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HANDBOOK 4000.2 REV-3

FHA MORTGAGEES' HANDBOOK
APPLICATION THROUGH INSURANCE

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FOREWORD

This Handbook describes the general policies and procedures to be used by lenders to prepare and submit home mortgage insurance applications to the Federal Housing Administration (FHA) and provides a general description of all of FHA's active single-family home mortgage insurance programs. When applicable, references are made to US Department of Housing and Urban Development (HUD) Handbooks where specific policy and procedural information may be obtained about the subject.

Questions not addressed in the text should be directed to the appropriate Home Ownership Center (HOC) or the Director, Office of Single-Family Program Development, HUD Headquarters, 451 Seventh St., SW, Washington, DC 20410-8000.

The following are highlights and major changes to the previous edition of this handbook.

Chapter 1: Paragraph 1-5 explains that FHA may reject a mortgage for insurance if FHA determines that any certification or required document is false, misleading or constitutes fraud or misrepresentation on the part of any party. Paragraph 1-7 updates information about FHA maximum loan limits. Paragraph 1-11 updates information about mortgage insurance premiums (MIP) and includes the new upfront MIP (UFMIP) refund schedules. Paragraph 1-17 describes HUD's new organizational structure and Home Ownership Centers (HOCs).

Chapter 2: Outdated information about FHA Subdivision Approval Processing and FHA Conditional and Firm Commitment processing have been removed. Also, detailed information about appraisal processing has been removed because it duplicates information found in other HUD Handbooks.

Chapter 3: Detailed information about mortgage credit processing has been removed because it duplicates information in other HUD Handbooks.

Chapter 4: Outdated information related to FHA Conditional and Firm Commitment processing has been removed.

Chapter 5: Paragraph 5-3 has been expanded to allow lenders to collect any Automated Underwriting System (AUS) fee, notary fee and to clarify the buyer broker fee (when the buyer independently engages a real estate broker). Paragraph 5-9 clarifies that loan origination documents may be stored in electronic form.

Chapter 6: The information for each active single-family mortgage insurance program has been updated entirely. Terminated or inactive programs have been deleted.

Appendix I: Single-Family HOC Jurisdictions
Appendix II: Case Number Prefixes
Appendix III: Home Mortgage Automated Data Processing (ADP) Codes
Appendix IV: States with Low and High Average Closing Costs
Appendix V: Program Identification Codes

Appendix VI: Extended Lending Areas for Loan Origination
Appendix VII: Suggested Format for Request for Mortgage Insurance Certificate (MIC) Correction

References:

1.	4000.4	Single-Family Direct Endorsement Program
2.	4060.1	Mortgagee Approval Handbook
3.	4135.1	Procedures for Approval of Single-Family Proposed Construction Applications in New Subdivisions
4.	4140.1	Land Planning Principles for Home Mortgage Insurance
5.	4145.1	Architectural Processing and Inspections for Home Mortgage Insurance
6.	4150.1	Valuation Analysis for Home Mortgage Insurance
7.	4150.2	Valuation Analysis for Single-Family One- to Four- Unit Dwellings
8.	4155.1	Mortgage Credit Analysis for Mortgage Insurance, One- to Four-Family Properties
9.	4165.1	Endorsement for Insurance for Home Mortgage Programs (Single-Family)
10.	4235.1	Home Equity Conversion Mortgages
11.	4240.1	Section 203(h), Home Mortgage Insurance for Disaster Victims
12.	4240.2	The Graduated Payment Mortgage Program
13.	4240.3	Application Through Insurance (Single-Family) Section 203(n)
14.	4240.4	203(k), Rehabilitation Home Mortgage Insurance
15.	4245.1	Section 220(d)(3)(A) and Section 220(h) Rehabilitation and Neighborhood Conservation Housing Insurance Program
16.	4260.1	Section 223(a), (e), and (d), Miscellaneous Type Home Mortgage Insurance
17.	4265.1	Section 234(c), Home Mortgage Insurance Condominium Units
18.	4290.1	Section 233, Mortgages Involving Experimental Housing for Home Mortgage Insurance
19.	4905.1	Requirements for Existing Housing One- to Four-Family Living Units
20.	4910.1	Minimum Property Standards for Housing, 1994 Edition
21.	CFR	Code of Federal Regulations, Title 24 (24 CFR). Codifies the general and permanent rules of the Department.

FORMS RELEVANT TO HANDBOOK 4000.2

Form #	Form Name	OMB Approval Number
FEMA Form 81-31	Elevation Certificate	3067-0077
HUD 1	Settlement Statement	2502-0265
HUD 59100	Mortgage Insurance Certificate/Non-Endorsement Notice	N/A
HUD 91322.1	Master Appraisal Report	2502-0111
HUD 92051	Compliance Inspection Report	2502-0189
HUD 92300	Mortgagee Assurance of Completion	2502-0189
HUD 92561	Borrower's Contract with Respect to Hotel and Transient Use of Property	2502-0059
HUD 92577	Request for Acceptance of Changes in Approved Drawings and Specifications	2502-0117
HUD 92800.5B	Conditional Commitment-DE Statement of Appraised Value	2502-0494
HUD 92900-B	Interest Rate Disclosure Statement	N/A
HUD 92900-PUR	Mortgage Credit Analysis Worksheet Purchase Money Mortgage	2502-0059
HUD 92900-WS	Mortgage Credit Analysis Worksheet	2502-0059
URAR (FNMA 1004/FHLMC 70)	Uniform Residential Appraisal Report	N/A
HUD 92564-VC	Notice to the Lender	2502-0538
HUD 92564-HS	Notice to Homebuyer	2502-0538
VA 26-1843a	Master Certificate of Reasonable Value	
VA-NOV	Veterans Affairs- Notice of Value	2900-0045

CHAPTER 1 INTRODUCTION

1-1 PURPOSE. <TOP> This handbook describes general policies and procedures required of lenders participating in the Federal Housing Administration's (FHA) single-family mortgage insurance programs under Title II of the National Housing Act.

1-2 MORTGAGE INSURANCE PROGRAMS. <TOP> Under these programs, FHA insures approved lenders against losses on mortgage loans. The acronyms HUD (U.S. Department of Housing and Urban Development) and FHA are often used interchangeably. For ease of reading, we have chosen to use "lender" in lieu of "mortgagee" throughout this handbook. However, lender is to be interpreted as a FHA-approved mortgagee as described in 24 CFR § 202.10.

