-insured financing.

- FHA reserves the right to require additional documentation from PBM to support the resale value of a property if:
- the resale date is more than 90 days(91<sup>st</sup> day) after the date of acquisition by the seller but before the end of the twelfth month following the date of acquisition, **and**
- the resale price is 5% or greater than the lowest sale price of the property during the preceding 12 months.
- **Note:** The comparable must be within a reasonable distance of the subject property **and** within FHA required time frame.

**Time Restriction on Transfers of Title**

- Seller – date of acquisition as a date the seller acquired legal ownership of the property (recorded deed)
- Borrower – resale date defined as the date of the execution of the sales contract by all parties intending to finance the property with an FHA insured mortgage (date borrower executed contract).

**Lead Base Paint-**

- Real Estate Agent Lead Base Paint Disclosure must be given to borrower and allow a minimum of 10 days in which to obtain an inspection prior to closing.
- Chipping and peeling paint noted on an appraisal (by appraiser or in photos of appraisal) for home built prior to 1978 requires that certification of a Paint Abatement licensed contractor.
- If the home was built after 1978, work can be completed by the seller or a licensed painter. All bare wood must be primed or painted and verified by appraiser, paint contractor, Termite Company, or PBM.
- Homeowners performing renovation, repair or painting work on their own home are exempt from the rule but are encouraged to learn to perform lead-safe work practices.
- Property owners/landlord who renovate, repair, or prepare surfaces for painting pre-1978 rental housing must be certified and follow lead-safe work practices required by the rule.
- Contractors who perform the repairs must be certified and must follow specific work practices to prevent lead contamination.

**APPRAISAL  
REQUIREMENTS  
CONTINUED**

- RRP Contractors that preform the lead paint test must also be certified and licensed with the US EPA. The RRP contractor will be required to provide a copy of their current license.
- FHA Roster appraisers and inspectors as well as other independent third parties may perform inspections to verify if painting repairs have been performed as required. These inspections are to determine completion of the repairs, not compliance with the Rule.
- If the repair has been made by a contractor and/or property owner/landlord if rental housing, the underwriter must be provide with a copy of the EPA or state led training certificate in the name of the party who performed the work.. If the repair was made by the homeowner on their own home, the homeowner must provide the underwriter a letter stating that the homeowner made the repair and an inspection to verify completion of the repair is required with 1004D.

**Non Permitted Room Additions require:**

- The quality of the work to be described in the appraisal and deemed acceptable “Workmanlike Quality” by the appraiser.
- 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)
- 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.
- 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.
- The appraiser to acknowledge if city/county permits exist.

**New Construction-**

- New Construction refers to Proposed Construction, Properties Under Construction, and Properties Existing Less than One Year
- New construction must be 90% or more completed, including existing less than one year old.
- In cases where a building permit and a certificate of occupancy are issued by a city/county building department that performs a minimum of three inspections (typically the footing, framing and final) the 1004D can be issued by an FHA Appraiser for completion of unit.
- In cases where a building permit is not issued prior to construction and a Certificate of Occupancy upon completion of construction AND condominium unit is one year old or less must have either an Early Start Letter (with a minimum of three inspections by an FHA Roster Inspector) or be covered by a HUD-approved ten-year warranty plan (with a final inspection by a FHA Roster Inspector) to be eligible for high-ratio mortgage insurance. Projects are still required to be on the FHA-approved condominium list.

**Note:** FHA treats the sale of an occupied property that has been completed less than one year from the issuance of the CO or equivalent as an existing property.

- **New Construction required completed forms**
- Builder’s Certification of Plans, Specifications and Site, form HUD-92541
- Builder’s Warranty, form HUD-92544
- Building Permit and Certification of Occupancy or 10-year Warranty and Final Inspection signed and dated by the City/County Building Department.
- Wood Infestation Report (Termite Soil) NPMA 99a and 99b
- Local Health Authority well water analysis or septic report, where applicable.
- 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.)

**APPRAISAL  
REQUIREMENTS  
CONTINUED**

- **New Construction 100% complete (Existing less than one year old)**
- Builder's Certification of Plans, Specifications and Site, form HUD-92541
- Builder's Warranty, form HUD-92544
- Wood Infestation Report (Termite Soil) NPMA 99a and 99b
- Local Health Authority well water analysis or septic report, where applicable.
- Building Permit and Certificate of Occupancy or a 10 year Warranty and Final Inspection signed and dated by the City/ County Building Department.

**Pools-**

- At minimum, swimming pools must comply with all local county/ city ordinances (perimeter fencing, covers, etc.) and if empty or non-functioning, the pool must be secured by a cover that would be sufficiently sturdy to prevent a person from falling in the pool or through the cover or filled with water. If perimeter fencing is not available exterior doors to back yard must have door alarms.
- All gates to back yard must have self-closing devices.
- Non-functioning pools (and related equipment) which are not covered must be repaired.
- Swimming pools whose sides are unstable must be repaired or removed and the surrounding land re-graded.

**Solar-** (leased and owned)

- Appraiser is not allowed to use equipment, including and energy system in value that the borrower does not own out right.
- If an Appraiser gives value to leased energy equipment, they will be required to have at least one comp that also have leased energy or owned energy systems.
- Underwriter must review the appraisal and ensure that it is complete, accurate and provides credible analysis of the marketability and value of the property
- **MPR/MPS-**(Minimum Property Requirements / Minimum Property Standards by Construction Status)
- As the on-site representative for PBM, the appraiser must provide preliminary verification that the property meets the property acceptability criteria of HUD.
- Appraiser must note all repairs necessary to meet MPR/MPS, together with the estimated cost to cure if required.
- The underwriter is to use professional judgment in determining when the inspections are necessary to meet MPR/MPS conditions and who is required to satisfy the conditions per HUD MPR/MPS guidelines. (Example- Roof repair= Licensed Roofer). 1004D requirement should be reviewed by the DE underwriter. If the appraiser has indicated the MPR/MPS conditions of the home have been met, then 1004D may or may not be required. (Example- Licensed roofer cert would not require 1004D)
- Where the underwriter determines that the Property is subject to a PACE obligation, they must notify the Appraiser that the PACE obligation will be paid off as a condition of loan approval.

