

FHA GUIDELINES

PURCHASE				
Units	Max Base LTV	Total LTV w/UFMIP	Maximum CLTV w/Sec Fin from State and Local Govt. Agencies, Non-Profit Instrumentality of Govt. and HUD Approved Non-Profit <sup>1</sup>	Maximum CLTV from All Other Secondary Financing
1-4 Units	96.5%	98.25%	100% of Cost to Acquire <sup>2,3</sup>	96.50% of the lesser of Appraised Value or Sales Price
IDENTITY OF INTEREST TRANACTION (Non-ARMs Length)				
Units	Max Base LTV	Total LTV w/UFMIP	Maximum CLTV w/Sec Fin from State and Local Govt. Agencies, Non-Profit Instrumentality of Govt. and HUD Approved Non-Profit <sup>1</sup>	Maximum CLTV from All Other Secondary Financing
1-4 Units	85%	86.75%	85%	85%
RATE / TERM REFINANCE				
Units	Max Base LTV	Total LTV w/UFMIP	Maximum CLTV w/Sec Fin from State and Local Govt. Agencies, Non-Profit Instrumentality of Govt. and HUD Approved Non-Profit <sup>1</sup>	Maximum CLTV from All Other Secondary Financing
1-4 Units	97.75%	99.5%	97.75%	97.75%
CASH-OUT REFINANCE				
Units	Max Base LTV	Total LTV w/UFMIP	Maximum CLTV w/Sec Fin from State and Local Govt. Agencies, Non-Profit Instrumentality of Govt. and HUD Approved Non-Profit <sup>1</sup>	Maximum CLTV from All Other Secondary Financing
1-4 Units	80%	81.75%	80%	80%
MINIMUM / MAXIMUM LOAN AMOUNT (CONTINENTAL US ONLY)				
Notes:				
<ul style="list-style-type: none"><li>Minimum Loan Amount \$75,000.</li><li>Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county.</li><li>Find FHA Loan Limits at: <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a></li></ul>				
<sup>1</sup> Secondary Financing from a HUD Approved Non-Profit that is <b>not</b> considered an instrumentality of government requires a minimum 3.5% cash investment from the borrowers own funds. This cannot be met with the proceeds from the second lien.				
<sup>2</sup> Cost to Acquire may include the sales price, closing costs, prepaid expenses, and discount points and may not result in any cash back to the borrower.				
<sup>3</sup> There is no maximum CLTV for secondary financing loans provided by Governmental Entities and HUD-approved Nonprofits				

UPFRONT AND MONTHLY MIP TERMS > 15 YEARS				
Base Loan Amount	LTV	UFMIP	Monthly (bps)	Duration
≤ \$726,200	> 95.00%	1.75%	0.55	Mortgage Term
	90.01 – 95.00%	1.75%	0.50	Mortgage Term
	≤ 90.00%	1.75%	0.50	11 years
> \$726,200	> 95.00%	1.75%	0.75	Mortgage Term
	90.01 – 95.00%	1.75%	0.70	Mortgage Term
	≤ 90.00%	1.75%	0.70	11 years
UPFRONT AND MONTHLY MIP TERM ≤ 15 YEARS				
Base Loan Amount	LTV	UFMIP	Monthly (bps)	Duration
≤ \$726,200	> 90.00%	1.75%	0.40	Mortgage Term
	≤ 90.00%	1.75%	0.15	11 years
> \$726,200	> 90.00%	1.75%	0.65	Mortgage Term
	78.01 - 90.00%	1.75%	0.40	11 years
	≤ 78.00%	1.75%	0.15	11 years
Note:				
<ul style="list-style-type: none"><li>UFMIP must be 100% financed into the mortgage or paid entirely by cash. Partial financing is not allowed.</li><li>Monthly Mortgage Insurance is required on all loans regardless of LTV or Loan Term.</li><li>For MIP rates prior to February 24, 2023, click <a href="#">here</a>.</li></ul>				

Streamline Refinance, Simple Refinance				
Case Number Endorsed	LTV	UFMIP	Annual MIP (bps)	Duration
On or before May 31, 2009	> 90.00%	0.01%	0.55	Mortgage Term
	≤ 90.00%	0.01%	0.55	11 years
After May 31, 2009	Refer to Applicable Chart Above			
<ul style="list-style-type: none"><li>For mortgages where FHA does not require an appraisal, the value from the previous mortgage is used to calculate the LTV.</li><li>To determine the endorsement date a case query must be provided on the previous case number.</li></ul>				

GENERAL REQUIREMENTS																																	
Underwriting	<ul style="list-style-type: none"><li>Loans must be underwritten by a DE Underwriter</li><li>All loans must be submitted through FHA Total Scorecard</li></ul>																																
Disaster Policy	<p>If an appraisal was completed on or prior to the incident period date(s) of the disaster a disaster inspection will be required.</p> <ul style="list-style-type: none"><li>The inspection must be dated after the incident period</li><li>If utilities have been fully restored to the area, the appraiser is not required to ensure utilities are on at the time of the reinspection,</li><li>All damages must be repaired, and the subject property restored to its pre-disaster conditions, or better, with appropriate and applicable documentation.</li><li>Lender certification may be provided in lieu of reinspection</li><li>If an appraisal was not required due to product type (FHA Streamline), a disaster inspection with interior and exterior photos is required.</li></ul> <p>The following table shows inspection and repair escrow requirements that apply to mortgages on properties that have not yet closed:</p> <table><tr><th colspan="2">Prior to Closing</th></tr><tr><th>If...</th><th>Then...</th></tr><tr><td>The mortgage is not closed,</td><td>Inspect the property to determine if damage exists. Provide on-site inspection with interior/exterior photographs.</td></tr><tr><td>No damage exists,</td><td>Close mortgage and document inspection.</td></tr><tr><td>Damage exists but is below \$5,000 and property is habitable,</td><td>Complete repairs and close mortgage or establish repair escrow and close mortgage.</td></tr><tr><td>Damage exists and is \$5,000 or above or the property is not habitable,</td><td>Do not close mortgage. Repairs must be completed prior to closing.</td></tr><tr><th>When...</th><th>Then...</th></tr><tr><td>Repairs \$5,000 or above are completed and inspected with interior/exterior photographs,</td><td>Document inspection and close mortgage.</td></tr></table> <p>The following table shows inspection and escrow requirements that apply to mortgage on properties that have closed but are not yet endorsed:</p> <table><tr><th colspan="2">Pending Mortgage Endorsement</th></tr><tr><th>If...</th><th>Then...</th></tr><tr><td>The mortgage is closed but not yet endorsed,</td><td>Inspect the property to determine if damage exists. Provide drive-by inspection with exterior photographs.</td></tr><tr><td>No damage exists,</td><td>Endorse mortgage and document inspection.</td></tr><tr><td>Damage exists but is below \$5,000 and property is habitable,</td><td>Complete repairs and endorse mortgage or establish repair escrow and close mortgage.</td></tr><tr><td>Damage exists and is \$5,000 or above or the property is not habitable,</td><td>Do not endorse mortgage.</td></tr><tr><th>When...</th><th>Then...</th></tr><tr><td>Repairs \$5,000 or above are completed and inspected with interior/exterior photographs,</td><td>Document inspection and endorse mortgage.</td></tr></table>	Prior to Closing		If...	Then...	The mortgage is not closed,	Inspect the property to determine if damage exists. Provide on-site inspection with interior/exterior photographs.	No damage exists,	Close mortgage and document inspection.	Damage exists but is below \$5,000 and property is habitable,	Complete repairs and close mortgage or establish repair escrow and close mortgage.	Damage exists and is \$5,000 or above or the property is not habitable,	Do not close mortgage. Repairs must be completed prior to closing.	When...	Then...	Repairs \$5,000 or above are completed and inspected with interior/exterior photographs,	Document inspection and close mortgage.	Pending Mortgage Endorsement		If...	Then...	The mortgage is closed but not yet endorsed,	Inspect the property to determine if damage exists. Provide drive-by inspection with exterior photographs.	No damage exists,	Endorse mortgage and document inspection.	Damage exists but is below \$5,000 and property is habitable,	Complete repairs and endorse mortgage or establish repair escrow and close mortgage.	Damage exists and is \$5,000 or above or the property is not habitable,	Do not endorse mortgage.	When...	Then...	Repairs \$5,000 or above are completed and inspected with interior/exterior photographs,	Document inspection and endorse mortgage.
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Flood Insurance	<ul style="list-style-type: none"><li>When flood insurance is required, the policy must be backed by the National Flood Insurance Program (NFIP).</li></ul>																																
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Borrower Eligibility	<p>The maximum number of Borrowers allowed on a single transaction is four.</p> <p>All borrowers must have a valid social security number and document 2 years of employment history. Social security number to be validated by one the following:</p> <ul style="list-style-type: none"><li>Validation from SSA</li><li>Social Security Card</li><li>Valid tax transcripts</li></ul> <p>Eligible</p> <ul style="list-style-type: none"><li>US Citizen</li><li>Permanent Residents<ul style="list-style-type: none"><li>Evidence of lawful, permanent residence issued by the U.S. Citizenship and Immigration Services (USCIS). Must also indicate the borrower is a lawful permanent resident on the <i>URLA</i>.</li><li>Copy of the Alien Registration Receipt Card (Resident Alien card), I-551</li></ul></li><li>Non-Permanent Residents (including DACA recipient)<ul style="list-style-type: none"><li>Subject property must be the borrower’s principal residence;</li><li>Borrower must have evidence of a valid Social Security number, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;</li><li>Borrower is eligible to work in the United States, provided the borrower provides either:<ul style="list-style-type: none"><li>An Employment Authorization Document (USCIS Form I-766) showing that work authorization status is current;</li><li>A USCIS Form I-94 evidencing H-1B status, and evidence of employment by the authorized H-1B employer for a minimum of one year;</li><li>Evidence of being granted refugee or asylee status by the USCIS; or</li><li>Evidence of citizenship of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau; and</li></ul></li><li>The Borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.</li><li>If the Employment Authorization Document (USCIS Form I-766) or evidence of H-1B status will expire within one year and a prior history of residency status renewals exists, the lender may assume that continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal based on information from the employer or the USCIS.</li></ul></li></ul>																																