FHA-insured mortgages may be used to purchase homes, to improve homes, and to refinance existing debts. The programs differ from one another primarily in terms of what types of properties and financing are eligible. The single-family programs are generally limited to dwellings with one- to four-family units.

All of FHA's single-family programs are authorized by the enabling legislation of the National Housing Act, and each program is generally referred to by its particular section of that Act. For example, Section 203(b) (the basic program), Section 251 (Adjustable Rate Mortgages (ARMs)), Section 234(c) (condominiums), etc. The regulations implementing the individual programs are contained in the Code of Federal Regulations (CFR), Title 24 (24 CFR). The CFR codifies the general and permanent rules of the Department, and is updated by publishing changes to regulations in the Federal Register.

HUD Handbooks and Mortgagee Letters provide detailed processing instructions, and they advise the mortgage industry of major changes to FHA programs and procedures. In addition to the section of the Act that authorizes each single-family mortgage insurance program, various characteristics of each program will reflect the particular insurance fund under which it is insured. There are three mortgage insurance funds:

A. Mutual Mortgage Insurance (MMI) Fund. The MMI fund covers most programs, including most of the programs authorized under Section 203(b).

B. General Insurance (GI) Fund. The GI fund covers, among other programs, Section 203(k) and condominiums under Section 234(c).

Special Risk Insurance (SRI) Fund. The SRI fund covers Section 223(e) and several others.

1-3 GENERAL PROCESSING STEPS. <TOP> All single-family mortgage insurance programs (except streamline refinances) involve three steps: (1) property evaluation and underwriting, (2) mortgage credit analysis, and (3) insurance endorsement. Except as noted below, all processing and underwriting must be performed by approved lenders under the Direct Endorsement (DE) program.

A. Direct Endorsement. Under the DE program, approved lenders underwrite and close mortgage loans without prior FHA review or approval. This includes all aspects of the mortgage loan application, the property analysis, and borrower underwriting. All FHA mortgage insurance programs described in this handbook are eligible for DE processing except for Section 203(n) (Cooperative Units) and Section 233 (Experimental Housing). HUD Handbook 4000.4 provides detailed information on the DE program.

B. FHA Processing. An exception to the DE program is made for HUD employees. Lenders process the loan and submit a complete loan package underwritten up to the point of approval to FHA. FHA reviews the loan package and approves or rejects loans requested by HUD employees. However, for streamline refinances only, any HUD employee or member of their household (spouse, parent, child) may have their streamline refinance processed by a DE lender.

1-4 LENDER APPROVAL. <TOP> The procedures for obtaining approval to participate in FHA mortgage insurance programs are contained in 24 CFR 202.10 et seq. Handbook 4060.1, Mortgage Approval, provides additional guidance for these regulations with specific procedures for obtaining approval. Program details are available on HUD's Web site at www.hud.gov or from the Office of Lender Activities and Program Compliance.

1-5 THE CONTRACT OF MORTGAGE INSURANCE. <TOP> If a mortgage loan meets all applicable regulations and instructions, FHA will endorse the mortgage for insurance. FHA's endorsement of the mortgage and issuance of an electronic Mortgage Insurance Certificate (MIC) creates a contract of mortgage insurance subject to the regulations in effect at that time. Before insuring a mortgage under the DE program, FHA may determine if there is any information indicating that any certification or required document is false, misleading, or constitutes fraud or misrepresentation on the part of any party or that the mortgage fails to meet a statutory or regulatory requirement. If the mortgage is determined to be eligible following this review, FHA will endorse the mortgage for insurance. If FHA determines that any information, document, or certification is false, misleading, or constitutes fraud or misrepresentation, it may reject the mortgage for insurance.

1-6 INELIGIBLE BORROWERS. <TOP>

A. Mandatory Rejection. A borrower must be rejected if the following conditions apply:

1. HUD Limited Denial of Participation (LDP) and Federal Lists. A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a FHA-insured mortgage. The lender must examine HUD's LDP list and the government-wide General Services Administration's (GSA's) "List of Parties Excluded from Federal Procurement or Nonprocurement Programs" and document this review on the HUD-92900-WS/92900-PUR. If the name of any party to the transaction appears on either list, the application is not eligible for mortgage insurance. A lender may check HUD's LDP list by going to www.hud.gov and the Federal government's list of excluded parties by going to https://epls.arnet.gov. (An exception may be made when a seller appears on the LDP list and the property being sold is the seller's principal residence.)

2. Delinquent Federal Debts. If the borrower is presently delinquent on any Federal debt (e.g., Veterans Affairs (VA)-guaranteed mortgage, Title I loan, Federal student loan, Small Business Administration loan, delinquent Federal taxes, etc.) or has a lien, including taxes, placed against his or her property for a debt owed to the

U.S., the borrower is not eligible until the delinquent account is brought current, paid, otherwise satisfied, or a satisfactory repayment plan is made between the borrower and the Federal agency owed. This plan must be verified in writing. Tax liens may remain unpaid provided the lien holder subordinates the tax lien to the FHA-insured mortgage. If any regular payments are to be made, they must be included in the qualifying ratios. Tax liens may be eligible for inclusion in a refinance in some cases. See HUD Handbook 4155.1 Chapter 1 for additional information.

B. Past Delinquencies and Defaults on FHA-Insured Loans.
The three-year waiting period to regain eligibility for another FHA insured mortgage begins when FHA pays the initial claim to the lender; this includes deeds-in-lieu of foreclosure, as well as judicial and other forms of foreclosures. Information regarding the date the claim was paid, date of initial default, etc., may be obtained through the appropriate Home Ownership Center (HOC),i.e., the HOC having jurisdiction where the property subject to the default is located.

Although eligibility for an FHA-insured mortgage may be established by performing the actions described above, the overall analysis of the creditworthiness must include consideration of a borrower's previous failure to make payments to the Federal agency in the agreed-to manner.

C. Source of Information. Lenders must screen all borrowers using HUD's Credit Alert Interactive Voice Response System (CAIVRS) (except on streamline refinances). If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by FHA on his or her behalf, the borrower is not eligible. When lenders apply for FHA insurance via FHA Connection, CAIVRS is automatically checked to ensure that there are no Federal delinquencies or debts. Lenders also may check CAIVRS by accessing FHA Connection at https://entp.hud.gov/clas/ or by calling 301-344-4000 on a touch-tone telephone, entering their FHA-assigned lender identification number, and entering all borrowers' social security numbers (SSNs). Lenders must write the CAIVRS authorization code for each borrower on the HUD-92900-WS/92900-PUR.