**Security Bars on bedroom windows or doors -**

- The appraiser must report when the Property has security bars on bedroom windows or doors
- Underwriter to find out if the local fire authority and/or Building and Safety Department require the quick release mechanism for security bars.
- If the quick release mechanism for security bars is required, the Underwriter needs to insure they are installed per local building code.



<p><b>TERMITE REPORT</b></p>	<p><b>Termite Repairs-</b></p> <ul style="list-style-type: none"> <li>• <u>A Termite Report/Pest Inspection is required on an FHA loan when;</u> <ul style="list-style-type: none"> <li>○ If the appraisal is made subject to an inspection by a qualified Pest Control Specialist <b>OR</b></li> <li>○ When it is a requirement of the Purchase Contract <b>OR</b></li> <li>○ bill paid through Closing Disclosure</li> </ul> </li> <li>• <b>ALL Section 1</b> items <b>must</b> be cleared by the termite company or licensed contractor and referenced on the termite clearance prior to funding. If the clearance states items were completed by others and appear to be completed in a workman like manner, it must note the party that performed the work.</li> <li>• <b>Section 2</b> 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 &amp; safety, structural, misc. repairs) Section 2 items that are not listed below should be reviewed with Corporate Underwriting for determination of repair requirements.</li> </ul> <table border="1" data-bbox="456 653 1534 1633"> <thead> <tr> <th data-bbox="456 653 787 684">• Section 2 Items</th> <th data-bbox="787 653 1534 684">• Requirement for Completion</th> </tr> </thead> <tbody> <tr> <td data-bbox="456 684 787 783">• Any indication of water leak or stain on ceilings</td> <td data-bbox="787 684 1534 783">• Inspected and/or repaired by licensed roofer</td> </tr> <tr> <td data-bbox="456 783 787 909">• All other major water leaks or stains (includes Hot Water Heater)</td> <td data-bbox="787 783 1534 909">• Inspected and repaired by a licensed plumber or general contractor. The appraiser or termite company may inspect minor leaks</td> </tr> <tr> <td data-bbox="456 909 787 972">• Loose or broken toilets</td> <td data-bbox="787 909 1534 972">• Inspected by appraiser or licensed contractor</td> </tr> <tr> <td data-bbox="456 972 787 1035">• Broken or inoperable faucets</td> <td data-bbox="787 972 1534 1035">• Inspected by appraiser or licensed contractor</td> </tr> <tr> <td data-bbox="456 1035 787 1098">• Broken or inoperable doors</td> <td data-bbox="787 1035 1534 1098">• Inspected by appraiser or licensed contractor</td> </tr> <tr> <td data-bbox="456 1098 787 1161">• Broken or cracked windows</td> <td data-bbox="787 1098 1534 1161">• Repaired by licensed contractor</td> </tr> <tr> <td data-bbox="456 1161 787 1245">• Mold</td> <td data-bbox="787 1161 1534 1245">• Inspected and repaired by a licensed Mold Abatement Company.</td> </tr> <tr> <td data-bbox="456 1245 787 1476">• <u>Structural</u> wood replacement or repairs</td> <td data-bbox="787 1245 1534 1476"> <ul style="list-style-type: none"> <li>• Structural wood repairs: i.e. a general or building contractor must complete removal and replacement of a patio deck, stairs, walls or beams.</li> <li>• <b>All wood that is replaced or repaired must be painted.</b> Exposed wood of any kind is not acceptable.</li> <li>• <b>The inspector must state that the wood has been primed and/or painted.</b></li> </ul> </td> </tr> <tr> <td data-bbox="456 1476 787 1633">• <u>Cosmetic</u> wood replacement or repairs</td> <td data-bbox="787 1476 1534 1633"> <ul style="list-style-type: none"> <li>• Cosmetic wood repairs: i.e. doors, door jams, a licensed contractor, or the seller can complete the repairs. <b>All wood that is replaced or repaired must be painted.</b> Exposed wood of any kind is not acceptable. <b>The inspector must state that the wood has been primed and/or painted.</b></li> </ul> </td> </tr> </tbody> </table>	• 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. 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<p><b>LOAN MODIFICATIONS</b></p>	<ul style="list-style-type: none"> <li>▪ Borrower to provide a copy of the Loan Modification Agreement</li> <li>▪ 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.</li> <li>▪ Underwriter to determine if financial hardship (if applicable) is still a factor for qualifying or determine if the financial hardship has been resolved.</li> </ul>																				