Borrower Eligibility (cont.)	<ul style="list-style-type: none"><li><ul style="list-style-type: none"><li>A borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS must provide documentation:<ul style="list-style-type: none"><li>Employment Authorization Document (USCIS Form I-766) or USCIS Form I-94 indicating refugee or asylum status, or</li><li>USCIS Form I-797 notice indicating approval of a USCIS Form I-589, Application for Asylum or Withholding of Removal substantiating the refugee or asylee status.</li></ul></li><li>Non-U.S. citizens without lawful residency in the U.S. are not eligible.</li></ul></li><li>Inter-Vivos Revocable (Living) Trust (Eligibility Approved by Underwriter. UW must complete and certify (<a href="#">Trust Review Checklist</a>), (<a href="#">State Specific Requirements</a>))</li></ul> <p>Ineligible</p> <ul style="list-style-type: none"><li>Partnership, Limited Partnership or Corporation</li><li>Real estate syndications</li><li>Irrevocable trust</li><li>Land Trusts</li><li>Foreign Nationals (non-residents)</li></ul>
CAIVRS, LDP and SAM/GSA Search	<p>Check the FHA Connection and document the results on the FHA Loan Underwriting Summary</p> <ul style="list-style-type: none"><li>A copy of the FHA Connection screen results for all searches must be in the loan file</li><li>If the name of any party to the transaction appears on any of the list below, the application is not eligible for mortgage insurance. (An exception maybe made when a seller appears on the LDP list and the property being sold is the seller’s principal residence).</li></ul> <p><b>CAIVRS System (Credit Alert Interactive Voice Response System)</b></p> <ul style="list-style-type: none"><li>Clear CAIVRS must be obtained for all Borrowers, Co-Borrowers and Co-Signors on the transaction.</li><li>CAIVRS are not considered clear if the borrower if found to be presently delinquent on any Federal debt or has a lien placed against his/her property for a debt owed to the Federal government (including student loans), he/she is <b>not eligible</b> for an FHA mortgage unless:<ul style="list-style-type: none"><li>Federal <i>Non-Tax</i> Debt<ul style="list-style-type: none"><li>Verified federal <i>non-tax</i> debt that is in delinquent status must be resolved. Documentation from the creditor agency must be provided to support the verification and resolution of the debt. For debt reported through CAIVRS, a clear CAIVRS report may be obtained to evidence resolution.<ul style="list-style-type: none"><li>If CAIVRS shows an FHA foreclosure or HUD has paid a claim, the borrower is ineligible for a period of 3 years from the date of the claim.</li></ul></li><li>If CAIVRS shows a default status, then the underwriter must contact HUD and verify this information confirming that HUD has not paid a claim. Once it is verified that HUD has not paid a claim the underwriter must condition for a clear CAIVRS.</li><li>Student loans that show paid by government insurance must have proof in file that borrower has paid the account and it was not in fact paid by the government insurance.</li></ul></li></ul></li></ul> <p>See also <a href="#">Federal Tax Repayment Section</a></p> <p><b>LDP (Limited Denials of Participation)</b></p> <ul style="list-style-type: none"><li>Examine/Search the list for all parties to the transaction: all borrowers, seller(s), listing and selling real estate agents, loan officer and processor.</li><li>The appraiser, Termite Company and all licensed professionals contracted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched.</li></ul> <p><b>GSA (Government Services Administration’s List of Parties Excluded from Procurement or Non-Procurement Programs)</b></p> <ul style="list-style-type: none"><li>Examine/Search the list for all parties to the transaction: all borrowers, seller(s), listing and selling real estate agents, loan officer and processor.</li><li>The appraiser, Termite Company and all licensed professionals contracted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched.</li></ul>
Co-Borrowers	<p>Co-Borrower</p> <ul style="list-style-type: none"><li>Must take title to the property</li><li>Must sign all documents including the Loan Application, Note and the Mortgage/Deed of Trust</li><li>The co-borrower cannot be a party who has a financial interest in the mortgage transaction, such as the seller, builder, real estate agent, etc. unless the party with the financial interest is a Family Member. (See Identity of Interest Section below)</li><li>Income, assets and debts from all borrowers (including co-borrowers) are used in qualifying.</li><li>Must be US Citizen or have a principal residence in the U.S.</li><li>Does not have to occupy the subject property</li><li>For non-occupying borrower transactions, the maximum LTV is 75%. The LTV can be increased to a maximum of 96.5% if the borrowers are family members, provided the transaction does not involve:<ul style="list-style-type: none"><li>A family member selling to a family member who will be a non-occupying co-borrower; or</li><li>A transaction on a 2-4 unit property.</li></ul></li><li>If the co-borrower is unrelated, the maximum LTV is 75%</li><li>If the seller is related to the co-borrower and not occupying, the maximum LTV is 75%.</li></ul> <p>Co-Signer</p> <ul style="list-style-type: none"><li>Co-signer must sign the loan application and the Note</li><li>Co-signer does not take title on the property</li><li>Co-signer does not sign the Mortgage/Deed of Trust or the Sales Contract</li><li>Income, assets and debts from the co-signer are used in qualifying</li><li>Co-signer must be US Citizen or have a principal residence in the U.S.</li><li>The co-signer cannot be a party who has a financial interest in the mortgage transaction, such as the seller, builder, real estate agent etc. unless the party with the financial interest is a Family Member (See Identity of Interest Section below)</li><li>Co-signer does not have to occupy the subject property</li><li>For non-occupying borrower transactions, the maximum LTV is 75%. The LTV can be increased to a maximum of 96.5% if the borrowers are family members, provided the transaction does not involve:<ul style="list-style-type: none"><li>A family member selling to a family member who will be a non-occupying co-borrower; or</li></ul></li></ul>

Co-Borrowers (cont.)	<ul style="list-style-type: none"><li>○ A transaction on a 2-4 unit property.</li><li>• If the co-borrower is unrelated, the maximum LTV is 75%</li><li>• If the seller is related to the co-borrower and not occupying, the maximum LTV is 75%</li></ul> <p>Refer to <a href="#">Single Family Housing Policy Handbook 4000.1</a> for additional details</p>										
Family Member Definition	<p>Family member is defined as follows, 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<ul style="list-style-type: none"><li>○ a child is defined as a son, stepson, daughter, or stepdaughter</li><li>○ a parent or grandparent includes as stepparent/grandparent or foster parent/grandparent</li></ul></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, stepbrother</li><li>• sister, stepsister</li><li>• uncle</li><li>• 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:</b> Co-Borrower(s) / Co-Signer(s) with a long-standing relationship with the borrower do not meet the definition for family member and therefore maximum LTV is 75%.</p>										
Higher Priced Mortgage Loans (HPML)	<p>High Priced Mortgage Loans</p> <ul style="list-style-type: none"><li>• Escrow account must be established and maintained for at least five (5) years.</li><li>• Master Insurance Policy Exemption:<ul style="list-style-type: none"><li>○ Insurance premiums are exempt for units in a condominium or PUD when the unit’s property is covered by a master insurance policy.</li></ul></li><li>• Income must be likely to continue for a period of 7 years (in lieu of 3 years). This includes income from all sources including but not limited to disability, social security, child support, etc.</li></ul>										
Identity of Interest	<p>An Identity-of-Interest transaction is a sale between parties with an existing business relationship or between family members including tenant/landlord relationships. Business relationship refers to an association between individuals or companies entered into for commercial purposes.</p> <ul style="list-style-type: none"><li>• Identity-of-interest transactions on principal residences are restricted to a maximum LTV of 85%, including transactions where a tenant-landlord relationship exists at the time of contract execution.</li><li>• Financing <u>above</u> 85 percent LTV is permissible if a borrower purchases as their principal residence:<ul style="list-style-type: none"><li>○ The principal residence of another family member; or</li><li>○ A property owned by another family member in which the borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.</li><li>○ An employee of a builder, who is not a family member, purchases one of the builder’s new houses or models as a principal residence.</li><li>○ A corporation transfers an employee to another location, purchases that employee’s home, and then sells the home to another employee.</li><li>○ A current tenant purchases the property where the tenant has rented the property for at least six months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.</li></ul></li><li>• For identity of interest transactions, refer to <a href="#">Family Member Definition</a>.</li></ul>										
Limitations on other FHA Insured Mortgages	<p>Borrower cannot own more than one FHA loan with <u>maximum</u> financing unless below requirements are met:</p> <table><tr><th>Policy Exception</th><th>Eligibility Requirements</th></tr><tr><td>Relocation</td><td><p>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</p><ul style="list-style-type: none"><li>• Relocating or has relocated for an employment related reason; <b>and</b></li><li>• Establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower’s current Principal Residence.</li></ul><p>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.</p></td></tr><tr><td>Increase in Family Size</td><td><p>A Borrower may be eligible for another house with an FHA-insured Mortgage if the borrower provides satisfactory evidence that:</p><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 current residential appraisal.</li></ul></td></tr><tr><td>Vacating a Jointly Owned Property</td><td><p>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.</p></td></tr><tr><td>Non-occupying Co-Borrower</td><td><p>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.</p><p>A borrower with an existing FHA-insured mortgage on their own principal residence may qualify as a non-occupying co-borrower on other FHA-insured mortgages.</p></td></tr></table>	Policy Exception	Eligibility Requirements	Relocation	<p>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</p> <ul style="list-style-type: none"><li>• Relocating or has relocated for an employment related reason; <b>and</b></li><li>• Establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower’s current Principal Residence.</li></ul> <p>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.</p>	Increase in Family Size	<p>A Borrower may be eligible for another house with an FHA-insured Mortgage if the borrower provides satisfactory evidence that:</p> <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 current residential appraisal.</li></ul>	Vacating a Jointly Owned Property	<p>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.</p>	Non-occupying Co-Borrower	<p>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.</p> <p>A borrower with an existing FHA-insured mortgage on their own principal residence may qualify as a non-occupying co-borrower on other FHA-insured mortgages.</p>
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Maximum Number of Properties Financed	<ul style="list-style-type: none"><li>• FHA has no limit on the number of properties financed. For exceptions to multiple FHA loans to a borrower see <a href="#">Limitations on other FHA insured Mortgages</a> section</li></ul>										

Occupancy	<div>Primary Residence Only</div> <div>Borrower Occupancy of a former Investment Property:<ul style="list-style-type: none"><li>Veterans on active duty are allowed to finance home as primary residence provided mortgagee documents the home is or will be occupied by the veteran’s spouse.</li><li>The table below describes the policy guidance on the maximum mortgage amount available for borrowers who re-occupy their investment property securing the mortgage which is being refinanced.</li></ul></div> <table><tr><th>Occupancy of Former Investment Property</th><th>Eligible Financing</th></tr><tr><td>12 months or more prior to case number date</td><td>Maximum financing at the same level as an owner-occupant</td></tr><tr><td>Less than 12 months prior to case number date or if owned less than 12 months and has not occupied the property for the entire period of ownership</td><td>Rate-and-Term refinancing only with an LTV not to exceed 85% (no streamlines allowed)</td></tr></table>	Occupancy of Former Investment Property	Eligible Financing	12 months or more prior to case number date	Maximum financing at the same level as an owner-occupant	Less than 12 months prior to case number date or if owned less than 12 months and has not occupied the property for the entire period of ownership	Rate-and-Term refinancing only with an LTV not to exceed 85% (no streamlines allowed)																																																																																				
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Less than 12 months prior to case number date or if owned less than 12 months and has not occupied the property for the entire period of ownership	Rate-and-Term refinancing only with an LTV not to exceed 85% (no streamlines allowed)																																																																																										
Power of Attorney	<ul style="list-style-type: none"><li>For requirements refer to <a href="#">Power of Attorney Job Aid</a> and <a href="#">Power of Attorney Checklist</a>.</li></ul>																																																																																										
Rebuttable Presumption	<div>If the APR is greater than or equal to the Allowable APR/APOR rate spread of the annual MIP .85 + 115 basis points the loan has a Rebuttable Presumption of Compliance with ATR will require:<ul style="list-style-type: none"><li>Must meet Residual Income Requirements below:</li></ul></div> <table><tr><th colspan="5">Residual incomes for loan amounts &lt;\$80,000</th></tr><tr><th>Family Size</th><th>Northeast</th><th>Midwest</th><th>South</th><th>West</th></tr><tr><td>1</td><td>\$390</td><td>\$382</td><td>\$382</td><td>\$425</td></tr><tr><td>2</td><td>\$654</td><td>\$641</td><td>\$641</td><td>\$713</td></tr><tr><td>3</td><td>\$788</td><td>\$772</td><td>\$772</td><td>\$859</td></tr><tr><td>4</td><td>\$888</td><td>\$868</td><td>\$868</td><td>\$967</td></tr><tr><td>5</td><td>\$921</td><td>\$902</td><td>\$902</td><td>\$1,004</td></tr><tr><td colspan="5">\$75 for each additional family member up to 7</td></tr></table> <table><tr><th colspan="5">Residual incomes for loan amounts +&gt; \$80,000</th></tr><tr><th>Family Size</th><th>Northeast</th><th>Midwest</th><th>South</th><th>West</th></tr><tr><td>1</td><td>\$450</td><td>\$441</td><td>\$441</td><td>\$491</td></tr><tr><td>2</td><td>\$755</td><td>\$738</td><td>\$738</td><td>\$823</td></tr><tr><td>3</td><td>\$909</td><td>\$889</td><td>\$889</td><td>\$990</td></tr><tr><td>4</td><td>\$1,025</td><td>\$1,003</td><td>\$1,003</td><td>\$1,117</td></tr><tr><td>5</td><td>\$1,062</td><td>\$1,039</td><td>\$1,039</td><td>\$1,158</td></tr><tr><td colspan="5">\$80 for each additional family member up to 7</td></tr></table> <div>To determine residual income:<ul style="list-style-type: none"><li>Determine Gross Income minus Federal, State, Social Security, Medicare and Works Comp.<ul style="list-style-type: none"><li>Calculator for deductions can be accessed at <a href="#">paycheckcity.com</a></li></ul></li><li>Subtract from that all debt including childcare expenses.</li><li>Subtract from that the total housing payment plus maintenance and utilities.</li><li>The remaining amount is the residual income</li></ul></div> <table><tr><th colspan="2">Key to Geographic Regions on the Above Tables</th></tr><tr><td>Northeast</td><td>Connecticut, Maine Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont</td></tr><tr><td>Midwest</td><td>Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota Wisconsin</td></tr><tr><td>South</td><td>Alabama, Arkansas, Delaware, District of Columbia Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico South Carolina, Tennessee, Texas, Virginia West Virginia</td></tr><tr><td>West</td><td>Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming</td></tr></table>	Residual incomes for loan amounts <\$80,000					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	\$75 for each additional family member up to 7					Residual incomes for loan amounts +> \$80,000					Family Size	Northeast	Midwest	South	West	1	\$450	\$441	\$441	\$491	2	\$755	\$738	\$738	\$823	3	\$909	\$889	\$889	\$990	4	\$1,025	\$1,003	\$1,003	\$1,117	5	\$1,062	\$1,039	\$1,039	\$1,158	\$80 for each additional family member up to 7					Key to Geographic Regions on the Above Tables		Northeast	Connecticut, Maine Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont	Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota Wisconsin	South	Alabama, Arkansas, Delaware, District of Columbia Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico South Carolina, Tennessee, Texas, Virginia West Virginia	West	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming
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Purchase	<ul style="list-style-type: none"><li>Maximum LTV is 96.5% of the Adjusted Value. The Adjusted Value is the lesser of:<ul style="list-style-type: none"><li>Purchase price less any inducements to purchase; or</li><li>The Property Value</li></ul></li></ul>																																																																																										
Refinance - Cash Out	<ul style="list-style-type: none"><li>The property securing the cash-out refinance must have been owned and occupied by the borrower as their Principal Residence for the 12 months prior to the date of the case number assignment.<ul style="list-style-type: none"><li>Exception: In the case of inheritance, a 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 any point since inheritance of the property. If the borrower rents the property following inheritance, the borrower is not eligible for cash-out refinance until the borrower has occupied the property as a principal residence for at least 12 months.</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 appraised value.</li></ul>																																																																																										