If the lender has reason to believe the CAIVRS message is erroneous or must establish the date of claim payment, the lender must contact the appropriate HOC for instructions or documentation to support the borrower's eligibility. The appropriate HOC can provide information regarding if the three-year waiting period has passed or the SSN in CAIVRS is erroneous. The appropriate HOC also can provide instructions to lenders regarding processing requirements for other HUD-related defaults and claims (e.g., Title I loans).

FHA cannot alter or delete CAIVRS information reported from other Federal agencies, such as the Department of Education, VA, etc. The borrower and/or the lender must contact those agencies to correct or to remove erroneous or outdated information. We do not require a "clear" CAIVRS access number as a condition for mortgage endorsement, but the lender must document and justify its approval based on the exceptions described above. See HUD Handbook 4155.1 for additional information about CAIVRS procedures.

1-7 PROHIBITION ON PROPERTY FLIPPING. <TOP> Property flipping is a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a lenders' collusion with the appraiser.

Sale by Owner of Record. To be eligible for a mortgage insured by FHA, the property must be purchased from the owner of record and the transaction may not involve any sale or assignment of the sales contract. This requirement applies to all FHA purchase money mortgages regardless of the time between re-sales. The mortgage lender must obtain documentation verifying that the seller is the owner of record and submit this to HUD as part of the insurance endorsement binder. This documentation may include but is not limited to, a property sales history report, a copy of the recorded deed from the seller, or other documentation such as a copy of a property tax bill, title commitment or binder, demonstrating the seller's ownership of the property and the date it was acquired.

Appraiser Determines Date of Property Acquisition. To be in compliance with updated Standard Rule 1-5 of the Uniform Standards of Professional Appraisal Practice (USPAP), appraisers are required to analyze any prior sales of the subject property in the previous three years for one-to-four family residential properties. Mortgage lenders may rely on the information provided by the appraiser in the Uniform Residential Appraisal Report (URAR) describing the Date, Price and Data for Prior Sales for the subject property within the last three years.

Re-sales Occurring 90 Days or Less Following Acquisition. A property acquired by the seller is not eligible for a mortgage to be insured by FHA for the buyer unless the seller has owned that property for at least 90 days. If a property is re-sold 90 days or fewer following the date of acquisition by the seller, the property is not eligible for a mortgage insured by FHA. FHA defines the seller's date of acquisition as the date of settlement on the seller's purchase of that property. The re-sale date is the date of execution of the sales contract by a buyer intending to finance the property with an FHA-insured loan.

Re-sales Occurring Between 91 and 180 Days Following Acquisition. If the re-sale date is between 91 and 180 days following acquisition by the seller, the lender is required to obtain a second appraisal made by another appraiser if the resale price is 100 percent or more over the price paid by the seller when the property was acquired. The cost of the second appraisal may not be charged to the homebuyer. FHA reserves the right to revise the re-sale percentage level at which this second appraisal is required by publishing a notice in the Federal Register.

As an example, if a property is re-sold for $80,000 within six months of the seller's acquisition of that property for $40,000, the mortgage lender must obtain a second independent appraisal supporting the $80,000 sales price. The mortgage lender may also provide documentation showing the costs and extent of rehabilitation that went into the property resulting in the increased value but must still obtain the second appraisal.

E. Exceptions to the 90-Day Restriction. The HOCs do not have the authority to waive these requirements. The following are the only exceptions to the 90-day restriction permitted:

Properties acquired by an employer or relocation agency in connection with the relocation of an employee.

Re-sales by HUD under its Real Estate Owned (REO) program are not subject to the time restriction. However, any subsequent re-sale of such a property must meet the

90-day threshold in order for the mortgage to be eligible as security for FHA insurance.

1-8 MAXIMUM LOAN LIMITS AND MORTGAGE AMOUNTS. <TOP> Under most programs, the maximum insurable mortgage is the lesser of: (1) the statutory loan limit for the area or (2) a percentage of the lesser of the appraised value or sales price.

A. Loan Limits. The statutory provisions of the National Housing Act establish the maximum loan limits and mortgage amounts for all programs. The maximum loan limits will vary depending upon the specific program under which the loan will be insured, the number of units within the dwelling (one to four units) and the geographic location of the property. The specific loan limits for each county in the United States, Guam and the Virgin Islands are listed on HUD's Web site at www.hud.gov. See HUD Handbook 4155.1 for detailed instructions on calculating the maximum mortgage amounts and maximum loan-to-value (LTV) ratios.

1. Basic Nationwide Loan Limits. FHA's single-family mortgage limits are set by county and are tied to increases in the loan limits established by the Federal Home Loan Mortgage Corporation (Freddie Mac) in accordance with Section 203(b)(2)(A) of the National Housing Act, as amended (12 U.S.C 1709).

The National Housing Act specifies the maximum mortgage amount for each program. Under Section 203(b), the nationwide basic mortgage limits ("the floor") may not be less than 48% of the dollar amount limitation of the Federal Home Loan Mortgage Corporation Act.

2. Loan Limits for High Cost Areas. Section 203(b)(2)(A) of the National Housing Act also states that mortgage limits in high cost areas ("the ceiling") may increase to 87% of the dollar amount limitation as determined under Section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a residence of applicable size. In these high cost areas, the loan limit will be equal to the lesser of 95% of the area median house price or the statutory ceiling for the high cost areas. Section 214 of the National Housing Act provides that mortgage limits for Alaska, Hawaii, Guam, and the Virgin Islands may be adjusted up to 150% of the new FHA ceilings.

3. Appeals for Higher Loan Limits. Anyone may appeal for a higher loan limit for a county within a Metropolitan Statistical Area (MSA) or a non-metro county not part of an MSA. FHA will not consider appeals for areas smaller than a county. It should be noted that legislation enacted in 1998 provided that the county with the highest median house price in an MSA will determine the mortgage limits of all counties in that MSA. Any request for an increase must be accompanied by sufficient housing sales price data to justify higher limits. The sales price data submitted to support an increase must be a listing of all one-family properties sold in the area for a period of time that will vary depending on the volume of sales. Contact the local Homeownership Center (HOC) for additional information on appeals to FHA mortgage limits.

B. Maximum LTV Ratios. The mortgage cannot exceed a certain percentage of value. The maximum LTV ratios vary by type of borrower, type of transaction (purchase or refinance); and stage of construction. Detailed loan-to-value instructions are contained in HUD Handbook 4155.1.