# FHA Guidelines



## FHA MORTGAGE CREDIT REJECT

### FHA Mortgage Credit Reject

- On the screen shot for the Mortgage Reject, write on any free space:
  - **“SEE ATTACHED DOCUMENTATION REGARDING REJECT OVERTURN/REBUTTAL”.**
- On your LT, be sure to write in UW Comment section:
- **“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 gets 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 highly encouraged.**
- All loans that are declined **MUST BE** entered into FHA Connection Mortgage Reject Screen. This is a HUD requirement not PBM.
- New Loan Verification (Previous Reject reported)
  - Provident Bank Mortgage requires special processing for cases that have had a Mortgage Credit Reject recorded in FHA Connection. FHA requires a case binder submission and technical review for every case that has a Mortgage Credit Reject recorded and is subsequently closed. In order to limit Provident Bank Mortgage liability in these cases the following procedure must be followed.
- Cases Originated by a Provident Bank Mortgage Branch
  - No check for Mortgage Credit Rejects is required when PBM ordered the case number. NOTE: If multiple cases are reflected for our borrower, those case numbers must be reviewed by the underwriter for a Mortgage Credit Rejects.
    - PTD-Corporate reviews if Mortgage Reject issues involve income, assets or property.
- Cases Transferred to Provident Mortgage from an Outside Lender
  - The transfer request from Provident to the transferring Lender must be in the loan file.
  - The FHA Connection Case Query screen printout showing that the case has been transferred to Provident Bank Mortgage must be submitted to the underwriter for review. The Case Query will reflect PBM as the Lender.
  - A print out of the Mortgage Credit Reject screen dated after the Case Query must be obtained by the underwriter for review and action.
  - The underwriter is responsible for ensuring that there is no Mortgage Credit Reject recorded prior to the case acceptance by Provident Bank Mortgage.
    - PTD-Corporate reviews if Mortgage Reject issues involve income, assets or property.
- Case Binder Condition
  - For loans that have a Mortgage Credit Reject recorded in FHA Connection, the underwriter must condition the loan file for the Case Binder to be prepared and shipped to PBM Government Insuring. The funder will be responsible for shipping the Case Binder and signing off the condition.
- Issuing Mortgage Credit Reject
  - Provident Bank Mortgage requires all declined FHA loans to be reported in FHA Connection. Listed below are the guidelines for this procedure. This must be completed by all DE underwriters at time of loan decline
- FHA Connection
  - Log in to FHA Connection; click single family FHA tab; click Single Family Origination; click Case Processing; click Mortgage Credit Reject
  - Enter Case number for declined loan.
  - Once you have accessed the Mortgage Credit Reject Update form you will complete all sections on form.

# FHA Guidelines



**FHA MORTGAGE  
CREDIT REJECT  
CONTINUED**

- Confirm you're working in the correct loan.
- Borrower Information-
  - The Borrower Name and Social will auto populate from FHA Connection. Confirm you have the correction information.
  - HMDA section should be pulled from the 1003.
  - Yes or No to exempt from SSN due to job type.
  - Yes or No to First time borrower
  - Loan type (select from drop down)
  - Borrower type should always indicate Occupant (PBM currently does not offer the other borrower types)
- Worksheet Information
  - Completed from the decline LT you issued.
  - Note that you only have four types of Borrower ratings, you must select a rating from all four to finalize the MCR application.
  - If your decline is due to a company overlay (FICO & Collateral) you will need to note of one ratings as a reject, then note in comments actual reason (see example below)

		<b>Worksheet Information</b>	
Sales Price:	<input type="text" value="450000"/>	Total Monthly Income (gross):	
Mortgage (w/o UFMIP):	<input type="text" value="434250"/>	Ratios:	
Borrower Rating:		Loan-to-Value:	
Credit Characteristics:	<input type="text" value="Reject"/>	Mtg Payment-to-Income:	
Adequacy of Income:	<input type="text" value="Accept"/>	Fixed Payment-to-Income:	
Stability of Income:	<input type="text" value="Accept"/>		
Adequacy of Avail. Assets:	<input type="text" value="Accept"/>		
Credit Denial Date:	<input type="text" value="02"/> / <input type="text" value="01"/> / <input type="text" value="18"/>	Underwriter ID:	
Comments:	<input type="text" value="Borrower decline was due to FICO score not within lender allowable guidelines."/>		

- Click the Send button at bottom of worksheet, print form and place with Loan Transmittal in Encompass file.

# FHA Guidelines



## SIMPLE REFINANCE (RATE AND TERM FHA TO FHA)

### **TOTAL/MANUAL-**

- Simple refinance refers to a no cash-out refinance of an existing FHA-insured Mortgage in which all proceeds are used to pay the existing FHA insured mortgage lien on the subject property and costs associated with the transaction.
- **Borrower Eligibility – Occupancy Requirements**
- Owner occupied principal residences
- Underwriter must review borrower’s employment documentation or obtain utility bills to evidence the borrower currently occupies the property as their principal residence.

### **TOTAL –**

- Follow AUS Findings
- Properties acquired less than 12 months from date of case assignment must follow the LTV Restriction guidelines for refinance transactions (Refer to *Rate/Term Refinance Worksheet*)
  - Maximum LTV 97.75% of appraised value with >12 months since acquisition
  - Maximum LTV 97.75% with < 12 months acquisition, use lesser of original sales price or current appraised value.
- Occupancy – Borrower must owner occupy the property from the date of acquisition or 85% LTV guidelines apply.
- Manual Downgrade required for payment history when:
  - Less than 6 months’ pay history on all mortgages
  - Greater than six months’ pay history on all mortgages in <12 months

**Note:** See **MANUAL** guidelines below:

### **MANUAL**

- Payment history requirements - Less than 6 months of mortgage payment history
  - All mortgages on all properties with less than six months of mortgage payment history --payments must have been made within the month due. (canceled checks or bank statement to validate required)
- Payment history requirements - greater than 6 months history.
  - All mortgages on all properties --payments must have been paid (proof required) with in the 6 months prior to the new case assignment and have no more than 1x30 in the previous 6 months for all mortgages on credit.
  - Borrower must have made the payments for all mortgages secured by the subject property for the month prior to the mortgage disbursement.
  - If the mortgage is not rated on the credit report. Proof of last 12 months pay history is required. (If private note canceled checks will be required)
- **Calculating Maximum Mortgage Amount for Simple Refinance Transactions**
- The maximum mortgage amount for a Simple Refinance is:
- The lesser of:
  - The Nationwide Mortgage Limit
  - Principal residence maximum LTV/CLTV 97.75%
  - Occupancy – owner-occupied since date of acquisition or 85% LTV limitation required)
  - The sum of existing debt and costs associated with the transaction as follows:
    - Existing debt – unpaid principal balance of FHA insured first mortgage as of the month prior to the new loan disbursement;
    - interest due on the existing mortgage;
    - MIP due on existing mortgage
    - Late charges and escrow shortages;
- Allowed costs include all Borrower paid costs associated with the new mortgage; and
- Borrower-paid repairs required by the appraisal;
- Less any refund of per FHA Refinance Authorization Statement
- Borrower is not allowed more than \$500 cash back; this cannot included any escrow refund not used to at time of disbursement; nor can any of the lender credit be refunded in the \$500 cash back.