Refinance – Cash Out (cont.)	<ul style="list-style-type: none"><li>Properties owned free and clear are eligible.</li><li>Existing liens must be current with 0x30 days late in last 12 months.</li><li>1<sup>st</sup> liens with less than 6 months payment history not eligible.</li><li>A borrower who was granted mortgage payment forbearance must have:<ul style="list-style-type: none"><li>Completed the forbearance plan on the subject property; and</li><li>Made a least 12 consecutive mortgage payments within the month due on the mortgage since completing the forbearance plan.</li></ul></li><li>If the mortgage on the subject property is not reported in the borrower’s credit report or is not in the name of the borrower, the lender must obtain a verification of mortgage, bank statements or other documentation to evidence that all payments have been made by the borrower in the month due for the previous 12 months.</li><li>Non-Occupant Co-borrowers / co-signors <b>may not</b> be added to qualify. <b>Income from a non-occupying co-borrower or co-signor cannot be used to qualify, even if currently on the loan being refinanced.</b> Any added borrower must be an occupying borrower.</li><li>Texas A(6) and F(2) are not eligible for cash out.</li><li>Where a mortgage reflects payments under a modification or forbearance plan within 12 months prior to case number assignment, the lender must obtain:<ul style="list-style-type: none"><li>A copy of the modification or forbearance plan; and</li><li>Evidence of the payment amount and date of payments during the forbearance term.</li></ul></li></ul> <p><b>Required Seasoning</b></p> <p><b>Non-Modified Mortgage</b> For exiting mortgage that has not been modified, the first payment due of the new mortgage must be on or after the later of:</p> <ul style="list-style-type: none"><li>The date that is 210 days after the date on which the first payment was due on the mortgage being refinanced, and</li><li>The date on which six consecutive monthly payments have been made on the mortgage being refinance.</li></ul> <p><b>Modified Mortgage</b> For existing mortgage that have been modified, the first payment due date of the new mortgage must be on or after the later of:</p> <ul style="list-style-type: none"><li>The date that is 210 days after the date on which the first modified monthly payment was due on the mortgage being refinanced, and</li><li>The date on which six consecutive modified payments have been made on the mortgage being refinance.</li></ul> <p><b>NOTE:</b> If there is a subordinate lien on the property, such as a Home Equity Line of Credit (HELOC), the entire lien must be subordinated at the time of refinance. For the calculation of the Combined Loan to Value (CLTV) ratio, the mortgagee must use the maximum accessible credit limit of the existing subordinate lien.</p>
Refinance - Rate & Term	<ul style="list-style-type: none"><li>If subject property owned less than 12 months prior to case number assignment date, must base LTV on lesser of appraised value or acquisition cost.</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 appraised value.</li><li>97.75% LTV if owner occupied for previous 12 months or owner occupied since acquisition if acquired within the last 12 months, at case number date.</li><li>85% LTV if the borrower has occupied the property as principal residence for &lt; 12 months prior to case number date; or if owned less than 12 months, has not occupied the property for the entire period of ownership.</li><li>Maximum mortgage cannot exceed statutory limits for the area unless certain criteria are met.</li><li>Subordinate Liens may be re-subordinated, provided:<ul style="list-style-type: none"><li>Must meet FHA requirements for subordinate financing</li><li>Combined amount of new loan plus subordinate lien does not exceed max CLTV allowed.</li><li>Must use the maximum accessible credit limit of existing subordinate liens to calculate the CLTV.</li></ul></li><li>Payoff of subordinate liens must be considered cash out unless seasoned for 12 months or used for documented improvements to the subject property.<ul style="list-style-type: none"><li>HELOCs with draws ≤ \$1,000 in last 12 months ok.</li></ul></li><li>Max cash to borrower may not exceed \$500.00</li><li>For borrowers re-occupying investment property see <a href="#">Occupancy section</a>.</li><li>Housing payment may increase without restrictions.</li><li>Co-borrowers (occupant or non-occupant) and co-signers may be added.<ul style="list-style-type: none"><li>Must increase the strength of the file.</li><li>Follow guidance provided in <a href="#">Co-Borrower section</a>.</li></ul></li></ul> <p><b>Properties Held in Trust</b></p> <ul style="list-style-type: none"><li>UW must complete and certify (<a href="#">Trust Review Checklist</a>), (<a href="#">State Specific Requirements</a>)</li></ul>
Refinance – Simple Refinance	<p>Simple Refinance refers to a no cash-out refinance of an <b>existing</b> 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. Simple Refinance is only permissible for owner-occupied principal residence.</p> <p><b>Required Documentation</b> The lender must review the borrower’s employment documentation or obtain utility bills to evidence the borrower currently occupies the property as their principal residence. See <a href="#">Mortgage Payment History</a> for additional requirements.</p> <p><b>Maximum Loan-to-Value Ratio</b> The maximum LTV/CLTV is:</p> <ul style="list-style-type: none"><li>97.75% for principal residences.</li></ul> <p><b>The Maximum Mortgage Amount is:</b></p> <ul style="list-style-type: none"><li>the lesser of:<ul style="list-style-type: none"><li>The Nationwide Mortgage Limit;</li><li>The Maximum LTV ratio from above; or</li><li>The sum of existing debt and costs associated with the transaction as follows:<ul style="list-style-type: none"><li>Existing debt includes:</li></ul></li></ul></li></ul>

Refinance – Simple Refinance (cont.)	<ul style="list-style-type: none"><li>Unpaid principal balance of the FHA-insured first mortgage as of the month prior to mortgage Disbursement;</li><li>The unpaid balance of any Partial Claim Lien to be extinguished;</li><li>Interest due on the existing mortgage;</li><li>The unpaid balance of any Property Assessed Clean Energy (PACE) obligation;</li><li>Mortgage Insurance Premium (MIP) due on existing mortgage;</li><li>Late charges; and</li><li>Escrow shortages.</li></ul> <ul style="list-style-type: none"><li>Allowed costs include all borrower-paid costs associated with the new mortgage; and</li><li>Borrower-paid repairs required by the appraisal;</li></ul> <ul style="list-style-type: none"><li>Less any refund of the Upfront Mortgage Insurance Premium (UFMIP)</li></ul> <p>For complete details, refer to <a href="#">FHA Handbook 4000.1</a>. Also refer to <a href="#">FHA Simple Refinance Q&amp;A</a>.</p>
Refinance - Streamline	<p><b>Minimum 620 credit score required.</b></p> <p><b>Assessing Upfront and Annual MIP</b> For the purpose of calculating the MIP, FHA uses the original value of the property to calculate the LTV. Review refinance authorization from FHA Connection to ensure using you are using the correct value.</p> <p><b>Mortgage Seasoning Requirements</b> On the date of the FHA case number assignment:</p> <ul style="list-style-type: none"><li>The borrower must have made at least six payments on the FHA-insured mortgage that is being refinanced (where the FHA-insured mortgage has been modified, the borrower must have made at least six payments under the modification agreement);</li><li>At least six full months must have passed since the first payment due date of the mortgage that is being refinanced;</li><li>At least 210 days must have passed from the Closing Date of the mortgage that is being refinanced; and</li><li>If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption.</li></ul> <p>In addition, the following Ginnie Mae Seasoning requirements must also be met:</p> <ul style="list-style-type: none"><li>The borrower made at least six consecutive monthly payment on the loan being refinanced, beginning with the payment made on the first payment due date; and</li><li>The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the refinanced loan.</li></ul>
Prepayment Penalty	<ul style="list-style-type: none"><li>Not permitted</li></ul>
Temporary Buydowns	<ul style="list-style-type: none"><li>Lender paid buydown</li><li>Qualify at note rate</li><li>96.5% Maximum LTV</li><li>Primary Residence</li><li>Purchase Only</li><li>Min 580 credit score required. All borrowers must have a credit score. No manual underwrites.</li><li>Ineligible property types<ul style="list-style-type: none"><li>Manufactured Home</li><li>Leasehold properties</li></ul></li><li>Loans in Texas are not eligible</li></ul>
CREDIT	
Bankruptcy	<p>Chapter 7:</p> <ul style="list-style-type: none"><li>A minimum of 2 years must have elapsed from the event to the new loan case number assignment date. Additionally, the borrower must have re-established good credit or chosen not to incur new credit obligations.</li><li>An elapsed period of less than 2 years, but not less than 12 months, may be acceptable if the borrower can show cause was from an extenuating circumstance beyond their control, such as a serious uninsured illness or death of a wage earner and has since exhibited a documented ability to manage their financial affairs in a responsible manner. The borrower must document that their current situation indicates that the events which led to the bankruptcy are not likely to recur.</li></ul> <p>Chapter 13 in Repayment (requires Manual Underwrite):</p> <ul style="list-style-type: none"><li>A minimum of 1 year of the payout period under the bankruptcy has elapsed and the borrower’s payment performance documents all payments made on time. In addition, the borrower must receive permission from the court to enter into a mortgage transaction.</li></ul> <p>Chapter 13 Discharge (No seasoning requirement if dismissed):</p> <ul style="list-style-type: none"><li>&gt; 2 years from discharge date: Follow AUS.</li><li>&lt; 2 years from discharged date: Loan must be downgraded to a manual underwrite. Refer to <a href="#">FHA Manual Underwriting Guidelines</a>.<ul style="list-style-type: none"><li>Must have a payment history even though bankruptcy is discharged.</li><li>If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the Underwriter must obtain the bankruptcy and discharge documents.</li><li>File must also be documented that the borrower’s current situation indicates that the events which led to the bankruptcy are not likely to continue.</li></ul></li></ul>

Collection Accounts	<p>FHA does not require collection accounts to be paid off as a condition of the loan approval; however, FHA does recognize that collection efforts by the creditor for unpaid collections could affect the borrower’s ability to repay the mortgage. To mitigate the risk FHA is requiring the underwriter follow the below guidelines on collection accounts with an aggregate balance equal to or greater than \$2,000 as described below:</p> <table><tr><th>If...</th><th>And...</th><th>Then...</th></tr><tr><td rowspan="2">The Automated Underwriting System using the Total Scorecard rates the mortgage as Approve/Accept</td><td>The cumulative outstanding balance of all collections of all borrowers (and non-borrowing spouses) is less than \$2,000</td><td>The underwriter is not required to consider or evaluate collection accounts.</td></tr><tr><td>The cumulative outstanding balance of all collections of all borrowers (including non-borrowing spouses) is equal to or greater than \$2,000</td><td><ul style="list-style-type: none"><li>Verify that the debt is paid in full at time of or prior to settlement using acceptable sources of funds.</li><li>Verify that the borrower has made payment arrangements with the creditor and include the monthly payment in the borrower’s DTI; or</li><li>If a 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.</li></ul></td></tr></table> <p><b>Collection accounts of a non-purchasing spouse in a community property state <i>are</i> included</b> in the \$2,000 cumulative balance. The Underwriter must analyze the impact of the borrower’s ability to pay all collection accounts, unless excluded by state law.</p>	If...	And...	Then...	The Automated Underwriting System using the Total Scorecard rates the mortgage as Approve/Accept	The cumulative outstanding balance of all collections of all borrowers (and non-borrowing spouses) is less than \$2,000	The underwriter is not required to consider or evaluate collection accounts.	The cumulative outstanding balance of all collections of all borrowers (including non-borrowing spouses) is equal to or greater than \$2,000	<ul style="list-style-type: none"><li>Verify that the debt is paid in full at time of or prior to settlement using acceptable sources of funds.</li><li>Verify that the borrower has made payment arrangements with the creditor and include the monthly payment in the borrower’s DTI; or</li><li>If a 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.</li></ul>
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Capacity Analysis of Collections and Judgments	<p>Pertains to loans underwritten through Total Score Card and Manually underwritten.</p> <p><b>Collections</b> - In an effort to mitigate risk FHA is requiring a capacity analysis of collection accounts with an aggregate balance equal to or greater than \$2,000. If the total outstanding balance of all collection accounts for all borrowers is equal to or greater than \$2,000, the underwriter must perform a capacity analysis as detailed below. Unless excluded under state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance.</p> <p>Capacity analysis includes any of the following actions:</p> <ul style="list-style-type: none"><li>At the time of or prior to closing, payment in full of the collection account (verification of acceptable source of funds is required.)</li><li>The borrower makes payment arrangements with the creditor, a credit report or letter from the creditor verifying the monthly payment is required. The monthly payment must be included in the borrower’s total DTI.</li><li>If evidence of payment arrangements is not available, the underwriter must calculate the monthly payment using 5% of the outstanding balance of each collection and include the monthly payment in the borrower’s total DTI.</li></ul> <p><b>Notes:</b></p> <ul style="list-style-type: none"><li>Borrowers may not pay down collections to bring the accumulative amount under \$2,000</li><li>Medical collections and all charge offs are excluded from this guidance.</li></ul> <p><b>Judgments (TOTAL)</b> – FHA requires court-ordered judgments to be resolved or paid off prior to or at closing.</p> <ul style="list-style-type: none"><li><b>Exception:</b> A judgment is considered resolved if the borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the borrower has made timely payments for at least three months of scheduled payments <b>and</b> the judgment will not supersede the FHA-insured mortgage lien.<ul style="list-style-type: none"><li>The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments;</li><li>The payment amount in the agreement must be included in the total DTI;</li><li>The lender must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement; and</li><li>The following required documentation must be provided:<ul style="list-style-type: none"><li>Evidence of payment in full, if paid prior to settlement;</li><li>The payoff statement, if paid at settlement; or</li><li>The payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.</li></ul></li></ul></li></ul> <p>FHA requires judgments of a non-borrowing spouse in a community property state to be resolved or paid in full, except for obligations excluded by state law.</p>								
Credit	<p><b>Purchase, Rate and Term and Simple Refinance</b></p> <ul style="list-style-type: none"><li>Minimum 580 Credit Score</li><li>Maximum DTI 56.99% with AUS approval<ul style="list-style-type: none"><li>West Virginia: Maximum DTI is 50.00%</li></ul></li></ul> <p><b>Cash Out Refinance</b></p> <ul style="list-style-type: none"><li>Minimum 580 Credit Score</li><li>Maximum DTI 56.399% with AUS approval</li></ul> <p><b>Manual Underwrites</b></p> <ul style="list-style-type: none"><li>Minimum 580 Credit Score</li><li>Borrowers with no FICO score are eligible. Refer to <a href="#">Non-Traditional Credit</a> Section.</li><li>Streamline – Refer to FHA Streamline Refinance Section</li></ul> <p><b>AUS Approved loans</b></p> <ul style="list-style-type: none"><li>Credit evaluated by AUS, subject to clear CAIVRS, LDP and GSA search results</li></ul>								