1-9 INTEREST RATE. <TOP> Under all currently active single-family mortgage insurance programs, the interest rate and any discount points are negotiated between the borrower and the lender.

A. Lock-Ins or Rate Locks. Lenders are permitted to charge a commitment fee to guarantee, in writing, the interest rate and discount points for a specific period of time or to limit the extent they may change. The minimum time for lock-ins or rate locks is 15 days. The loan may close in less than 15 days at the convenience of the borrower, and the lock-in fees may still be earned. Lenders are expected to honor all such commitments.

B. Disclosure. The lender must give a HUD Interest Rate Disclosure Statement, Form HUD-92900-B, to the borrower(s) explaining that the loan terms are negotiable.

C. Reprocessing. Any increase in the discount points or in the interest rate triggers the requirement that the borrower(s) be requalified.

1-10 MORTGAGE TERM. <TOP> The term may not exceed 30 years from the date amortization begins and, in the case of adjustable rate mortgages, must be for 30 years. Some programs require a shorter term, including certain streamline refinances made without appraisals. Handbook 4155.1 provides details. FHA does not require that loan terms be in five year multiples.

1-11 MORTGAGE INSURANCE PREMIUM (MIP). <TOP> In most of the FHA mortgage insurance programs, HUD collects an UFMIP and an annual premium (collected on a monthly basis). The UFMIP fee is currently 1.50% of the base loan amount (loan amount excluding UFMIP).

A. UFMIP. The UFMIP must be paid to HUD in a lump sum within the number of days prescribed by FHA after the loan is closed for mortgages subject to a UFMIP. A late charge (and interest charges, if received 30 or more days after closing) will be assessed. See Charts 2A and 2B below for additional information.

The mortgage amount may be rounded down to a multiple of $1, regardless of whether the UFMIP is financed. If financed in the mortgage, the UFMIP is subject to neither the statutory loan amount limits nor the LTV limits. In these cases, the UFMIP may be added to the mortgage amount, regardless of the maximum mortgage limitation. See HUD Handbook 4155.1 for additional information.

Refund of UFMIP. Borrowers may be entitled to a refund of a portion of the UFMIP. Borrowers with loans closed on or after January 1, 2001, paying off (or refinancing) their FHA loans within five years from the date of closing, are entitled to a partial refund of the UFMIP paid at closing. Borrowers with loans closed on or after January 1, 1994, but before January 1, 2001, paying off (or refinancing) their FHA loans within seven years from the date of closing, are entitled to a partial refund of the UFMIP paid at closing. See Charts 1A and 1B below for specific factors.

Chart 1A: The following is a five-year refund schedule:

FHA MMI FUND
UPFRONT PREMIUM EARNING FACTORS
FOR ALL MORTGAGE TERMINATIONS AND REFINANCES
CLOSED ON OR AFTER JANUARY 1, 2001

Year	Month of Year											
	1	2	3	4	5	6	7	8	9	10	11	12
1	0.9750	0.9500	0.9250	0.9000	0.8750	0.8500	0.8333	0.8167	0.8000	0.7833	0.7667	0.7500
2	0.7333	0.7167	0.7000	0.6833	0.6667	0.6500	0.6333	0.6167	0.6000	0.5833	0.5667	0.5500
3	0.5333	0.5167	0.5000	0.4833	0.4667	0.4500	0.4333	0.4167	0.4000	0.3833	0.3667	0.3500
4	0.3333	0.3167	0.3000	0.2833	0.2667	0.2500	0.2375	0.2250	0.2125	0.2000	0.1875	0.1750
5	0.1625	0.1500	0.1375	0.1250	0.1125	0.1000	0.0833	0.0667	0.0500	0.0333	0.0167	0.0000

Chart 1B: The following is a seven-year refund schedule:

FHA MMI FUND
UPFRONT PREMIUM EARNING FACTORS
FOR ALL MORTGAGE TERMINATIONS AND REFINANCES
CLOSED ON OR AFTER JANUARY 1, 1994 TO DECEMBER 31, 2000

Year	Month of Year											
	1	2	3	4	5	6	7	8	9	10	11	12
1	0.9917	0.9833	0.9750	0.9667	0.9583	0.9500	0.9417	0.9333	0.9250	0.9167	0.9083	0.9000
2	0.8917	0.8833	0.8750	0.8687	0.8583	0.8500	0.8417	0.8333	0.8250	0.8167	0.8083	0.8000
3	0.7835	0.7870	0.7505	0.7340	0.7175	0.7010	0.6845	0.6680	0.6515	0.6350	0.6185	0.6020
4	0.5840	0.5660	0.5480	0.5300	0.5120	0.4940	0.4760	0.4580	0.4400	0.4220	0.4040	0.3860
5	0.3720	0.3580	0.3440	0.3300	0.3160	0.3020	0.2880	0.2740	0.2600	0.2450	0.2320	0.2188
6	0.2068	0.1967	0.1845	0.1733	0.1622	0.1510	0.1398	0.1287	0.1175	0.1083	0.0952	0.0840
7	0.0770	0.0700	0.0630	0.0560	0.0490	0.0420	0.0350	0.0280	0.0210	0.0140	0.0070	0.0000

B. Annual MIP. In addition to the UFMIP, certain mortgages require the payment of an annual premium. The percentage amount of the annual premium is based upon the LTV and the term of the mortgage. For programs that require a monthly MIP, HUD must receive payment by the 10th of the month. A late charge (and interest charges, if received 30 or more days after closing) will be assessed. See Charts 2A and 2B below for additional information on UFMIP and annual MIP amounts.

C. Cancellation of Annual MIP. For loans closed on or after January 1, 2001, FHA's annual MIP will be automatically canceled under the following conditions:

1. For mortgages with terms more than 15 years, the annual MIP will be canceled when the LTV ratio reaches 78%, provided the borrower has paid the annual MIP for at least five years.

2. For mortgages with terms 15 years and less and with LTV ratios 90% and greater, the annual MIP will be canceled when the LTV ratio reaches 78%, irrespective of the length of time the borrower has paid the annual MIP.

3. Mortgages with terms 15 years and less and with LTV ratios of 89.99% and less will not be charged an annual MIP.

Although the annual MIP will be canceled as described, the contract of insurance will remain in force for the loan's full term. This MIP cancellation provision only applies to loans with an UFMIP.