# FHA Guidelines



<p><b>SIMPLE REFINANCE (RATE AND TERM FHA TO FHA) CONTINUED</b></p>	<ul style="list-style-type: none"> <li>▪ Any refund due borrower from lender credit and/or escrow account must be applied as a principal reduction to the new loan.</li> <li>▪ Maximum Value Calculations: See <i>LTV/CLTV Restrictions</i></li> <li>▪ On all PACE/HERO payoffs, the current property taxes will not be allowed to be reduced for qualification. Taxes will need to be determined from the current taxes collected. If the borrower can obtain from the county tax collector a revised tax bill HUD will allow the lower taxes to be used.</li> </ul>
<p><b>RATE/TERM REFINANCE</b></p>	<ul style="list-style-type: none"> <li>▪ <b>TOTAL –</b></li> <li>▪ Follow AUS Findings</li> <li>▪ Properties acquired less than 12 months from the date of case number assignment <b>must</b> follow the LTV Restriction guidelines for refinance transactions.</li> <li>▪ Occupancy – Borrower must owner-occupy the property from the date of acquisition or 85% LTV guidelines apply</li> <li>▪ After January 4, 2018 PACE liens can be paid off through a rate and term refinance.</li> <li>▪ <b>TOTAL/MANUAL</b></li> <li>▪ Maximum LTV on Rate and Term - (paying off of Non-FHA first or Free and Clear property)</li> <li>▪ 97.75% for Principal Residences that have been owner-occupied for previous 12 months, or owner-occupied since acquisition if acquired within 12 months, at case number assignment.</li> <li>▪ 85% for a borrower who has occupied the subject property as their principal residence for fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the property for that entire period of ownership.</li> <li>▪ <b>Calculating Maximum Mortgage Amount –</b> the maximum mortgage amount for a Rate and Term refinance is the lesser of:             <ul style="list-style-type: none"> <li>▪ The Nationwide mortgage Limit;</li> <li>▪ The maximum LTV based on the Maximum LTV Ratio from above or;</li> <li>▪ The sum of existing debt and costs associated with the transaction as follows:</li> <li>▪ Existing debt includes:                 <ul style="list-style-type: none"> <li>○ The unpaid principal balance of the first mortgage as of the month prior to the mortgage disbursement,</li> <li>○ The unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement</li> <li>○ The unpaid principal balance of any junior lien over 12 months old as of date of mortgage disbursement. If the balance or any portion of equity line of credit is excess of \$1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, that portion above and beyond \$1,000 is not eligible for inclusion in the new mortgage</li> <li>○ Ex-spouse or co-borrower equity, as described in “Refinancing to Buy out Title Holder Equity”</li> <li>○ Interest due on the existing mortgage(s)</li> <li>○ Any prepayment penalties assessed; late charges and escrow shortages;</li> </ul> </li> <li>▪ Allowed costs include all borrower paid costs associated with the new mortgage; and</li> <li>▪ Any borrower-paid repairs required by appraisal</li> <li>▪ Less any UFMIP refund due per FHA Refinance Authorization statement</li> </ul> </li> <li>▪ <b>NOTE:</b> \$500 cash back is allowed for minor adjustments Estimated CD versus Final CD. Any amount greater than \$500 must be applied as a principal reduction to loan</li> <li>▪ <b>PAYMENT HISTORY REQUIREMENT</b></li> <li>▪ <b>TOTAL –</b></li> <li>▪ Follow AUS Findings</li> <li>▪ Properties acquired less than 12 months must follow LTV requirement for maximum loan amount</li> <li>▪ Requires Manual Downgrade due to &lt;12 month payment history (see <i>Manual</i> below)</li> </ul>

**RATE/TERM REFINANCE  
CONTINUED**

- **MANUAL-**
- Less than 12 months mortgage payment history allowed on Non-FHA 1<sup>st</sup> mortgage
- Less than 12 months mortgage payment history with FHA first – follow *Simple Refinance* guidelines above.
- For all mortgages on all properties with less than six months of Mortgage Payment history, the borrower must have made all payments within the month due
- For all mortgages on all properties with greater than six months history, the borrower must have made all mortgage payments within the month due for the six months prior to case number assignment and have no more than 1x30 day late payment for the previous six months for all mortgages
- The borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement.
- **A 12 month payment history must be obtained, if not disclosed on the credit report for all mortgages. A mortgage rating from the mortgage servicer must be obtained and retained in the loan file. If less than 12 months history then previous mortgage or rental history is required.**
- **Refinancing to Buy out Title Holder Equity**
- When the purpose of the new mortgage is to refinance an existing mortgage to buy out an existing title-holder's equity, the specified equity to be paid is considered property-related
- Indebtedness and eligible to be included in the new mortgage calculation.
- The underwriter must obtain the divorce decree, settlement agreement or other legally enforceable equity agreement to document the equity awarded to the title-holder.

▪ **Refinancing to pay off recorded Land Contracts**

When the purpose of the new mortgage is to pay off an outstanding recorded land contract, the unpaid principal balance shall be deemed to be the outstanding balance on the recorded land contract.