Credit Analysis of Collections and Judgments	<p>Collections and judgments may indicate a borrower’s disregard for credit obligations and must be considered in the credit worthiness analysis. The guidance below applies to loans with collection accounts and all judgments. Medical collections and accounts that have been charged off are excluded from this guidance.</p> <p><b>Documentation requirements</b></p> <p>AUS approved loan</p> <ul style="list-style-type: none"><li>There are no documentation or letter of explanation requirements for loans with collection accounts or judgments run through Total Score Card that receive an Approve/Eligible, as these accounts have been taken into account in the Total Score Card decision.</li></ul> <p>For Manual underwritten loan (includes loans that receive approve/eligible and must be downgraded to manual underwrite) See <a href="#">Manual Underwriting Section</a> for examples.</p> <p>The underwriter must document reasons for approving a mortgage when the borrower has collection accounts and judgments.</p> <p>Regardless of the amount of the outstanding collection accounts or judgments, the lender must determine if the collections or judgment was a result of:</p> <ul style="list-style-type: none"><li>The borrower’s disregard for financial obligations;</li><li>The borrower’s inability to manage debt; or</li><li>Extenuating circumstances</li></ul> <p>The borrower must provide a letter of explanation with supporting documentation for each outstanding collection account and judgment. The explanation and supporting documentation must be consistent with other credit information in the file.</p>
Disputed Accounts	<p><b>Disputed Derogatory Credit Accounts (TOTAL)</b></p> <p>Disputed derogatory credit account refers to disputed charge-off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.</p> <p>If the credit report utilized by TOTAL Scorecard indicates that the borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the loan must be downgraded to a Refer and manually underwritten.</p> <p>Exclusion from cumulative balance include:</p> <ul style="list-style-type: none"><li>Disputed medical accounts; and</li><li>Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, the lender must include a copy of the policy report or other documentation from the creditor to support the status of the accounts.</li></ul> <p><b>Note:</b> Disputed derogatory credit accounts of non-borrowing spouse in a community property state <b>are not included</b> in the cumulative balance for determining if the mortgage application is downgraded to a “Refer”</p> <p><b>Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (TOTAL)</b></p> <p>Non-derogatory disputed accounts include the following types of accounts:</p> <ul style="list-style-type: none"><li>Disputed accounts with zero balance,</li><li>Disputed accounts with late payments aged 24 months or greater, and</li><li>Disputed accounts that are current and paid as agreed.</li></ul> <p>If a borrower is disputing non-derogatory accounts or is disputing accounts which are not indicated on the credit report as being disputed, the underwriter is not required to downgrade the application to a “Refer.” However, the underwriter must analyze the effect of the disputed accounts on the borrower’s ability to repay the loan. If the dispute results in the borrower’s monthly debt payment utilized to calculate the total DTI is less than what is indicated on the credit report, the borrower must provide documentation to support the lower payments.</p> <p>Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit.</p>
Federal Tax Repayment	<p>IRS Tax Repayment Plan</p> <ul style="list-style-type: none"><li>If the borrower has a payment plan and there is <b>no</b> tax lien filed against the borrower:<ul style="list-style-type: none"><li>Provide copy of written payment plan signed by the IRS and include payment amount in debt ratio.<ul style="list-style-type: none"><li>If the borrower has recently renegotiated an existing payment plan to include additional taxes (i.e., current tax year liability), the updated payment plan must be provided, and the new payment included in the debt ratio.</li></ul></li><li>Verify payments made as agreed (<i>if applicable</i> – there is no minimum number of months required)<ul style="list-style-type: none"><li>If the borrower has recently renegotiated an existing payment plan to include additional taxes (i.e., current tax year liability) <b>and</b> the new payment is not yet due, the previous payment history must be reviewed to support the borrower’s willingness and ability to repay.</li></ul></li></ul></li><li>If the borrower has a payment plan and there <b>is</b> a tax lien filed against the borrower:<ul style="list-style-type: none"><li>Provide copy of written payment plan signed by the IRS and include payment amount in debt ratio; and</li><li>Verify a minimum of 3 month’s scheduled payments have been made as agreed (cannot be paid in advance)<ul style="list-style-type: none"><li>If the borrower has recently established a payment plan and the payments are not yet due, the borrower is not eligible until a minimum of 3 payments have been made.</li><li>If the borrower has recently renegotiated an existing payment plan to include additional taxes (i.e., current tax year liability), the borrower is not eligible until a minimum of 3 payments have been made at the new payment amount.</li></ul></li><li>Lien must be subordinated to the new first mortgage.</li></ul></li></ul> <p>Note: manual downgrade is not required.</p>

Foreclosure / Deed-in-Lieu / Pre-Foreclosure Sale	<p>A borrower is generally not eligible for a new FHA-insured mortgage if they had a foreclosure, deed-in-lieu of foreclosure or short sale within three years from the date of case number assignment. Exceptions may be granted if exception requirements below are met.</p> <p><b>Foreclosure/Deed in Lieu (TOTAL)</b></p> <p>A minimum of 3 years must have elapsed from the event to the new loan case number assignment date. If the credit report does not verify the date of the transfer of title through the foreclosure or deed-in-lieu of foreclosure, the lender must obtain the foreclosure or deed-in-lieu of foreclosure documents.</p> <p><b>Note:</b> The file must be manually downgraded to a Refer if the borrower had a foreclosure or deed-in-lieu of foreclosure in which title transferred from the borrower is within three years of case number assignment.</p> <p><b>Foreclosure/Deed in Lieu (MANUAL)</b></p> <p>An elapsed period less than 3 years may be acceptable if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious uninsured illness or death of a wage earner and the borrower has re-established good credit since the foreclosure.</p> <p><b>Notes:</b></p> <ul style="list-style-type: none"><li>Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a borrower’s mortgage was current at the time of his/her divorce, the ex-spouse received the property, and the mortgage was later foreclosed.</li><li>The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.</li><li><b>High Balance Cash-out Refi:</b> Cannot have Foreclosure or Deed-in-Lieu in the past 7 years.</li></ul> <p><b>Pre-Foreclosure Sale / Short Sale (TOTAL)</b></p> <p>Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate.</p> <p>The lender must document the passage of three years since the date of the short sale. If the short sale occurred within three years of the case number assignment date, the file must be downgraded to a Refer and manually underwritten. <b>Note:</b> The three-year period begins on the date of transfer of title by short sale.</p> <p>If the credit report does not verify the date of the transfer of title by short sale, the lender must obtain the short sale document.</p> <table><tr><th colspan="2">Guidance for financing a new transaction following a Pre-Foreclosure or Short Sale</th></tr><tr><th>Delinquent Mortgage</th><th>Exception for a borrower current at time of short sale</th></tr><tr><td><ul style="list-style-type: none"><li>Treat as foreclosure. A minimum three years must have elapsed from the event to the new loan case number assignment date.</li><li>If FHA insured loan, CAIVRS will reflect claim paid</li><li>Exceptions may be made to the three-year requirement for isolated cases only if:<ul style="list-style-type: none"><li>The Short Sale was the 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, and</li><li>Credit was satisfactory prior to the circumstances that led to the default</li></ul></li></ul><p>Notes:</p><ul style="list-style-type: none"><li>Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a borrower's loan was current at the time of his/her divorce, the ex-spouse received the property, and there was a subsequent Short Sale.</li><li>The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.</li></ul></td><td><ul style="list-style-type: none"><li>All mortgage payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale; and</li><li>Installment debt payments for the same period were also made within the month due.</li></ul></td></tr></table>	Guidance for financing a new transaction following a Pre-Foreclosure or Short Sale		Delinquent Mortgage	Exception for a borrower current at time of short sale	<ul style="list-style-type: none"><li>Treat as foreclosure. 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Garnishments	<p><b>Alimony, Child Support, and Maintenance (TOTAL)</b></p> <p>For alimony, if the borrower’s income was not reduced by the amount of the monthly alimony obligation in the lender’s calculation of the borrower’s gross income, include the monthly obligation in the calculation of the borrower’ debt.</p> <p>Child support and maintenance are to be treated as a recurring liability and the lender must include the monthly obligation in the borrower’s liabilities and debt.</p> <p>To verify the borrower’s monthly obligation the following documentation is required:</p> <ul style="list-style-type: none"><li>Official signed divorce decree, separation agreement, maintenance agreement, or other legal order, and</li><li>Borrowers’ paystubs covering no less than 28 consecutive days to verify whether the borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.</li></ul> <p>The lender must calculate the borrower’s monthly obligations from the greater of:</p> <ul style="list-style-type: none"><li>The amount shown on the most recent decree or agreement establishing the borrower’s payment obligations; or</li><li>The monthly amount of the garnishment.</li></ul>						
Mortgage Credit Reject	<p>If the Borrower has a mortgage credit reject from a previous lender the file must contain information to support the decision to override the previous reject. These will not be overturned without the documentation supporting the previous reject was erroneous or new information the previous lender may not have had.</p>						

Mortgage Payment History	<p>A borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original note is not considered delinquent or late and shall be treated as if not in forbearance provided the forbearance plan is terminated at or prior to closing.</p> <p><b>Purchase and Rate/Term Transactions</b></p> <p>Loan must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the 12 months prior to case number assignment reflects:</p> <ul style="list-style-type: none"><li>• Three or more late payments greater than 30 days.</li><li>• One or more late payments of 60 days plus one or more 30-day late payments.</li><li>• One payment greater than 90 days late or</li><li>• That the borrower has made less than three consecutive payments since completion of a mortgage forbearance plan.</li></ul> <p>For both purchase and no cash-out refinance transactions, 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 payments. In addition, where a mortgage has been modified, the borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.</p> <p>A mortgage that has been granted forbearance must utilize the payment history in accordance with the forbearance plan for the time period of forbearance in determining late housing payments. Where any mortgage in forbearance will remain open after the closing of the new FHA-insured mortgage, the forbearance plan must be terminated at or prior to closing. Any borrower who is granted a forbearance and is otherwise performing under the terms of the forbearance plan is not considered to be delinquent for purposes of credit underwriting.</p> <p><b>Simple Refinance Transactions (Manual Underwrite)</b></p> <p>For all mortgages with less than six months of mortgage payment history, the borrower must have made all payments within the month due.</p> <p>For all mortgages 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.</p> <p>A borrower who was granted mortgage payment forbearance must have:</p> <ul style="list-style-type: none"><li>• Completed the Forbearance Plan on the subject property; and</li><li>• Made at least three consecutive mortgage payments within the month due on the mortgage since completing the forbearance plan.</li></ul> <p>The borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage disbursement.</p> <p><b>Required Documentation</b></p> <p>If the mortgage on the subject property is not reported in the borrower’s credit report, the lender must obtain a verification of mortgage to evidence payment history for the previous 12 months.</p> <p>Where a mortgage reflects payments under a modification or forbearance plan within the 12 months prior to case number assignment, the lender must obtain:</p> <ul style="list-style-type: none"><li>• A copy of the modification or forbearance plan; and</li><li>• Evidence of the payment amount and date of payments during the forbearance term.</li></ul> <p><b>Note:</b> A forbearance plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.</p> <p><b>Cash-Out Refinance Transactions</b></p> <p>Loan must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, reflects:</p> <ul style="list-style-type: none"><li>• A current delinquency.</li><li>• Any delinquency within 12 months of the case number assignment date; or</li><li>• The borrower has made less than 12 consecutive monthly payment since completion of a mortgage forbearance plan.</li></ul> <p>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 payments.</p> <p>Where a borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original note, the mortgage is not required to be downgraded to a Refer provided the forbearance plan is terminated at or prior to closing.</p> <p><b>Required Documentation</b></p> <p>Where a mortgage reflects payments under a modification or forbearance plan within the 12 months prior to case number assignment, the lender must obtain:</p> <ul style="list-style-type: none"><li>• A copy of the modification or forbearance plan; and</li><li>• Evidence of the payment amount and date of payments during the agreement terms.</li></ul> <p><b>Note:</b> A forbearance plan is not required if the forbearance was due to the impacts of COVID-19.</p>
Non-Purchasing Spouse in a Community Property State	<p>Community Property States: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin.</p> <p><b>Note:</b> Alaska is not considered a community property state; however, the preliminary title report should be reviewed thoroughly to verify there are no exceptions that refer to a community property agreement or a community property trust. If there are exceptions, request the underlying documents from title and evaluate for community debt. If there is any community debt, a non-borrowing spouse credit report is required.</p> <p>If the property being insured is in a community property state, or the borrower resides in a community property state, debts of the non-borrowing spouse must be included in the borrower’s qualifying ratios, except for obligations specifically</p>