FHA will determine when a borrower has reached the 78% LTV ratio based on the lesser of the sales price or appraised value at origination. New appraised values will not be considered. For example, if the lesser of the sales price or the appraised value at origination was $100,000, when the loan amount reaches $78,000, HUD will no longer collect annual MIP on the loan. Cancellation of the annual MIP will normally be based on the scheduled amortization of the loan. However, in cases where the loan payments have been accelerated or modified, cancellation can be based on the actual amortization of the loan as provided to FHA by the servicing lender.

Chart 2A

REFERENCE CHART FOR UPFRONT AND ANNUAL MIP FOR MORTGAGES WITH TERMS MORE THAN 15 YEARS			
Upfront	LTV Ratio	Premium	Years
1.50%	All LTVs	.50%	*
*Years will be determined when the loan balance equals 78%, provided the borrower has paid the annual MIP for at least 5 years (scheduled or actual).			

Chart 2B

REFERENCE CHART FOR UPFRONT AND ANNUAL MIP FOR MORTGAGES WITH TERMS

15 YEARS AND LESS			
Upfront	LTV Ratio	Premium	Years
1.50%	89.99 and under	None	N/A
1.50%	90.00 and over	.25%	**
** Years will be determined when the loan balance equals 78% (scheduled or actual).			

D. Monthly MIP. For mortgages insured under other sections of the National Housing Act that do not require UFMIP, the premium is collected in monthly installments. The monthly premium varies by program and outstanding principal balance.

1-12 MORTGAGE NOTE AND SECURITY INSTRUMENT. <TOP> The note and security instrument (mortgage, deed of trust, or security deed) must meet the requirements of FHA. FHA may prescribe complete mortgage instruments. For each case in which FHA does not prescribe the complete mortgage instrument, FHA may require the use of FHA-approved uniform language. See HUD Handbook 4165.1 for additional information.

1-13 PREPAYMENT PRIVILEGE. <TOP> The borrower may prepay the mortgage in whole or in part on the first of any month. If the mortgage was insured before August 2, 1985, the borrower must give 30 days written notice to the lender or be charged one extra month's interest; the payment must also reach the lender by the first of the month. For mortgages insured on or after August 2, 1985, there is no advance notice requirement. If payment is received after the first of the month, the lender may, at its option, collect the remainder of the month's interest.

Neither prepayment penalties nor due-on-sale clauses are permitted, except for cases in which FHA approves a due-on-sale clause in connection with tax exempt bond financing by State or local governments or to implement statutory restrictions on assumptions.

Mortgage insurance may be terminated via payment-in-full, conveyance for insurance benefits, and voluntary termination upon agreement between the borrower and lender.

1-14 SECONDARY FINANCING. <TOP> The information listed below is an overview of permitted secondary financing arrangements. See HUD Handbook 4155.1 for additional information.

A. By Government Agencies. FHA will insure a first mortgage loan on a property that has a second mortgage or lien held by a Federal, State, or local government agency. The monthly payments under the insured mortgage and second lien, plus other housing expenses and other recurring charges, cannot exceed the borrowers' ability to pay.

B. By Nonprofit Organizations. With advance approval, FHA will insure a first mortgage loan on a property that has a second mortgage held by an approved nonprofit agency. The monthly payments under the insured mortgage and second lien, plus other housing expenses and other recurring charges cannot exceed the borrowers' ability to pay.

C. By Private Individuals or Other Organizations. With advance approval, FHA will insure a first mortgage loan on a property that has a second mortgage or lien held by an individual or company, provided: (1) the required minimum cash investment was not financed; (2) the first and second mortgage together do not exceed FHA mortgage limits; (3) the borrower can afford the total amount of the payments; (4) any periodic payments are level and monthly; (5) there is no balloon payment during the first ten years; and (6) there is no prepayment penalty. The secondary financing must be disclosed at the time of application.

D. Borrowers 60 Years of Age or Older. With advance approval, borrowers 60 and older may borrow the required cash investment for purchasing a principal residence under certain circumstances.

E. By Family Members. FHA permits family member lending on a secured or unsecured basis, up to 100% of the homebuyer's required cash investment. This lending may include the downpayment, closing costs, prepaid expenses and discount points. If the money lent by the family member is secured against the subject property, whether borrowed from an acceptable source or from the family member's own savings, only the family member provider(s) may be the note holder. FHA will not approve any form of securitization of the note that results in any entity other than the family member being the note holder, whether at loan settlement or at any time during the mortgage life cycle.

1-15 ASSUMPTIONS. <TOP> FHA-insured mortgages originated before December 1, 1986 generally contain no restrictions on assumability. For mortgages originated after that date, the loan may be assumable under certain conditions. See HUD Handbook 4155.1 for additional information.

This requirement applies whenever there is a transfer of a borrower's interest, other than by devise, descent, or operation of law. Failure to satisfy FHA's conditions may be grounds for acceleration of the mortgage, subject to FHA approval.

1-16 HUD HANDBOOKS, MORTGAGEE LETTERS, AND OTHER FORMS. <TOP>

A. HUD Headquarters. HUD Handbooks, Mortgagee Letters, and sample HUD forms are available on HUD's Web site at www.hudclips.org.

B. HOCs. The HOCs issue Circular Letters, conduct seminars, lead industry meetings, and distribute other program information. HOC-specific information can be accessed on HUD's Web site at www.hud.gov.

1-17 ORGANIZATION OF HUD. <TOP>

A. HUD Headquarters.

1. The Assistant Secretary for Housing-Federal Housing Commissioner administers all housing programs, both single-family and multifamily, for the Department.

a. The Deputy Assistant Secretary for Single-Family Housing administers all single-family housing programs.

(1) The Office of Program Development is responsible for the programs, policies, and procedures relating to the origination, underwriting, and insuring of single-family mortgages.

(2) The Office of Asset Management is responsible for the programs, policies and procedures relating to the servicing of single-family mortgages and the sale of foreclosed properties [Real Estate Owned (REO)].

(3) The Office of Lender Activities and Program Compliance is responsible for the approval and recertification of lenders and lender monitoring.

B. HUD Field Operations – HOCs.

1. There are four HOCs located across the country in Philadelphia, PA; Atlanta, GA; Denver, CO; and Santa Ana, CA. These HOCs are responsible for administering all single-family activities in their respective jurisdictions. See Appendix I for a list of the states within each HOC jurisdiction.

2. The Single-Family Servicing Center is located in Oklahoma City, OK, and is responsible for administering the FHA Loss Mitigation and Loan-Servicing Programs.