**Calculating Payment (TOTAL)**

The Borrower's total Mortgage Payment includes:

- Principal and Interest (P&I);
- Real estate taxes;
  - On all PACE/HERO payoffs, the current property taxes will not be allowed to be reduced for qualification. Taxes will need to be determined from the current taxes collected. If the borrower can obtain from the county tax collector a revised tax bill HUD will allow the lower taxes to be used.
- Hazard insurance;
- Flood insurance as applicable;
- Mortgage insurance premium;
- HOA or condominium association fees or expenses;
- Ground rent;
- Special assessments
- Payments for any acceptable secondary financing; and
- Any other escrow payments

**Calculating Payment (MANUAL)**

The total Mortgage Payment includes:

- P&I;
- Real estate taxes;
  - On all PACE/HERO payoffs, the current property taxes will not be allowed to be reduced for qualification. Taxes will need to be determined from the current taxes collected. If the borrower can obtain from the county tax collector a revised tax bill HUD will allow the lower taxes to be used.
- Hazard insurance;
- Flood insurance as applicable;
- MIP;

# FHA Guidelines



<p><b>RATE/TERM REFINANCE CONTINUED</b></p>	<ul style="list-style-type: none"> <li>▪ HOA or condominium association fees or expenses;</li> <li>▪ Ground Rent;</li> <li>▪ Special assessments;</li> <li>▪ Payments for any acceptable secondary financing; and</li> <li>▪ Any other escrow payments.</li> <li>▪ Previously listed property for sale must have been canceled prior to the loan application for Rate/Term Refinances.             <ul style="list-style-type: none"> <li>○ A copy of the cancelation must be in the file.</li> </ul> </li> </ul>
<p><b>CASH-OUT REFINANCE</b></p>	<ul style="list-style-type: none"> <li>▪ <b>TOTAL/MANUAL</b></li> <li>▪ LTV-CLTV 85%</li> <li>▪ Only allowed on owner occupied principal residence; Income from Non-occupant co-borrowers not allowed to be used for qualifying income.</li> <li>▪ Less any UFMIP refund due per FHA Refinance Authorization statement</li> <li>▪ <u>Property must have been owned for 12 months prior to the date of the case number assignment by ALL Borrowers.</u></li> <li>▪ In case of inheritance, the borrower is not required to occupy the property for a minimum period of time before applying for a cash-out refinance, provided the borrower has not treated the subject property as an investment property at <u>any point since the inheritance. Otherwise, borrower would be required to meet the 12 month occupancy requirement for cash out loan.</u></li> <li>▪ Underwriter is required to validate occupancy per documentation in the file.</li> <li>▪ Underwriter to document all payments for all mortgages within month due for previous 12 months or since borrower obtained the mortgages.</li> <li>▪ Borrower must have made 6 full monthly payments, if occupancy requirement has been met.             <ul style="list-style-type: none"> <li>○ The borrower has made at six full consecutive monthly payments on the loan being refinanced, beginning with the payment made on the first payment due date; <u>and</u></li> <li>○ The note date of the new refinanced loan must be 210 days after the date on which the first monthly payment was made on the mortgage being paid off.</li> </ul> </li> <li>▪ Properties owned free and clear may be refinanced as cash-out, if occupancy requirement met.</li> <li>▪ 1-4 Units;</li> <li>▪ 3-4 Units have additional credit requirement.</li> <li>▪ The subject property must be self-sufficient (i.e., the maximum mortgage is limited so that the ratio of the monthly payment, divided by the monthly net rental income, does not exceed 100 percent) <i>See rental income 3-4 units in income section</i></li> <li>▪ New secondary financing is limited to 85% CLTV.             <ul style="list-style-type: none"> <li>○ Existing subordinate financing is acceptable as long as;                 <ul style="list-style-type: none"> <li>▪ The existing subordinate financing is calculated on the total available amount of second vs. current balance, plus the amount of the new first and cannot exceed 85%</li> </ul> </li> </ul> </li> <li>▪ A statement from the borrowers disclosing the purpose for the cash out is required</li> </ul> <p><b>Calculating Payment (TOTAL)</b>          The Borrower's total Mortgage Payment includes:</p> <ul style="list-style-type: none"> <li>▪ Principal and Interest (P&amp;I);</li> <li>▪ Real estate taxes;             <ul style="list-style-type: none"> <li>○ On all PACE/HERO payoffs, the current property taxes will not be allowed to be reduced for qualification. Taxes will need to be determined from the current taxes collected. If the borrower can obtain from the county tax collector a revised tax bill HUD will allow the lower taxes to be used.</li> </ul> </li> <li>▪ Hazard insurance;</li> <li>▪ Flood insurance as applicable;</li> <li>▪ Mortgage insurance premium;</li> <li>▪ HOA or condominium association fees or expenses;</li> <li>▪ Ground rent;</li> </ul>