<p><b>Non-Purchasing Spouse in a Community Property State (cont.)</b></p>	<p>excluded by state law. The lender must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration. The following requirements apply:</p> <ul style="list-style-type: none"> <li>▪ A credit report for the non-borrowing spouse is required to determine joint and individual debts. The non-borrowing spouse authorization to pull a credit report must be obtained. If the non-borrowing spouse refuses to provide authorization for the credit report, the loan must be rejected. <ul style="list-style-type: none"> <li>○ Even if the non-borrowing spouse does not have a social security number a credit report is required.</li> <li>○ The credit report for the non-borrowing spouse should not be a joint report, it must be obtained separately.</li> </ul> </li> <li>▪ Obligations must be considered in the qualifying ratios. <ul style="list-style-type: none"> <li>○ Disputed debts of the non-borrowing spouse need not be counted provided the file contains documentation to support the dispute.</li> <li>○ The non-borrowing spouse’s credit history is not considered a reason to deny the loan.</li> </ul> </li> </ul> <p>For specific requirements on how to handle non purchasing spouse’s collections, judgments and/or disputed accounts, refer to the following sections of these guidelines:</p> <ul style="list-style-type: none"> <li>• Collection accounts and Judgments</li> <li>• Capacity Analysis</li> <li>• Disputed accounts</li> </ul>
<p><b>Non-Traditional Credit</b></p>	<p>For borrower(s) without a traditional credit history, the lender must independently develop the borrowers credit history using the requirements outlined below.</p> <p>Independently verify the borrower’s credit references by documenting the existence of the credit provided and that the provider extended credit to the borrower.</p> <ul style="list-style-type: none"> <li>• To verify the existence of each credit provider, the lender must review public records from the state, county, or city or other documents providing a similar level of objective information.</li> <li>• To verify credit information, the lender must: <ul style="list-style-type: none"> <li>○ Use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant, and</li> <li>○ Obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.</li> </ul> </li> <li>• To verify the borrower’s rental payment history, the lender must obtain a rental reference from the appropriate rental management company, provided the borrower is not renting from a family member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.</li> </ul> <p><b>Sufficiency of Credit References</b></p> <p>Group I: To be sufficient to establish the borrower’s credit, the credit history must include three credit references, <b><i>including at least one of the following</i></b>:</p> <ul style="list-style-type: none"> <li>• Housing payments (subject to additional verification if rental payments such as 12 months consecutive cancelled checks or verification from professional property management company)</li> <li>• Utility bills including: <ul style="list-style-type: none"> <li>○ Gas</li> <li>○ Electric</li> <li>○ Water</li> <li>○ Home telephone (<u>landline</u>)</li> <li>○ Cable</li> </ul> </li> </ul> <p>Group II: If the lender cannot obtain all three credit references from the list above, the lender may use the following sources of unreported recurring debt:</p> <ul style="list-style-type: none"> <li>• Insurance premiums that are not payroll deducted (e.g., medical, auto, life, renter’s insurance, etc.)</li> <li>• Payment to childcare providers</li> <li>• School tuition</li> <li>• Retail store credit cards (e.g., from department, furniture/appliance, or specialty stores)</li> <li>• Rent-to-own (e.g., furniture, appliances)</li> <li>• Payment of medical bills not covered by insurance</li> <li>• <u>Internet or cell phone bills</u></li> <li>• A documented 12-month history of savings evidenced by regular non-payroll deducted deposits which occurred at least quarterly with an increasing account balance with no non-sufficient funds’ checks.</li> <li>• Car lease</li> <li>• Personal loan with documented written repayment terms. 12-month canceled checks required to document payment.</li> </ul> <p><b>Ineligible Transactions</b></p> <ul style="list-style-type: none"> <li>• Temporary Buydowns</li> <li>• Streamline Refinances (without credit score)</li> <li>• High Balance (without credit score)</li> </ul>
<p><b>Previously Modified Loan</b></p>	<p>When borrowers have a loan modification on any real estate owned, the following must be met:</p> <ul style="list-style-type: none"> <li>• Borrower must have made all payments as agreed per the modification agreement. The modification agreement cannot state any occupancy requirements. <ul style="list-style-type: none"> <li>○ If occupancy requirements are stated in the modification agreement, then a letter must be obtained from the lender indicating it is ok to vacate the property.</li> </ul> </li> </ul> <p>See <a href="#">Mortgage Payment History Section</a> for guidance with mortgage payment forbearance for refinances.</p>

Qualifying Ratios	Total Scorecard and Manual Underwrites	
	30-Day Accounts	<p>For 30-day accounts the lender must verify the borrower paid the outstanding balance in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the past 12 months, the lender must use 5% of the outstanding balance in the DTI.</p> <ul style="list-style-type: none"><li>The lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The lender must use the credit report to document the balance and must document that funds are available to pay off the balance in excess of the funds and reserves required to close the loan.</li></ul>
	Authorized User Accounts	<p>Accounts for which the borrower is an authorized user must be included in the borrower's DTI unless:</p> <ul style="list-style-type: none"><li>The mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months.</li><li>If less than 3 payments have been required on the account in the previous 12 months, the payment amount must be included in the DTI</li></ul>
	Business Debt in Borrowers Name	<p>Business debt in borrowers name refers to liabilities reported on the borrower's personal credit report, but payment for the debt is attributed to the borrower's business.</p> <p>When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI ratio, unless all of the following documentation can be provided. (Note: account being excluded must be an account that is used for business that is in borrower personal name. (i.e., auto loan for auto needed for business etc. regular credit accounts i.e., student loans etc. are not considered business debt.)</p> <ul style="list-style-type: none"><li>12 months cancelled checks showing the business pays the debt directly to the lien holder; <b>and</b><ul style="list-style-type: none"><li>(Note: business account used to pay these debts cannot be a co-mingled account i.e., if this is the only account borrower has and they pay all bills, groceries etc. through this account it is not an eligible account.)</li></ul></li><li>Evidence the business writes the debt off through the business as evidenced by the most recent 1040's or business returns.</li></ul>
	Closed-end Debt	<p>Closed in debt that will be paid off within 10 months from the closing date may only be excluded from the ratios if:</p> <ul style="list-style-type: none"><li>Cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income, and</li><li>The borrower may not pay down the balance in order to meet the 10-month requirement.</li></ul>
	Contingent Liability	<p>A contingent liability (also known as co-signed obligations) refers to a liability that may result in the obligation to repay when a specific event occurs. Contingent liabilities may include cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability. Contingent liabilities must be included in the debt ratio unless:</p> <ul style="list-style-type: none"><li>The lender verifies and documents that there is no possibility that the debt holder will pursue debt collection against the borrower should the other party default (i.e., evidence other party making the payments is the party that is obligated on the liability); <b>or</b></li><li>12 months cancelled checks showing other party obligated on the liability has made regular on-time payments during the previous 12 months; <b>and</b><ul style="list-style-type: none"><li>If any payments are made 30 days or more late in past 12 months, debt must be included in the DTI ratio regardless of number of cancelled checks provided.</li></ul></li><li><b>Note:</b> If the cosigned liability is not included in the monthly obligation, the lender must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.</li></ul>
	Contingent Liability – Mortgage Assumptions	<p>Must obtain the agreement creating the contingent liability or assumption agreement deed showing transfer of title out of the borrower's name.</p>
	Deferred Obligations	<p>Deferred obligations including loans in forbearance, (excluding student loans) regardless of when they will commence, must be included in the qualifying ratios and must use the actual payment, whenever available. If the actual monthly payment is not available, utilize the terms of the debt or 5% of the outstanding balance to establish the monthly payment. Must provide evidence of:</p> <ul style="list-style-type: none"><li>The deferral.</li><li>The outstanding balance.</li><li>The terms of the liability; and</li><li>The anticipated monthly payment.<ul style="list-style-type: none"><li>If the above is not available than 5% of the outstanding balance must be utilized to establish the monthly payment.</li></ul></li></ul>



Qualifying Ratios (cont.)	<div><div>Installment Loans</div><div>Installment loans, including a loan secured by an interest in a timeshare, (excluding student loans) must use:<ul style="list-style-type: none"><li>The monthly amount shown on the credit report- no further documentation is required.</li><li>The loan agreement; or</li><li>Payment statement</li></ul><p>If the credit report does not include a monthly payment; or the payment on the credit report is greater than the payment on the loan agreement or payment statement, the lender must obtain a copy of:</p><ul style="list-style-type: none"><li>The loan agreement; or</li><li>Payment statement documenting the amount of the monthly payment.</li></ul><p><b>Note:</b> If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment loan, refer to Deferred Obligations section above.</p></div><div><div>Student Loans</div><div>Student loans must be included in the qualifying ratios, regardless of payment type or status of payment. If the payment used for the monthly obligation is less than the monthly payment reported on the borrower’s credit report, the lender must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.</div><div>The payment may be excluded from the borrower’s monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.</div><div>For outstanding student loans, regardless of payment status, use:<ul style="list-style-type: none"><li>The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or</li><li>0.5% of the outstanding loan balance, when the monthly payment reported on the borrower’s credit report is zero.</li></ul></div><div>Exception: Where a student loan payment has been suspended in accordance with COVID-19 emergency relief, the lender may use the payment amount reported on the credit report or the actual documented payment prior to suspension, when that payment amount is above \$0.</div></div></div>
Undisclosed Mortgage Debt	<div><div>TOTAL</div><div>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 lender must obtain one of the following that reflects an acceptable mortgage payment history in accordance with <a href="#">Mortgage Payment History Section</a>:<ul style="list-style-type: none"><li>A copy of the note and either:<ul style="list-style-type: none"><li>A bank statement or canceled checks;</li></ul></li><li>A credit report supplement; or</li><li>A verification of mortgage.</li></ul><p>The Mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:</p><ul style="list-style-type: none"><li>A current delinquency.</li><li>Any delinquency within 12 months of the case number assignment date; or</li><li>More than two 30 Day late payments within 24 months of the case number assignment date.</li></ul><p>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.</p></div></div>
Verification of Rent (VOR)	<div><div>Manual Underwrites</div><div><ul style="list-style-type: none"><li>Borrowers who state they are living rent free must:<ul style="list-style-type: none"><li>Provide proof of ownership for the property <b>and</b></li><li>Obtain a letter from the property owner where they are residing indicating that the borrower has been living rent free, the amount of time the borrower has been living rent free and include the owner’s contact information; <b>or</b></li><li>Provide fully completed VOR; <b>or</b></li><li>Provide credit supplement for the VOR</li></ul></li></ul></div></div>
INCOME	
Employment / Income	<div><ul style="list-style-type: none"><li>Refer to <a href="#">4000.1</a> for all income types</li><li>All loans require an IRS Form 4506-C<ul style="list-style-type: none"><li>Form 4506-C must be processed per AUS<ul style="list-style-type: none"><li>Non arm’s length transaction requires transcripts W-2 or 1040 whichever is applicable</li><li>Handwritten paystubs require transcripts W-2 or 1040 whichever is applicable</li></ul></li></ul></li><li>One of the following must be obtained to verify current employment and income:<ul style="list-style-type: none"><li>The most recent pay stub and a written VOE covering two years; or</li><li>Direct electronic verification of employment by a Third-Party Verification (TPV) vendor covering two years, subject to the following requirements:<ul style="list-style-type: none"><li>The borrower has authorized the lender to verify income and employment; and</li><li>The date of the data contained in the completed verification conforms with FHA requirements.</li></ul></li><li>Verbal or electronic re-verification of employment within 10 days prior to Note date is required. Electronic re-verification employment data must be current within 30 days of the date of the verification.</li></ul></li></ul><div><div>Frequent Job Changes / Changes in Line of Work</div><div>If a borrower has changed jobs more than 3 times in the prior 12-month period OR the borrower has changed their line of work, the Lender must take additional steps to verify, document and analyze the stability of the borrower’s income and obtain:<ul style="list-style-type: none"><li>Transcripts of training and education demonstrating qualification for the new position, or</li></ul></div></div></div>