1-18 CIVIL RIGHTS AND FAIR HOUSING. <TOP> The following statutes and regulations on civil rights and fair housing apply to single-family mortgage insurance programs:

A. Title VIII of the Civil Rights Act of 1968, as amended (Public Law 90-284).

B. Executive Order 11063, as amended by Executive Order 12259.

C. Section 527 of the National Housing Act prohibits denial of a federal-related mortgage loan on the basis of sex.

D. The Equal Credit Opportunity Act (15 U.S.C. 1601 et. seq.) and Regulation B of the Board of Governors of the Federal Reserve System.

E. The Fair Housing Amendments Act of 1988 (see 24 CFR Part 14). This act prohibits discrimination in residential real estate-related transactions by individuals or entities whose business includes engaging in the making of loans or in the provision of other financial assistance, or in the selling, brokering, or appraising of residential real estate.

These prohibitions include:

1. Discrimination in the Making of Loans and in the Provision of other Financial Assistance. Prohibited practices include, but are not limited to, failing or refusing to provide information regarding the availability of loans or other financial assistance, application requirements, procedures or standards for the review and approval of loans or financial assistance, or providing information which is inaccurate or different from that provided others, because of race, color, religion, sex, handicap, familial status, or national origin.

2. Discrimination in the Terms and Conditions for Making Available Loans or other Financial Assistance. Unlawful conduct includes:

a. Using different policies, practices, or procedures in evaluating or in determining creditworthiness of any person in connection with the provision of any loan or other financial assistance secured by residential real estate.

OR

b. Determining the type of loan or other financial assistance to be provided, or fixing the amount, interest rate, duration or other terms for a loan or other financial assistance, because of race, color, religion, sex, handicap, familial status, or national origin.

3. Unlawful Practices in the Selling, Brokering, or Appraising of Residential Real Property.

a. It is unlawful for any person or entity whose business includes engaging in the selling, brokering, or appraising of residential real property to discriminate in making available such services, or in the performance of such services, because of race, color, religion, sex, handicap, familial status, or national origin.

b. Additional unlawful practices include, but are not limited to, using an appraisal on residential real property in connection with the financing of any dwelling where the person knows or reasonably should know that the appraisal improperly takes into consideration race, color, religion, sex, handicap, familial status, or national origin.

1-19 FAIR HOUSING MARKETING. <TOP> FHA's regulations on Affirmative Fair Housing Marketing (24 CFR Part 200, Subpart M) apply to single-family mortgage insurance programs. Homebuilders building five or more units per year must comply with the following:

A. Hiring Policy. Applicants must maintain a non-discriminatory policy in hiring sales staff and instruct all employees on the laws and philosophy of fair housing. Applicant must submit an Equal Employment Opportunity (EEO) Certification to FHA.

B. Logo. Applicants must display the Equal Housing Opportunity statement, logotype, and slogan on all advertising, brochures, site signs, and other materials.

C. Affirmative Fair Housing Marketing Plan. Single-family homebuilders are required to provide information to the Department on their affirmative fair housing marketing activities. These activities, among other things, are intended to inform everyone of the availability of housing opportunities regardless of race, color, religion, sex, handicap, familial status or national origin.

1-20 REPORTING FRAUD AND ABUSE. <TOP> Any violation of law or regulation, or any false statements or program abuses detected by a lender or any of its employees, should be reported immediately to HUD. A report may be submitted in one of four ways:

A. Email. On the Internet via an email form at www.hud.gov.

B. Phone.

1. Call toll-free: 1-800-347-3735

2. TDD: 202-708-2451

C. Fax. 202-708-4829

D. U.S. Mail.
US Department of Housing & Urban Development
Office of Inspector General Hotline
Assistant Inspector General for Investigations
451 7th Street, S.W., Room 8270
Washington, DC 20410

CHAPTER 2 PROPERTY APPRAISAL AND VALUATION

2-1 PURPOSE OF THE APPRAISAL. <TOP> The appraisal serves two main purposes:

A. Condition/Location. Appraisals determine eligibility for mortgage insurance based on the condition and location of the property.

B. Value. Appraisals estimate the value of the property for mortgage insurance purposes.

2-2 PROPERTY APPRAISAL AND UNDERWRITING PROCESS. <TOP> The property appraisal and underwriting process varies by the stage of construction and type of processing.

FHA's appraisal handbook is 4150.2.

2-3 APPRAISAL REQUIREMENTS. <TOP> Except for certain streamline refinance transactions, FHA requires an appraisal of the property to establish an estimated value for mortgage insurance purposes. All individual properties, whether proposed construction, under construction, or existing construction, must meet specific FHA appraisal requirements and standards.

See HUD Handbooks 4140.1, 4150.1, and 4150.2 for additional information about the appraisal requirements for individual properties.

Only one- to four-unit properties are eligible for mortgage insurance, except for mortgages insured under Section 220 of the National Housing Act. See Chapter 6 of this handbook for additional information on the Section 220 program.

2-4 APPRAISAL REPORTING REQUIREMENTS. <TOP> An appraisal performed for FHA purposes requires the reporting of the three part Comprehensive Evaluation Package. Details on requirements for completion of this package are contained in HUD Handbook 4150.2. The Comprehensive Evaluation Package consists of the following:

A. Uniform Residential Appraisal Report – URAR (Fannie Mae Form 1004) is required. However, appraisals written on the Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073) or the Small Residential Income Property Appraisal Report (Fannie Mae Form 1025) forms are also acceptable, as to applicable property types, to the Department for FHA-insured mortgages.

B. Notice to the Lender – Valuation Conditions (Form HUD 92564-VC)

C. Notice to the Homebuyer – Homebuyer Summary (Form HUD 92564-HS).

2-5 CONDOMINIUMS. <TOP> A condominium is a multi-unit project with individually owned units that may be attached in one or more structures, or detached from each other. Its use, for FHA purposes, is essentially residential. A condominium regime is created by state or local law and is characterized by fee simple ownership of a unit (as defined in the condominium documents), together with common areas. The property interest in these areas is both common and undivided on the part of all unit owners, each of whom belongs to the HOA that typically maintains the property and collects assessments or dues from each unit owner for that purpose. See HUD Handbooks 4150.1 and 4265.1 for additional information including condominium project approval requirements.

In addition, condominium projects must be approved by FHA before a mortgage on an individual condominium unit in the condominium project can be insured. In specific circumstances, a loan on a single unit in an unapproved condominium project, known as a “spot loan,” may qualify for mortgage insurance. The lender must certify that a project satisfies the eligibility criteria for a spot loan condominium project that has not been approved by FHA.

See HUD Handbooks 4150.2 and 4265.1 for additional information including condominium project approval requirements.