# FHA Guidelines



<p><b>CASH-OUT REFINANCE CONTINUED</b></p>	<ul style="list-style-type: none"> <li>▪ Special assessments</li> <li>▪ Payments for any acceptable secondary financing; and</li> <li>▪ Any other escrow payments</li> </ul> <p><b>Calculating Payment (MANUAL)</b> The total Mortgage Payment includes:</p> <ul style="list-style-type: none"> <li>▪ P&amp;I;</li> <li>▪ Real estate taxes;             <ul style="list-style-type: none"> <li>○ On all PACE/HERO payoffs, the current property taxes will not be allowed to be reduced for qualification. Taxes will need to be determined from the current taxes collected. If the borrower can obtain from the county tax collector a revised tax bill HUD will allow the lower taxes to be used.</li> </ul> </li> <li>▪ Hazard insurance;</li> <li>▪ Flood insurance as applicable;</li> <li>▪ MIP;</li> <li>▪ HOA or condominium association fees or expenses;</li> <li>▪ Ground Rent;</li> <li>▪ Special assessments;</li> <li>▪ Payments for any acceptable secondary financing; and</li> <li>▪ Any other escrow payments</li> <li>▪ Property previously listed for sale must have been canceled prior to the loan application for Cash-Out Refinance loans.             <ul style="list-style-type: none"> <li>○ A copy of the Cancellation must be in the loan file.</li> </ul> </li> </ul>
<p><b>HUD REO PROPERTIES</b></p>	<p><b>GOOD NEIGHBOR NEXT DOOR</b> (Teachers, Fireman, Law Enforcement Officers, Emergency Medical Technician- who meet HUD requirements for REO purchases) 203B</p> <ul style="list-style-type: none"> <li>• Minimum down payment \$100</li> <li>• Sales contract must note purchase is a HUD REO with \$100 down program (line 4). Underwriter must determine the eligibility of the property, eligibility of borrower and specific insured HUD REO property purchase program.</li> <li>• Borrower must be approved GNND sales incentive on line 8 of contract, which will apply to purchase price line 3.</li> <li>• Contract will indicate closing costs and sales commission paid by HUD. Closing costs will be reflected on line 5; these would not be considered interested party contributions for TOTAL or Manual. Commissions will be listed on 6a &amp; 6b. These amounts should be noted on final CD.</li> <li>• GNND borrower(s) must live in the property as owner-occupancy term of 36 months minimum</li> <li>• GNND borrower(s) must certify occupancy every year they occupy property</li> <li>• GNND second is due and payable if borrower(s) sells or stop living in home prior to expiration of owner-occupancy term</li> </ul> <p><b>HUD REPAIR ESCROW-</b></p> <ul style="list-style-type: none"> <li>• 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:             <ul style="list-style-type: none"> <li>a) The appraisers estimate of repairs and improvements; <b>or</b></li> <li>b) The amount of the contractors bid, if available.</li> </ul> </li> <li>• Only repairs and improvements required by HUD and/or appraiser may be included.</li> <li>• The amount that cannot be financed into the mortgage will become part of the borrower's required cash investment.</li> <li>• PBM must establish an escrow account to ensure completion of all required repairs.</li> <li>• Maximum loan amount:             <ul style="list-style-type: none"> <li>○ Value or sales price (less) 3.5% (+) repairs = base loan amount (+) UFMIP financed = Maximum Loan Amount (<b>not to exceed 100% LTV</b>)</li> </ul> </li> </ul>



**HUD REO PROPERTIES  
CONTINUED**

- DU Approve/Ineligible for “Loan Amount Exceeds” is **acceptable only if repair escrow is financed**, otherwise DU must be Approve/Eligible
- **Note:** Effective for case numbers assigned on or after October 31, 2016, PBM must comply with the [Repair Completion Escrow Requirement](#).

**HUD Appraisals-**

- HUD NO longer provides an FHA “as-is” appraisal for establishing market value.
- A new appraisal is required with new case number, follow standard FHA appraisal guidelines.
- Appraiser must be provided with the HUD REO contract at time of request. Appraiser must issue the appraisal in “AS IS” condition. With Repairs noted with Cost to Cure.
- Validity period- 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**
- HUD will not renegotiate or adjust the purchase price after contract ratification.
- 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.
- If the buyer is securing a loan that does not involve FHA financing, then the buyer’s will order a new appraisal on the property at the buyer’s expense, regardless of whether they overbid the property or not.

● **Pools:**

- HUD REO Properties do not require pools to be filled, which differs from regular FHA transactions which must meet local county/city building ordinances. Letter from building department on ordinance from home.
- Pools are not required to be covered as long as there is a secure fence surrounding the backyard.
- PBM is to obtain an “as-is” statement from the buyer accepting the pool in “as-is” condition.

**NOTE:** Underwriter to condition for pool safety to meet local county/city building ordinances. Statement from building department to state ordinance for home.

**FHA 203(b) with Escrow Repairs-**

- The MPR Repairs cannot total more than \$9,999.
- **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.
- PBM allows up to 30 days after closing for MPR repairs to be completed. Once the repairs have been completed, the PBM will inspect the contractor’s work and disburse the funds to the appropriate parties.
- 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
- **Condominium Projects** - FHA case numbers are required even if project is not approved. Underwriter will only be required to validate HO6 Insurance. Underwriter will not be required to make any loan level certifications on HOA dues, litigation and/or occupancy requirements to obtain insured loan per HUD.