Employment / Income (cont.)	<ul style="list-style-type: none"><li>Employment documentation evidencing continual increases in income and/or benefits</li></ul> <p><b>Borrowers Returning to Work After Extended Absences</b></p> <p>A borrower’s income may be considered effective and stable when recently returning to work after an extended absence (6 months or more) if he/she:</p> <ul style="list-style-type: none"><li>Is employed in the current job for six months or longer at the time of case number assignment; and</li><li>Can document a two-year work history prior to the absence from employment using:<ul style="list-style-type: none"><li>Traditional employment verification, and/or</li><li>Copies of W-2 forms or pay stubs.</li></ul></li></ul> <p><b>Self-Employed Borrowers</b></p> <ul style="list-style-type: none"><li>A P&amp;L and balance sheet is required if more than a calendar quarter has elapsed since the date of the most recent calendar or fiscal-year end tax return was filed by the borrower.<ul style="list-style-type: none"><li>A Balance Sheet is not required for Schedule C borrowers.</li></ul></li><li>If income used to qualify the borrower exceeds the two-year average of tax returns, an audited P&amp;L or signed quarterly tax returns obtained from the IRS are required.</li><li>Income from a business with a greater than 20% decline in income over the analysis period is not acceptable.<ul style="list-style-type: none"><li>If using an AUS, the lender must downgrade to manual underwriting.</li><li>If there has been a 20% or greater decline, the income is still deemed stable if:<ul style="list-style-type: none"><li>The reduction was the result of documented extenuating circumstances,</li><li>The income has been stable or increasing for at least 12 months, and</li><li>The borrower qualifies using the reduced income.</li></ul></li></ul></li></ul>
Vacating Current Residence	<p>Rental Income from property being vacated cannot be used to qualify unless the following circumstance is met:</p> <ul style="list-style-type: none"><li>The borrower must be relocating to an area more than 100 miles from their current principal residence and have 25% equity in the vacating home.<ul style="list-style-type: none"><li>Must obtain a lease agreement of at least one year’s duration after the mortgage is closed and</li><li>Evidence of the security deposit and/or first month’s rent was paid to the homeowner</li><li>If no history of rental income since the last tax filing, obtain a full interior/exterior appraisal evidencing market rent and that the borrower has at least 25% equity (includes vacating and other owned properties).</li></ul></li></ul>
ASSETS	
Assets/Down Payment	<p>Borrower Investment - Purchase transactions with Maximum Financing</p> <ul style="list-style-type: none"><li>Minimum down payment is 3.5%</li><li>The 3.5% cannot be met by borrowers-paid closing costs, prepaid expenses, commitment fees, discount points or premium pricing.</li><li>Salary Advance cannot be considered for cash to close.</li></ul> <p><b>Access Letter Requirements</b></p> <ul style="list-style-type: none"><li>Not required</li></ul> <p><b>Documenting large/non-payroll deposits</b></p> <p>Applies to both Accept/Approve from Total Scorecard and Manual Underwrites:</p> <ul style="list-style-type: none"><li>Verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1% of the property sales price or is excessive based on the borrower’s history of accumulating savings, by obtaining:<ul style="list-style-type: none"><li>A copy of the borrower’s cancelled check.</li><li>Certification from the deposit-holder acknowledging receipt of funds; or</li><li>A VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or</li><li>Direct electronic verification by a TPV vendor, subject to the following requirements:<ul style="list-style-type: none"><li>The borrower has authorized the lender to verify assets.</li><li>The date of the completed verification conforms with FHA requirements; and</li><li>The information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.</li></ul></li><li>If the source of the earnest money deposit was a gift, then all Gift requirements apply and must be met</li><li>If the deposit(s) are unable to be sourced, then the funds may be backed out; however, an explanation is still required</li></ul></li><li>For recently opened checking and savings accounts and recent individual deposits of more than 1% of the adjusted value, the lender must obtain documentation of the deposits and certify that no debts were incurred to obtain part or all of the minimum required investment.<ul style="list-style-type: none"><li>For cumulative deposits less than 1% of the property sales price: Follow the AUS findings</li></ul></li><li>If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the borrower has full access and use of the funds.</li></ul> <p><b>Manually Underwritten loans and AUS downgrades:</b></p> <ul style="list-style-type: none"><li>If there is a large increase in an account, or the account was recently opened the lender must obtain from the borrower a credible explanation and documentation of the source of the funds.<ul style="list-style-type: none"><li>Large deposits are any deposit out of the ordinary for the borrower’s income and habits (i.e., if the borrower is on direct deposit and there are other deposits other than borrower’s income these must be explained and documented)</li><li>If the deposit(s) are unable to be sourced or is cash they may be backed out; however, an explanation is still required.</li><li>If the borrower does not hold the deposit account solely, all non-borrowers on the account must provide a written statement that the borrower has full access and use of the funds.</li></ul></li></ul>

<b>Gift Funds</b>	<ul style="list-style-type: none"> <li>Refer to <a href="#">Asset Documentation Job Aid</a> for specific details.</li> <li>An outright gift of the cash investment is acceptable if it is coming from an acceptable source and meets the requirements below.</li> <li>For funds to be considered a gift, <b>there must be no expected or implied repayment</b> of the funds to the donor by the borrower.</li> <li>For AUS loans only: Any portion of the gift not used to meet closing requirements may be counted as reserves.</li> <li>Must provide proper documentation of gift from donor to borrower <ul style="list-style-type: none"> <li>Fully executed gift letter</li> <li>Donor ability</li> <li>Evidence of transfer and receipt of gift funds</li> </ul> </li> <li>Gift given in the form of cash is not acceptable.</li> <li>Acceptable sources include: <ul style="list-style-type: none"> <li>The borrower's family member (refer to <a href="#">Family Member definition</a>)</li> <li>The borrower's employer or labor union</li> <li>A close friend with a clearly defined and documented interest in the borrower</li> <li>Federal, State, local government agencies and HUD Approved non-profit agencies considered an instrumentality of government may provide funds for down payment, closing cost and prepaid expenses only with a program approved by Product Development. Refer to Secondary Financing section.</li> </ul> </li> </ul> <p><b>Note:</b> "Forgivable" second liens (i.e., no repayment if the homeowner remains in the home for five years) are <b>not</b> gifts and are subject to additional secondary financing requirements.</p> <ul style="list-style-type: none"> <li>Charitable Organizations may provide gift funds for down payment, closing costs and/or prepaid expenses. Funds derived from these sources cannot be used to pay off borrower's debts. <ul style="list-style-type: none"> <li>Obtain Tax Identification Number for the charitable organization</li> <li>Prior to loan underwriting approval, Underwriter must review the non-profit's gift documentation to ensure no repayment is required and no liens will be placed on the subject property because of the gift.</li> </ul> </li> </ul> <p><b>Gifts of Equity</b></p> <ul style="list-style-type: none"> <li>Only family members may provide equity credit as a gift on Property being sold to other Family Members</li> <li>A Gift letter must be obtained signed and dated by the donor and borrower that includes the following: <ul style="list-style-type: none"> <li>The donor's name, address, and telephone number.</li> <li>The donor's relationship to the Borrower.</li> <li>The dollar amount of the gift; and</li> <li>A statement that no repayment is required</li> </ul> </li> </ul>
<b>Reserves</b>	<ul style="list-style-type: none"> <li>1 &amp; 2 units – None</li> <li>3 &amp; 4 units - 3 months PITIA. This requirement cannot come from a gift.</li> <li>If using "significant reserves" as a compensating factor, a minimum of 3 months PITIA should be documented.</li> </ul> <p>Only retirement accounts that are accessible for liquidation may be counted as reserves. Accounts that cannot be accessed by the borrower for liquidation (PERS or STRS retirement for example) until retirement may not be counted as the borrower reserves.</p>
<b>Secondary Financing</b>	<p>When allowed and subject to Product Development Approval.</p> <ul style="list-style-type: none"> <li>The borrower may receive secondary financing to cover the entire cash investment requirement only from the following sources: <ul style="list-style-type: none"> <li>Federal, state or local government agencies</li> <li>HUD Approved Non-Profit agencies that <b>are</b> considered instrumentalities of government. <b>Note:</b> If the HUD Approved Non-Profit is NOT considered an instrumentality of government the borrower is required to make a cash investment of at least a 3.5% from their own funds.</li> </ul> </li> <li>Other Organizations and Private Individuals may also provide secondary financing under the following conditions: <ul style="list-style-type: none"> <li>An "Other Organization" <b>cannot</b> be a non-HUD approved nonprofit.</li> <li>The secondary financing is disclosed at the time of application (cannot be added later).</li> <li>The required minimum cash investment is not financed. The borrower must make the appropriate down payment requirement. (i.e., 3.5%)</li> <li>The amount of the insured first mortgage does not exceed FHA mortgage limits for the area where the property is located.</li> <li>The combined loan-to-value (CLTV) ratio of the first and subordinate liens does not exceed the applicable FHA loan-to-value (LTV) limit. (i.e., 96.5% for purchases).</li> <li>There is <b>no</b> balloon payment.</li> <li>There is <b>no</b> negative amortization.</li> <li>There is no prepayment penalty.</li> <li>The required monthly payment on the insured mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges cannot exceed the borrower's reasonable ability to pay.</li> <li>Any periodic payments due on the second mortgage must be calculated as an equal monthly payment.</li> </ul> </li> <li>Secondary financing funds may be provided by a family member. <ul style="list-style-type: none"> <li>100% of funds for down payment, closing cost, prepaid expenses and discount points may be from a secured or unsecured loan from a family member.</li> <li>Family member defined as a spouse, parent, grandparent, child, including son, daughter, stepson, stepdaughter, and legally adopted child.</li> </ul> </li> <li>The interest rate on the second mortgage may not exceed the interest rate on the 1<sup>st</sup> deed for borrowers over 60 years of age (FHA approved DPA's not included)</li> <li>All secondary financing must meet FHA guidelines.</li> <li>All Community Seconds/Down Payment Assistance programs (DPAs) must be approved by Product Development prior to submitting to underwriting.</li> </ul>
<b>Seller Contributions</b>	<p>Maximum of 6%. Limited to the following items:</p> <ul style="list-style-type: none"> <li>Discount points</li> <li>Seller-paid closing costs, including any items paid outside of closing (POC)</li> <li>Prepaid Expenses</li> <li>Upfront MIP when it is not financed</li> </ul>