2-6 GENERAL ACCEPTABILITY STANDARDS FOR PROPERTY. <TOP> There are minimum property standards for existing and proposed construction. A property is considered "existing construction" if it was completed more than one year prior to application. See HUD Handbooks 4905.1 and 4910.1 for additional information on existing and proposed construction, respectively.

Underwriters bear primary responsibility for determining eligibility of a property for FHA mortgage insurance. However, the FHA appraiser is the on-site representative for the Mortgagee and provides preliminary verification that these standards have been met. The “Notice to the Lender” requires the FHA appraiser to report the physical conditions that are readily observable on the date of the site visit and to detail the repairs needed to establish and/or maintain the marketability of the property, protect the health and safety of the occupants, and protect the security of the property. These criteria must be addressed by the Mortgagee before closing.

When examination of existing construction reveals noncompliance with the General Acceptability Criteria, an appropriate specific condition to correct the deficiency is required if correction is feasible. If correction is not feasible and only major repairs or alterations can effect compliance, the Mortgagee will reject the property.

The following is a general outline of the minimum property standards:

A. Eligible Houses. Detached, semi-detached, row houses, multiplex and individual condominium dwellings are eligible. If it is not detached, the dwelling must be separated from an adjoining dwelling by a party or lot line wall extending the full height of the building. Each living unit must be individually accessible for use and maintenance without trespass on adjoining properties.

B. Eligible Manufactured Homes. The following requirements apply to all manufactured homes:

1. At least 400 square feet minimum floor area

2. Built after June 15, 1976, to the Federal Manufactured Home Construction and Safety Standards (MHCSS) as evidenced by an affixed certification label

3. Property is classified and taxed as real estate and is designed to be used as a dwelling with a permanent foundation built to FHA requirements

4. Built and remains on a permanent chassis

5. Mortgage covers both the unit and its site, and has a term of not more than 30 years from date that amortization begins

6. Finished grade beneath home is at or above the 100-year flood elevation

See HUD Handbooks 4145.1 and 4150.2 for additional information.

C. Site Conditions. The property must be free of health and safety hazards.

D. Flood Hazard Areas. The Mortgagee is responsible for determining the eligibility of properties in flood hazard areas and relies upon the FHA appraiser's notation on the URAR form.

1. Proposed and New Construction. If any portion of the property improvements (the dwelling and related structures/equipment essential to the value of the property and subject to flood damage) is located within a special flood hazard area (SFHA) designated by the Federal Emergency Management Agency (FEMA), the property is not eligible for FHA mortgage insurance unless: (1) a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removed the property from the SFHA location is obtained from FEMA or (2) if the property is not removed from the SFHA location by a LOMA or LOMR, the lender obtains a FEMA National Flood Insurance Program Elevation Certificate (form FEMA 81-31) ("flood elevation certificate") documenting that the lowest floor (including the basement) of the residential building and related improvements to the property is built at or above the 100 year flood elevation in compliance with the National Flood Insurance program criteria (see 44 CFR 60.3 through 60.6). National flood insurance is not required if a LOMA or LOMR is obtained but is required when a flood elevation certificate documents that the property remains located within the SFHA. The LOMA, LOMR, or flood elevation certificate must be submitted with the case for endorsement.

If the lender is uncertain about whether the property is located within a SFHA, it may require a flood elevation certificate. In addition, the lender has discretion to require national flood insurance even if the residential building and related improvements to the property are not located within the SFHA, but the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.

2. Existing Construction. Flood insurance must be obtained and maintained for an existing property with any portion of the residential buildings located in a special flood hazard area.

3. Insurance Amount Required. National flood insurance must be maintained in an amount equal to the least of the following: (1) the cost of the improved property (less estimated land costs); (2) the maximum limit of coverage made under the National Flood Insurance Act of 1968; or (3) the outstanding principal balance of the loan. Flood insurance is required for the term of the loan. If the buildings are located within a special flood hazard area (SFHA) and insurance under the National Flood Insurance Program is not available within a community, the property is not eligible for FHA mortgage insurance. See HUD Handbooks 4150.1 and 4150.2 for additional information.

Condominium. The Homeowners' Association (HOA), not the individual owner, is responsible for maintaining flood insurance on buildings located within the special flood hazard area. If the FHA appraiser reports that buildings in a condominium project are located within a FEMA-designated SFHA, the lender is responsible for ensuring that the HOA obtains and maintains national flood insurance on buildings located within the SFHA. The lender is not permitted to submit a LOMA, LOMR or elevation certification for any specific dwelling unit located within a newly constructed condominium project less than one year old.

5. Manufactured Homes. If any portion of the property improvements for both new and existing manufactured home properties are located within a SFHA, the property is not eligible for FHA mortgage insurance without: 1) a FEMA issued LOMA or LOMR, or 2) an elevation certification prepared by a licensed engineer or surveyor on the finished construction indication the ground beneath the manufactured home is at or above the 100 year flood plain. When utilizing an elevation certification, the property is still in the SFHA and the loan will require flood insurance.

E. Lead-Based Paint Hazard. If the property was built before 1978, the seller must disclose known information on lead-based paint and lead-based paint hazards before selling the house. Sales contracts must include a disclosure form about lead-based paint. Buyers have up to 10 days to check for lead. HUD may insure a mortgage on a house even with lead-based paint if defective paint surfaces are treated. HUD will not pay the cost to have the lead-based paint removed, treated, or repaired.

F. Services and Facilities. Utilities and other facilities should be independent for each unit and must include:

1. A continuing supply of safe, potable water

2. Sanitary facilities and a safe method of sewage disposal

3. Heating adequate for health and comfort

4. Domestic hot water, and

5. Electricity for lighting and equipment

G. Access. There must be vehicular access to the property by means of an abutting all-weather public or private street. If private, there must be a permanent easement and provisions for permanent maintenance. Each property must have access to its rear yard.

H. Non-Residential Use. Non-residential use must be subordinate to the property's residential use and character, and it may not exceed 25% of the total floor area. The following are ineligible for mortgage insurance:

Commercial enterprises

Boarding houses

Hotels/motels

Tourist houses

Private clubs

Bed and Breakfast establishments

Fraternity/sorority houses

2-7 USE OF VA CERTIFICATE OF REASONABLE VALUE (VA-MCRV). <TOP>
A Department of Veterans Affairs VA-CRV or a VA Notice of Value (NOV) form may be used as acceptable evidence of a property's eligibility, unless:

A. Property has an outstanding FHA conditional commitment (HUD employees only)

B. Property or site is known to be unacceptable (for example, subject to periodic flooding)

C. Property or site was previously rejected by FHA

D. The VA-MCRV or VA-NOV expired before the sales contract was signed

E. Case is being processed under the DE program and property does not qualify as proposed construction. See HUD Handbook 4000.4, paragraph 1-2 for additional information on using a VA-MCRV in the DE program.