<p><b>SOLAR PANELS</b></p>	<p><b>All Solar Contracts must be previewed by Corp prior to approval &amp; sub. agreements</b></p> <ul style="list-style-type: none"> <li>• An energy system is considered to be personal property, rather than part of the real property, if it is leased or operates under a power purchase agreement (PPA). When an energy system is present, the underwriter must verify if the solar system is owned, leased, or subject to a PPA.</li> <li>• When an energy system is subject to a lease or PPA that has been prepaid and is included in the sales contract, then the value of the system agreement must be treated as an inducement to purchase. The transfer of a lease or PPA to the new owner that is not prepaid is not considered an inducement to purchase.</li> <li>• See EEM For Solar Financed @ Purchase or R/T Refinance</li> <li>• <b><u>PPA Solar contracts need a foreclosure policy amendment or letter from solar company.</u></b> If equipment is removed contract must indicate that home will be left sound and watertight.</li> <li>• Purchase Solar contracts cannot reflect any foreclosure policy that will remove equipment without the home being left sound and watertight.</li> </ul> <p><b><u>Effective January 5, 2018, HUD will cease to allow PACE loans to remain on the property if FHA financing is obtained.</u></b></p> <ul style="list-style-type: none"> <li>• Case Numbers assigned after January 5, 2018 are required to pay off PACE loan.</li> <li>• See Rate &amp; Term Refinance and Cash Out for payoff guidelines.</li> </ul> <p><b>Impact of PACE payoffs on Qualifying – Impounds</b></p> <ul style="list-style-type: none"> <li>• The full amount of the current tax bill (including the existing PACE assessment) is required to be collected for impounds.</li> <li>• To qualify the borrower <u>without</u> the PACE assessment included in the monthly tax obligation requires Investor Specific.</li> </ul> <p><b>Qualifying and Impounding without PACE assessment in taxes</b></p> <ul style="list-style-type: none"> <li>• Qualify the borrower without the PACE assessment on tax bill. Taxes can be calculated without debt for <b>PITI only</b></li> <li>• Provide demand for full payoff of PACE debt.</li> <li>• Provide supplement from title to indicate all PACE debt will be eliminated from tax bill after payoff</li> <li>• Run DU, Loan Transmittal, and final 1003 without the increased tax debt to qualify</li> <li>• Underwriter to go back and correct the taxes to the amount appearing on the current tax bill after DU, LT and 1003 are run.</li> <li>• Property tax impounds for PITI payments will be required per current tax bill. These will only be allowed to be removed if re-assessment from county tax collector is received before funding.</li> <li>• Borrower is to be made aware that the impounds will include the current taxes with the PACE assessment</li> <li>• It is the responsibility of the borrower to obtain the corrected tax bill to make all tax impound adjustments for PITI.</li> </ul>
<p><b>ENERGY EFFICIENT MORTGAGES (EEM)</b></p>	<p><b>Energy Efficient Mortgage (EEM)</b> program allows energy efficient improvements to an existing property at time of purchase or refinancing. Cost-Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of the improvements.</p> <p><b>See <u>FHA Energy Efficient Guidelines</u> under</b></p> <ul style="list-style-type: none"> <li>• <b>PBM Manuals &lt; Quick Look Manual &lt; FHA Energy Efficient Guidelines</b></li> </ul> <p><b>Note: Investor Specific Required from Corporate</b></p>

# FHA Guidelines



## 203(H) PROGRAM – DISASTER RELIEF PROGRAM

### FHA Mortgages for Presidentially – Declared Major Disaster Area (PMDA) – PURCHASE LOANS ONLY

#### TOTAL/MANUAL –

#### Minimum Credit Score:

- **620- CONFORMING LOAN AMOUNTS**
- **640 – HIGH BALANCE**
  - **Investor Specific Required for 620-639**
- *LTV/CLTV* – 100% financing of Appraised Value or Purchase Price, whichever is less. No down payment required.
- *UFMIP/Annual MIP* – Standard 4000.1 guidelines apply
- *Ratios* –
  - *TOTAL* - follow AUS
  - *MANUAL* - follow 4000.1 Manual DTI guidelines
- *Ordering Case Number* – ADP Code 703, Program ID code “(02) – Disaster Housing.” Case number must be issued within one year of the PMDA to borrower’s Primary Residence
- *FICO Scores* – all borrowers must have a credit score
- *Reserves* -
  - *TOTAL* – follow AUS
  - *MANUAL* – 2 months reserves required
- *Housing Payment History* – late payments may be disregarded on the property that was destroyed or damaged in the disaster, where the late payments were a result of the disaster only, and the borrower was not delinquent on their mortgage at the time of the disaster.
- *Mortgage Payment on Destroyed Residence* – the mortgage payment on the destroyed residence may be excluded from the borrower’s liabilities **if**:
  - Documentation is provided that verifies the borrower is working with the servicing lender to appropriately address their mortgage obligation on the destroyed residence. A signed letter (on servicing lender’s letterhead) confirming the servicing lender is no longer holding the borrower responsible for the liability on the destroyed residence, **and**
  - Any property insurance proceeds must be applied to the mortgage of the destroyed house. Provide verification from all insurance companies’ that proper paperwork has been filed to assure proceeds to be forwarded to servicing lender.
- *Disaster-Related Derogatory Credit* – Borrowers may be considered a satisfactory credit risk if the credit report indicates satisfactory credit prior to the disaster **and** any derogatory credit subsequent to the date of the disaster is directly related to the effects of the disaster. (*All other liabilities must meet 4000.1 credit requirements*).
- *Current Employment Verification* – Follow standard 4000.1 guidelines
- *Prior Employment Verification* – If the prior employment cannot be verified because records were destroyed by the disaster and the borrower is in the same/similar field, FHA will accept W-2s and tax returns from the IRS to confirm prior employment and income.
- *Short-term Employment* – Short-term employment obtained following the disaster may be included in the calculation of effective income.
- *Verbal VOE* – standard FHA guidelines apply (recent 2 year period and performed within 10 days of loan closing).
- *Verbal VOE for Self-Employed Borrowers* –
  - Must verify the existence of the borrower’s business within 30 days prior to funding date
  - Verification from a third party – CPA, Regulatory Agency, or applicable licensing bureau. Verify phone listing, address for borrower’s business (use phone book, internet or directory assistance).
  - Verify and document the name and title of the person that confirmed the employment and the date of the call
  - Telephone VOE form must also include the name and title of the PBM employee that performed the verification.