PROPERTY	
Appraisal Requirements	<p><b>Agricultural Use of Subject Property-</b> allowed subject to the following:</p> <ul style="list-style-type: none"><li>Property use must be primarily residential in nature - max 25% of property used for agricultural purpose as evidenced by percentage of business use on tax returns,</li><li>Appraisal must reflect Single Family Residential as the highest and best use, and</li><li>Farm income (if any) must not be a significant source of income -max 10% of total income.</li><li>Farm income from subject property may not be used to qualify.</li></ul> <p>Multiple Parcels with <b>single</b> APN (considered same as single parcel):</p> <ul style="list-style-type: none"><li>Parcels must be contiguous (adjoining)</li></ul> <p>Multiple Parcels with <b>multiple</b> APNs:</p> <ul style="list-style-type: none"><li>Parcels must be contiguous (adjoining)</li><li>Must have evidence that parcels have the same ownership</li><li>Entire property may contain more than one dwelling unit, provided Appraiser specifically confirms that the multiple dwellings:<ul style="list-style-type: none"><li>Represent highest and best use, and</li><li>Are legally permitted</li></ul></li><li>Each parcel must be conveyed in its entirety<ul style="list-style-type: none"><li>Subject transaction Deed must contain a complete legal description of all parcels/lots and must specifically reference and describe each lot or parcel in its entirety</li><li>Subject transaction Mortgage must encumber all improvements and all parcels/lots.</li></ul></li></ul>
Escrow Repair	<ul style="list-style-type: none"><li>Eligible on HUD REO with escrow repair only</li></ul>
Private Roads	<ul style="list-style-type: none"><li>For requirements on private roads, refer to <a href="#">FHA FAQ</a></li></ul>
Private Transfer Fee	<ul style="list-style-type: none"><li>Also referred to as a Community Transfer Fee. Refer to <a href="#">Private Transfer Fee Job Aid</a></li><li>Credit Score 580-619 not eligible with this fee.</li></ul>
Property Tax Calculator	<p>For purchase transactions, use the following property tax calculators:</p> <ul style="list-style-type: none"><li><a href="https://smartasset.com/taxes/property-taxes">https://smartasset.com/taxes/property-taxes</a></li><li><a href="http://www.tax-rates.org/property-tax-calculator">http://www.tax-rates.org/property-tax-calculator</a></li></ul>
Property Flipping Restriction	<ul style="list-style-type: none"><li>Re-sales occurring 90 days or less following seller acquisition are not eligible.</li><li>Re-sales occurring 91-180 days with 100% or more increase in value since seller acquisition must include a second appraisal.<ul style="list-style-type: none"><li>If the second appraisal supports a value of the property that is more than 5% lower than the value of the first appraisal, the lower value must be used as the Property Value in determining the Adjusted Value. The cost of the second appraisal may not be charged to the borrower.</li></ul></li></ul> <p><b>Note:</b> The Resale Date refers to the date all parties have executed the sales contract that will result in the FHA-insured mortgage for the resale of the property.</p> <p><b>Exceptions to time restrictions on resale above do not apply to the following and must be supported in the loan file when submitted for insurance:</b></p> <ul style="list-style-type: none"><li>Properties acquired by an employer or relocation agency in connection with the relocation of an employee.</li><li>Resales by HUD under its REO program.</li><li>Sales by other U.S. government agencies of single-family properties pursuant to programs operated by these agencies.</li><li>Sales of properties by nonprofits approved to purchase HUD owned single family properties at a discount with resale restrictions.</li><li>Sales of properties that were acquired by the sellers by inheritance.</li><li>Sales of properties by state and federally chartered financial institutions and government sponsored enterprises (GSE).</li><li>Sales of properties by local and state government agencies; and</li><li>Sales of properties within PDMDAs, only upon issuance of a notice of an exception from HUD.</li></ul> <p><b>Note: The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a borrower planning to use FHA-insured financing.</b></p> <p><b>Resale Occurring 91 days – 12 months following acquisition</b></p> <ul style="list-style-type: none"><li>If the resale price is 100% or more than the seller’s acquisition cost, a second appraisal is required even if there is documentation retained in the file that supports the cost and extent of rehabilitation.<ul style="list-style-type: none"><li>Example: seller acquired the property for \$40,000 and is reselling for \$80,000.</li></ul></li><li><b>181 days – 12 months – Standard guidelines apply.</b></li></ul>
Property Types	<p><b>Eligible</b></p> <ul style="list-style-type: none"><li>1-2 Units<ul style="list-style-type: none"><li>A one-unit property is a single-family residential <b>one-unit</b> property with a <b>single ADU remains a one-unit property. For any single family residential property with two or more units, a separate additional dwelling unit must be considered as an additional unit.</b></li></ul></li><li>3-4 Units<ul style="list-style-type: none"><li>A three- to four-unit property is either:<ul style="list-style-type: none"><li>A single-family residential property with three or four individual dwelling units; or</li><li>A single-family residence property with two individual dwelling units and one ADU or three individual dwelling units and one ADU.</li></ul></li><li>Net rents from all units (including primary unit) must be equal to or exceed mortgage payment. (Net rent is calculated using the allowable vacancy factor for the applicable FHA HOC)</li></ul></li><li>PUD (projects do not require HUD approval)</li><li>Modular Pre-Cut/Panelized Housing</li><li>Property must be rated C4 or better by Appraiser.</li><li>Condos – If the project is not currently approved processor to submit to HUD for approval.<ul style="list-style-type: none"><li>Condos and attached PUD’s require HO-6 Insurance</li></ul></li></ul>

Property Types (cont.)	<ul style="list-style-type: none"> <li>○ A Condominium Unit must be either located within an FHA-approved Condominium Project, meet FHA’s definition of a Site Condominium, or have completed the FHA Single Unit Approval process before a mortgage can be insured.</li> <li>○ FHA Condo approval is required on all properties except: <ul style="list-style-type: none"> <li>▪ Site Condos – refer to <a href="#">SF Handbook 4000.1</a> for requirements including insurance requirements that state the unit owner must be responsible for all insurance and maintenance costs, excluding landscaping, of the Site Condominium.</li> <li>▪ FHA-to-FHA Transactions <ul style="list-style-type: none"> <li>• Project approval <b>is not</b> required for FHA/HUD Real Estate Owned (REO) loan transactions that will be FHA-insured. However, if the condominium project has an assigned project id, mortgagees should enter this information when the FHA case number is requested.</li> <li>• Project approval <b>is not</b> required for FHA-FHA streamline refinance transactions, notwithstanding whether such transactions require an appraisal. However, if the condominium project has an assigned project id, mortgagees should enter this information when the FHA case number is requested.</li> </ul> </li> </ul> </li> <li>○ FHA may suspend the issuance of new FHA case numbers for a mortgage on a unit in a condo project when the FHA insurance concentration exceeds 10 percent of the total number of units in a condo project with 20 or more units. Projects with less than 20 units, the number cannot exceed two.</li> <li>• Manufactured homes (must meet FHA property requirements)</li> <li>• Agricultural Use of Subject Property – Refer to <a href="#">Appraisal Section</a> for eligibility requirements.</li> <li>• New Construction – Refer to <a href="#">FHA New Construction Financing Job Aid</a> and <a href="#">Required Documentation checklist</a> for requirements.</li> </ul> <p><b>Accessory Dwelling Unit</b>  An Accessory Dwelling Unit (ADU) refers to a <b>single</b> habitable living unit <b>with means of separate ingress and egress that meets HUD minimum requirements for a living unit. An ADU is a private space that is subordinate in size and can be</b> added to, created within, or detached from a primary one-unit single family dwelling, which together constitute a single interest in real estate.</p> <p><b>Ineligible Property Types</b></p> <ul style="list-style-type: none"> <li>• Properties with C5 or C6 condition ratings</li> <li>• Condotels</li> <li>• Non-Warrantable Condo</li> <li>• Working farms</li> <li>• Co-ops</li> <li>• Indian/Tribal Lands</li> <li>• HUD Section 184</li> <li>• Land Trust</li> <li>• Leasehold estate condo projects</li> </ul>
Solar / Energy Improvements	<ul style="list-style-type: none"> <li>• Refer to <a href="#">Solar / Energy Improvements Job Aid</a></li> </ul>
Special Airport Hazards	<ul style="list-style-type: none"> <li>• Refer to <a href="#">SF Handbook 4000.1</a> for requirements. Existing properties located within Runway Clear Zones (aka Runway Protection Zones) must obtain a borrower’s acknowledgement of the hazard.</li> <li>• New construction properties located within Runway Clear Zones are not eligible.</li> </ul>
Termites	Termite / Pest inspection and clearance is required if: <ul style="list-style-type: none"> <li>• Appraiser indicates there may be active infestation (i.e., mention of dry rot, exposed warped wood, etc.) OR</li> <li>• Settlement Statement reflects fees for termite report being paid through escrow.</li> </ul>
Unpermitted Additions	<ul style="list-style-type: none"> <li>• Refer to <a href="#">SF Handbook 4000.1</a> for examples of legal / illegal uses.</li> </ul>
Water Supply Systems (Wells)	<ul style="list-style-type: none"> <li>• Refer to <a href="#">SF Handbook 4000.1</a> for requirements. <ul style="list-style-type: none"> <li>○ Properties with Individual Purification Water Systems are ineligible.</li> </ul> </li> </ul>



FHA MANUAL UNDERWRITING		
General Information	A manual downgrade becomes necessary if additional information, not considered in the AUS/ TOTAL decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an “accept” or “approve”.	
	Some examples of why a loan may be considered a “Manual Underwrite”: <ul style="list-style-type: none"><li>AUS Refer if the reason for the refer finding can be overturned with documentation.</li><li>Inaccuracies in credit reporting</li></ul> Manually underwritten loans include: <ul style="list-style-type: none"><li>Loans involving borrowers without a credit score which were not scored against FHA’s TOTAL Scorecard.</li><li>Loans receiving a Refer scoring recommendation from FHA’s TOTAL Scorecard; and</li><li>Loans receiving an Accept scoring recommendation from FHA’s TOTAL Scorecard, but which have been downgraded to a Refer by the underwriter.</li><li>580 Minimum Credit Score required (Refer to <a href="#">Ratios Section</a> for all minimum FICO score requirements)<ul style="list-style-type: none"><li>Borrowers with no credit score must meet Non-Traditional credit requirements and maximum DTI limits for no credit score. When a loan involves multiple borrowers and one or more of the borrowers do not have a credit score (non-traditional or insufficient credit), the lender must use the lowest decision credit score of the borrower(s) with credit score(s) (minimum 580 credit score required).</li></ul></li></ul> <p><b>NOTE:</b> When a loan receiving an Accept scoring recommendation is downgraded to a Refer, the loan must be underwritten in accordance with all provisions of these guidelines.</p> <p><b>Ineligible Transactions</b></p> <ul style="list-style-type: none"><li>Temporary Buydowns</li><li>Streamline Refinances (without credit score)</li><li>High Balance (without credit score)</li></ul>	
Compensating Factors		
	Compensating Factor	Documentation Requirements
	Verified and Documented Cash Reserves	Verified and documented cash reserves from borrowers’ own funds can be used as a compensating factor subject to the following requirements: <ul style="list-style-type: none"><li>1-2 Units: Reserves equal to or exceed 3 total monthly mortgage payments</li><li>3-4 Units: Reserves equal to or exceed 6 total monthly mortgage payments</li></ul> Funds and/or “assets” that are <b>not</b> to be considered as cash reserves include: <ul style="list-style-type: none"><li>The total funds required to close the Mortgage.</li><li>Gifts.</li><li>Equity from another property.</li><li>Borrowed funds; and</li><li>Cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the loan transaction.</li></ul> <p><b>Retirement Accounts</b></p> <p>A portion of borrower’s retirement accounts (IRA, Thrift Savings Plan, 401k, and Keogh accounts) may be used to calculate cash reserves, subject to the following conditions:</p> <ul style="list-style-type: none"><li>To account for withdrawal penalties and taxes, only 60% of the vested amount of the account, less any outstanding loans, may be used, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.</li><li>Obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the borrower’s retirement accounts, the borrower’s eligibility for withdrawals, and the terms and conditions for the withdrawal.</li></ul> <p>If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves.</p>
	Minimal Increase in Housing Payment	<ul style="list-style-type: none"><li>The new total monthly mortgage payment does not exceed the current total monthly housing payment by more than \$100 <b>or</b> 5%, <i>whichever is less</i>; <b>and</b></li><li>There is a documented 12-month housing payment history with no more than one 30 day late payment.</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>If the borrower has no current housing payments this cannot be a compensating factor</li></ul>
No Discretionary Debt	<ul style="list-style-type: none"><li>The borrower’s housing payment is the only open account with an outstanding balance that is not paid off monthly.</li><li>The credit report shows established credit lines in the borrower’s name open for at least 6 months; <b>and</b></li><li>The borrower can document that these accounts have been paid off in full monthly for at least the past 6 months.</li><li>Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least 6 months, or who cannot document that all other accounts are paid off in full monthly for at least the past 6 months do not qualify for this compensating factor.</li><li>Credit lines not in the borrower’s name but for which he or she is an authorized user do not qualify for this compensating factor.</li></ul>	

Compensating Factors (cont.)	Significant Additional Income Not Reflected in Gross Effective Income	Additional income from bonuses, overtime, part-time or seasonal employment that is not reflected in gross effective income can be cited as a compensating factor subject to the following requirements <ul style="list-style-type: none"><li>Verify and document that the borrower has received this income for at least one year, and it will likely continue; <b>and</b></li><li>Document that if the additional income were included in gross effective income, it is sufficient to reduce the qualifying ratios to not more than 37/47.</li><li>Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.</li><li>This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.</li></ul>
	Residual Income	Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the <a href="#">Table of Residential Incomes by Region</a> found below.
Evaluating Credit	<p>The underwriter must examine the borrower’s overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the borrower’s creditworthiness. Lenders must not consider the credit history of a non-borrowing spouse.</p> <p>The underwriter must evaluate the borrower’s payment histories in the following order: (1) Previous housing expenses and related expenses, including utilities; (2) Installment debts; and (3) Revolving accounts.</p> <p><b>Satisfactory Credit</b></p> <ul style="list-style-type: none"><li>The underwriter may consider a borrower to have an acceptable payment history if the borrower has made all housing and installment debt payments on time for the previous 12 months and has no more than two 30-day late mortgage payments or installment payments in the previous 24 months.</li><li>The underwriter may approve the borrower with an acceptable payment history if the borrower has no major derogatory credit on revolving accounts in the previous 12 months.</li><li>Major derogatory credit on revolving accounts must include any payments made more than 90 days after the due date, or three or more payments more than 60 days after the due date.</li></ul> <p><b>Payment History Requiring Additional Analysis</b></p> <ul style="list-style-type: none"><li>If a borrower’s credit history does not reflect satisfactory credit as stated above, the borrower’s payment history requires additional analysis.</li><li>The lender must analyze the borrower’s delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The lender must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.</li><li>The underwriter may only approve a borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.</li></ul> <p><b>Payment History on Housing Obligations</b></p> <p>Housing obligations/mortgage payment refers to the monthly payment due for rental or properties owned.</p> <ul style="list-style-type: none"><li>A mortgage payment is considered delinquent if not paid within the month due. However, a borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original note is not considered delinquent or late and shall be treated as if not in forbearance provided the forbearance is terminated at or prior to closing.</li><li>The lender must determine the borrower’s housing obligation payment history through:<ul style="list-style-type: none"><li>The credit report.</li><li>Verification of rent received directly from the landlord (for landlords with no Identity of Interest with the borrower).</li><li>Verification of mortgage received directly from the mortgage servicer; or</li><li>A review of canceled checks that cover the most recent 12-month period.</li></ul></li><li>The lender must verify and document the previous 12 months’ housing history. For borrowers who indicate they are living rent-free, the lender 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.</li><li>For both purchase and no cash-out refinance transactions, a mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of the modification in determining late housing payments. In addition, where a mortgage has been modified, the borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance.</li><li>A mortgage that was subject to mortgage payment forbearance must utilize the mortgage payment history in accordance with the forbearance plan for the time period of the forbearance in determining late housing payments.</li><li>Any borrower who is granted a forbearance and is otherwise performing under the terms of the forbearance plan is not considered to be delinquent for purposes of credit underwriting.</li><li>A mortgage that reflects payments under a modification or forbearance plan within the 12 months prior to case number assignment, the lender must obtain:<ul style="list-style-type: none"><li>A copy of the modification or forbearance plan; and</li><li>Evidence of the payment amount and date of payments during the forbearance term.</li></ul></li></ul> <p>Note: A forbearance plan is not required if the forbearance was due to the impacts of COVID-19.</p> <p><b>Payment History Requirements (No Cash-Out Refinances)</b></p> <ul style="list-style-type: none"><li>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.</li><li>For all mortgage 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.</li><li>A borrower who was granted mortgage payment forbearance must have:<ul style="list-style-type: none"><li>Completed the forbearance plan on the subject property; and</li><li>Made at least three consecutive mortgage payments within the month due on the mortgage since completing the forbearance plan.</li></ul></li><li>If the mortgage on the subject property is not reported in the borrower’s credit report, the lender must obtain a verification of mortgage to evidence payment history for the previous 12 months.</li></ul>	

Evaluating Credit (cont.)	<ul style="list-style-type: none"><li>Where a mortgage reflects payments under a modification or forbearance plan within the 12 months prior to case number assignment, the lender must obtain:<ul style="list-style-type: none"><li>A copy of the modification or forbearance plan; and</li><li>Evidence of the payment amount and dates of payments during the forbearance term.</li></ul></li></ul> <p>Note: a forbearance plan is not required if the forbearance was due to the impacts of COVID-19.</p>																																			
Ratios	<p>The qualifying ratios for borrowers with no credit scores are computed using income only from borrowers occupying the property and obligated on the mortgage. Non-occupant co-Borrower income may not be included.</p> <table><tr><th>Lowest Minimum Decision Credit Score</th><th>Maximum Qualifying Ratios</th><th>Acceptable Compensating Factors</th></tr><tr><td>No Credit Score</td><td>31/43</td><td><ul style="list-style-type: none"><li>Not applicable. Borrowers with no credit score may not exceed 31/43 ratios.</li></ul></td></tr><tr><td>Purchase =&gt;580 R/T Refi =&gt;620 C/O Refi =&gt;640</td><td>31/43</td><td><ul style="list-style-type: none"><li>No compensating factors required.</li><li>Energy Efficient Homes may have ratios of 33/45.</li></ul></td></tr><tr><td>Purchase =&gt;580 R/T Refi =&gt;620 C/O Refi =&gt;640</td><td>37/47</td><td>One of the following:<ul style="list-style-type: none"><li>3 months cash reserves for 1-2 unit or 6 months cash reserves for 3-4 unit.</li><li>Minimal increase in housing payment; or</li><li>Residual income</li></ul></td></tr><tr><td>Purchase =&gt;580 R/T Refi =&gt;620 C/O Refi =&gt;640</td><td>40/40</td><td><ul style="list-style-type: none"><li>No discretionary debt.</li></ul></td></tr><tr><td>Purchase =&gt;580 R/T Refi =&gt;620 C/O Refi =&gt;640</td><td>40/50</td><td><b>Two</b> of the following:<ul style="list-style-type: none"><li>3 months cash reserves for 1-2 unit or 6 months cash reserves for 3-4 unit.</li><li>Minimal increase in housing payment.</li><li>Significant additional income not reflected in Effective Income*; and/or</li><li>Residual income.</li></ul></td></tr></table> <p><b>*Note: Significant Additional Income Not Reflected in Effective Income</b></p> <ul style="list-style-type: none"><li>Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.</li><li>This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.</li></ul>	Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios	Acceptable Compensating Factors	No Credit Score	31/43	<ul style="list-style-type: none"><li>Not applicable. Borrowers with no credit score may not exceed 31/43 ratios.</li></ul>	Purchase =>580 R/T Refi =>620 C/O Refi =>640	31/43	<ul style="list-style-type: none"><li>No compensating factors required.</li><li>Energy Efficient Homes may have ratios of 33/45.</li></ul>	Purchase =>580 R/T Refi =>620 C/O Refi =>640	37/47	One of the following: <ul style="list-style-type: none"><li>3 months cash reserves for 1-2 unit or 6 months cash reserves for 3-4 unit.</li><li>Minimal increase in housing payment; or</li><li>Residual income</li></ul>	Purchase =>580 R/T Refi =>620 C/O Refi =>640	40/40	<ul style="list-style-type: none"><li>No discretionary debt.</li></ul>	Purchase =>580 R/T Refi =>620 C/O Refi =>640	40/50	<b>Two</b> of the following: <ul style="list-style-type: none"><li>3 months cash reserves for 1-2 unit or 6 months cash reserves for 3-4 unit.</li><li>Minimal increase in housing payment.</li><li>Significant additional income not reflected in Effective Income*; and/or</li><li>Residual income.</li></ul>																	
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Residual Income	<p>Calculating Residual Income</p> <ul style="list-style-type: none"><li>Calculate the total gross monthly income from all occupying borrowers.<ul style="list-style-type: none"><li>Calculated only for the occupying borrowers</li><li>Do not include bonus, part-time or seasonal income that does not meet the requirements for effective income.</li><li>Do not include income from non-occupying co-borrowers, co-signers, non-borrowing spouses, or other parties not obligated on the mortgage.</li><li>Because taxes are taken into account in the calculation of residual income, non-taxable income may not be “grossed up.”</li></ul></li><li>Deduct from gross monthly income the following items:<ul style="list-style-type: none"><li>State, federal municipal or other income taxes<ul style="list-style-type: none"><li>Use tax returns from the most recent tax year to document taxes, retirement, Social Security and Medicare.</li><li>If taxes returns are not available use current pay stubs.</li></ul></li><li>Retirement or Social Security</li><li>Proposed total monthly fixed payment</li><li>Estimated maintenance and utilities<ul style="list-style-type: none"><li>Multiply the living area of the property (square feet) by \$.014</li></ul></li><li>Job related expenses (i.e., childcare)</li></ul></li></ul> <table><tr><th colspan="5">Residual incomes for loan amounts &lt; \$80,000</th></tr><tr><th>Family Size</th><th>Northeast</th><th>Midwest</th><th>South</th><th>West</th></tr><tr><td>1</td><td>\$390</td><td>\$382</td><td>\$382</td><td>\$425</td></tr><tr><td>2</td><td>\$654</td><td>\$641</td><td>\$641</td><td>\$713</td></tr><tr><td>3</td><td>\$788</td><td>\$772</td><td>\$772</td><td>\$859</td></tr><tr><td>4</td><td>\$888</td><td>\$868</td><td>\$868</td><td>\$967</td></tr><tr><td>5</td><td>\$921</td><td>\$902</td><td>\$902</td><td>\$1,004</td></tr></table>	Residual incomes for loan amounts < \$80,000					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
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Residual Income (cont.)	\$75 for each additional family member up to 7				
	Residual incomes for loan amounts ≥ \$80,000				
	Family Size	Northeast	Midwest	South	West
	1	\$450	\$441	\$441	\$491
	2	\$755	\$738	\$738	\$823
	3	\$909	\$889	\$889	\$990
	4	\$1,025	\$1,003	\$1,003	\$1,117
	5	\$1,062	\$1,039	\$1,039	\$1,158
	\$80 for each additional family member up to 7				
	Key to Geographic Regions on the Above Tables				
	Northeast	Connecticut, Maine Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont			
	Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota Wisconsin			
	South	Alabama, Arkansas, Delaware, District of Columbia Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico South Carolina, Tennessee, Texas, Virginia West Virginia			
	West	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming			
Supporting Documentation	<ul style="list-style-type: none"><li>• 2 months bank statements</li><li>• Mortgage or Landlord rating</li><li>• Additional documentation may be required at DE Underwriter discretion</li><li>• Self-Employed Borrowers: Must obtain a business credit report for all Corporations and S-Corporations</li><li>• Re-verification of employment within 10 days prior to Note date. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.</li></ul> <p><b>Current Employment Documentation</b></p> <ul style="list-style-type: none"><li>• Borrower(s) with same job for 2 years<ul style="list-style-type: none"><li>○ Obtain the most recent pay stub covering a minimum of 30 consecutive days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days) with year-to-date earnings, and one of the following to verify current employment:<ul style="list-style-type: none"><li>▪ WVOE covering two years; or</li><li>▪ Direct verification of employment by a third-party verification (TPV) vendor covering two years, subject to the following requirements:<ul style="list-style-type: none"><li>• The borrower has authorized the lender to verify income and employment; and</li><li>• The date of the data contained in the completed verification conforms with FHA requirements.</li></ul></li></ul></li></ul></li><li>• Borrower(s) with job changes in past 2 years<ul style="list-style-type: none"><li>○ Obtain one or a combination of the following for the most recent two years to verify the borrower’s employment history:<ul style="list-style-type: none"><li>▪ W-2(s)</li><li>▪ VOE(s)</li><li>▪ Direct verification by a TPV vendor, subject to the following conditions:<ul style="list-style-type: none"><li>• The borrower has authorized the lender to verify income and employment; and</li><li>• The date of the data contained in the completed verification conforms with FHA requirements.</li></ul></li><li>▪ Evidence supporting enrollment in school or the military during the most recent two full years.</li></ul></li></ul></li><li>• Self Employed<ul style="list-style-type: none"><li>○ 2 years 1040’s, business returns – all schedules<ul style="list-style-type: none"><li>▪ Refer to <a href="#">4000.1</a> for specific business type requirements (i.e., Schedule C, partnerships, corporations)</li></ul></li><li>○ As a reminder, if there has been a 20% or greater decline, the income is still deemed stable if:<ul style="list-style-type: none"><li>▪ The reduction was the result of documented extenuating circumstances,</li><li>▪ The income has been stable or increasing for at least 12 months, and</li><li>▪ The borrower qualifies using the reduced income.</li></ul></li></ul></li></ul>				
Manual Underwriting FAQ’s					
Question:	Answer:				
Can the required reserves be from gift funds?	No, FHA will no longer allow gift funds to be used towards reserves.				
If the borrowers live with parents and are paying rent to them, what do we need for evidence?	12 months cancelled rent checks would be required unless the rent history can be verified through 3 <sup>rd</sup> party such as Management Company, apartment complex etc.				
If the borrower is paying rent and the amount is not consistent, how would we handle this?	We would have to verify what the rental amount is and all cancelled checks would have to be a minimum of that amount or more. With explanation as to why they vary.				
What is considered significant additional income not reflected in the Gross effective income?	This would consist of overtime, bonus, commission, 2 <sup>nd</sup> job, seasonal employment that is not being used to qualify because the required time frame of receipt cannot be verified.				
Can Cash out be used as reserves?	No, cash out and funds refunded to the borrower at closing cannot be included in reserves.				
Are there any exceptions to the maximum debt ratio?	No, FHA has confirmed that there will be no exceptions to the maximum debt ratio. They will not even allow to go over by .01%				
Do we have to provide a childcare letter for the residual income calculation as we do on VA loans?	No, FHA is not requiring childcare letters.				
How many months of reserves are required?	<ul style="list-style-type: none"><li>• 1-2 units requires minimum of 1 month’s reserves</li><li>• 3-4 units requires minimum of 3 month’s reserves.</li></ul>				

Keep in mind that this is a requirement on all manually underwritten loans. If the borrower has 3- or 6-months reserves, then those funds can be used towards any compensating factor requirements as needed.