# FHA Guidelines



<p><b>203(H) PROGRAM – DISASTER RELIEF PROGRAM</b> CONTINUED</p>	<ul style="list-style-type: none"> <li>• <i>IRS Form 4506-T</i> – Signed and dated form from all borrowers and processed transcripts for all tax returns and W-2s used for income.</li> <li>• <i>Ineligible Properties</i> – 2-4 units, Manufactured Housing, working farms, ranches or orchards</li> <li>• <i>Multiple FHA loans</i> – if a borrower’s current loan on a destroyed primary residence was FHA-financed, then new home must qualify for 203(h) program (lender release of liability) to allow multiple FHA loans.</li> <li>• <b>All other FHA 4000.1 guidelines apply (other than those mentioned above)</b></li> </ul>
<p><b>COMPENSATING FACTORS</b></p>	<p>Compensating factors used for mortgage approval must be supported by documentation.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The borrower makes a large down payment (ten percent or more) towards the purchase of the property.</li> <li>• The borrower has demonstrated an ability to accumulate savings and a conservative attitude towards the use of credit.</li> <li>• Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.</li> <li>• 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.</li> <li>• There is only a minimal increase in the borrower’s housing expense.</li> <li>• 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 of retirement or job termination</li> <li>• Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. <b>“Assets”</b> such as equity in other properties and the proceeds from a cash-out refinance are not to be considered as cash reserves. <b>Similarly</b>, funds from gifts from any source are not to be included as cash reserves.</li> <li>• The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computations).</li> <li>• The borrower has a potential for increased earnings, as indicated by job training or education in the borrower’s profession.</li> </ul> <p>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. <b>The underwriter must document the availability of such possible employment.</b></p>
<p>PBM FHA Guidelines are based on FHA Guidelines 4000.1 and recent PBM HUD Audits. As a result of the HUD Audits and HUD Insuring Reviews PBM gathered information to include in our guidelines.</p> <ul style="list-style-type: none"> <li>• <b>NOTE:</b> PBM FHA Guidelines <b>do not</b> include any additional overlays.</li> </ul>	

## APPENDIX 2.0 – ANALYZING IRS FORMS

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	<p>An Amount shown under this heading may indicate that the individual(s);</p> <ul style="list-style-type: none"> <li>○ is a salaried employee of a corporation; <b>or</b></li> <li>○ has other sources of income.</li> </ul> <p>Non- Borrowing Spouse- This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's gross income.</p>
Employee Business Expenses (from Schedule A)	<p>Unreimbursed employee business expenses, as shown on IRS Form 2106, are actual cash expenses that must be deducted from the gross income.</p> <p>Depreciation due to business use of a vehicle may be added to the gross income.</p>
Business Income and Loss (from Schedule C)	<p>Sole proprietorship income calculated on Schedule C is business income.</p> <p>Depreciation, depletion, amortization and casualty losses may be added back to the gross income.</p>
Business Use of Home	<p>Mortgage interest, Mortgage Insurance Premiums (MIP), Real Estate Taxes and Property Insurance deducted from business use of a house may be added back to the gross income.</p>
Rents, Royalties, Partnerships (from Schedule E)	<p>Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E. This must also meet the guidelines for rental property noted in Rental Income Section of 4000.1 Guidelines above</p>
Capital Gain and Losses (from Schedule D)	<p>Capital gains or losses generally occur only one time and should not be considered when determining Effective Income.</p> <p>However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earnings trend. If the trend:</p> <ul style="list-style-type: none"> <li>○ Results in a gain, it may be added as Effective Income; <b>or</b></li> <li>○ Consistently shows a loss, it must be deducted from the total income.</li> </ul>
Interest and Dividend Income (from Schedule B)	<p>This taxable/ tax-exempt income may be added back to the adjusted gross income only if it:</p> <ul style="list-style-type: none"> <li>○ Has been received for the past two years ; <b>and</b></li> <li>○ Is expected to continue</li> </ul> <p>If the interest -bearing asset will be liquidated as a source of the cash investment, the underwriter must appropriately adjust the amount.</p>
Farm Income or Loss (from Schedule F)	<p>Any depreciation shown on Schedule F may be added back to the gross income.</p>
IRS Distributions, Pensions, Annuities and Social Security Benefits	<p>The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage.</p>
Adjustments to Income	<p>Adjustments to income may be added back to the adjusted gross income if they are:</p> <ul style="list-style-type: none"> <li>○ IRS and Keogh retirement deductions; <b>or</b></li> <li>○ Penalties on early withdrawal of savings health insurance deduction and alimony payments.</li> </ul>

## Analyzing IRS Form 1120, U.S. Corporation Income Tax Return

A Corporation refers to a state-chartered business owned by its stockholders.

To determine the Borrower's income, the adjusted business income must be multiplied by the Borrower's percentage of ownership in the business.

Corporate compensation to the officers, in proportion to the percentage of ownership, is shown on the corporate tax return (IRS Form 1120) and individual tax returns. If the Borrower's percentage of ownership does not appear on the tax returns, the Underwriter must obtain the information from the corporations' accountant, along with evidence that the Borrower has the right to any compensation.

The table below describes the items found on the IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income

Adjustment Item	Description of Adjustment
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income
Fiscal Year vs Calendar Year	If the corporation operates on a fiscal year that is different from the calendar year an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The Borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating. CPA letter to validate NO negative impact due to cash withdrawal.

## Analyzing IRS Form 1120S, U.S. Income Tax Return for an "S" Corporation

An "S" Corporation refers to a small start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.

Income for owners of "S" corporations comes from W-2 wages and is taxed at the individual rate. The IRS Form 1120S, compensation of officers line item is transferred to the Borrower's individual IRS Form 1040.

Depreciation and depletion may be added back to income in proportion to the borrower's percentage of the ownership in the corporation.

The borrower's income must be reduced proportionately by the total obligations payable by the corporation in less than one year.

## Analyzing IRS Form 1065, U.S. Return of Partnership Income

A Partnership refers to when two or more individuals form a business and share in profits, losses and responsibility for running the company. Each partner pays taxes on their proportionate share of the partnership's net income.

Both general and limited partnerships report income on IRS Form 1065 and the partners' share of income is carried over to Schedule E of IRS Form 1040.

Both depreciation and depletion may be added back to the income in proportion to the borrower's share of the income.

The borrower's income must be reduced proportionately by the total obligation payable by the partnership in less than one year.