F. Property is a unit in a condominium project that does not meet FHA criteria

The appraiser who performed the appraisal for the VA-MCRV or VA-NOV must currently be on the FHA appraiser roster. The HUD/FHA forms "Notice to the Lender" and "Notice to the Homebuyer" are also required.

2-8 REQUESTING AN FHA CASE NUMBER. <TOP> Lenders request and obtain FHA case numbers using FHA Connection or its functional equivalent. Any additional FHA information on the property will also be transmitted over the FHA Connection.

2-9 TERM OF APPRAISAL. <TOP>

A. Term. The appraisal has a term of six months for existing construction and 12 months for proposed construction. However, if the appropriate HOC determines that soft market conditions exist in certain areas or markets, it may shorten the term of appraisals for proposed construction and substantial rehabilitation to a period of less than 12 months upon advance notice to lenders. The term of the appraisal begins on the day the home is inspected by the FHA appraiser and this date appears on the URAR.

B. Re-Use. Appraisals cannot be re-used after the mortgage for which the appraisal was ordered has closed. For example, an appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if six months has not passed. A new appraisal is required for each refinance transaction requiring an appraisal.

C. Extensions. If a borrower signs a valid sales contract or is approved for a loan prior to the expiration date of the appraisal, the term of the appraisal may be extended, at the option of the lender, for 30 days to allow for the approval of the borrower and closing of the loan. Approval of the borrower occurs when the lender's DE underwriter signs the Mortgage Credit Analysis Worksheet, Form HUD-92900-WS/92900-PUR.

2-10 COMPLIANCE INSPECTIONS. <TOP> Compliance inspections may be required for:

A. Proposed construction or properties under construction

B. Properties undergoing substantial rehabilitation, and

C. Existing properties requiring repairs to major systems (structural, etc.).

The number and timing of inspections depends upon the stage of construction (proposed, rehabilitation, etc.), coverage by an acceptable 10-year warranty plan, acceptability of inspections by the local community, and the type of construction (stick built or manufactured home). A clear final inspection or, in certain cases, a Certificate of Occupancy will be required before FHA will insure the mortgage. See HUD Handbooks 4145.1, 4150.1 and 4150.2 for additional information.

2-11 SATISFYING REPAIR REQUIREMENTS. <TOP> Repair requirements outstanding on the appraisal report must be satisfied before the mortgage is submitted for endorsement. Satisfaction of repair requirements can take one of the following three forms.

A. Compliance Inspection Report (Form HUD-92051). A Compliance Inspection Report, prepared by an appraiser or inspector, certifies that the repairs have been completed satisfactorily.

Generally, since an appraiser places the repair requirements, the same appraiser would be able to determine whether the repair has been made. For inspections that require architectural expertise (structural or basic system repairs), an inspector must complete Form HUD-92051. A FHA fee inspector must complete the report. A FHA-approved inspector list is available via FHA Connection located at https://entp.hud.gov/clas/. In addition to the appraiser or inspector, a professionally licensed, bonded, registered engineer, licensed home inspector or appropriately registered/licensed trades person, as applicable, can provide the documentation to support that all deficiencies noted by the FHA appraiser have been acceptably corrected. The report must be reviewed by FHA or the lender's underwriter, as appropriate.

B. Mortgagee Certification. Mortgagee certification (that the conditions have been satisfied) is acceptable in instances in which the required repair items are minor and uncomplicated. If the homeowner could complete the work himself or herself as normal maintenance, FHA considers the work minor.

C. Escrow of Funds. If adverse weather conditions prevent completion of the repairs, it is not always necessary to complete all new construction items (for example, landscaping) or required repairs (such as exterior painting) before submitting the mortgage for insurance endorsement. In certain situations, funds may be escrowed, and FHA will accept a Mortgagee's Assurance of Completion, Form HUD-92300, at the time of endorsement.

This procedure may be used only when the following conditions apply:

1. The dwelling is habitable, safe, and essentially complete

2. The deferred work cannot be acceptably completed prior to loan closing, but will be completed within six months

3. All other conditions of the appraisal have been satisfied by compliance inspections or by an acceptable Mortgagee's Assurance of Completion, and

4. The lender has not been denied the privilege of using a Mortgagee's Assurance of Completion due to poor follow-up or non-satisfaction of outstanding escrows

The lender assumes the obligation to satisfactorily complete the improvements, regardless of the adequacy of the funds reserved by escrow or letter of credit. An appraiser or an inspector appearing on FHA's Appraiser Roster or FHA's Panel of Inspectors must confirm that the work was completed. Lists of these individuals are located on HUD’s Web site at www.hud.gov. Alternately, as mentioned in paragraph 2-12A of this handbook, a professionally licensed, bonded, registered engineer; licensed home inspector; or appropriately registered/licensed trades person, as applicable, can provide the documentation to support that all deficiencies noted by the appraiser been acceptably corrected.

See HUD Handbook 4145.1 for additional information on this procedure.

2-12 SECTION 223(e). <TOP> A mortgage may be insured pursuant to Section 223(e) for the repair, rehabilitation, construction, or purchase of properties in older, declining urban areas. Eligibility under Section 223(e) is to be determined by the appropriate HOC.

If the case is being processed under DE, the lender must submit the case binder to the appropriate HOC for prior approval processing and 223(e) consideration. The case binder must be submitted after the appraiser and the lender's underwriter have determined that the property does not meet the location eligibility requirements of Section 203(b), but is located in an older, declining urban area that may qualify for 223(e). See Chapter 6 of this handbook for additional information.

2-13 APPRAISAL AND INSPECTION FEES. <TOP> The lender is responsible for collecting fees and promptly paying appraisers and inspectors.

2-14 DOCUMENTATION OF APPRAISED VALUE. <TOP> In accordance with the provisions of the National Housing Act, the lender must provide to the homebuyer a Statement of Appraised Value. The lender accomplishes this requirement by giving the borrower a copy of Form HUD-92800.5B. When a VA-MCRV issued by the VA or a NOV issued by a lender in accordance with VA requirements is the basis for the estimate of the appraised value, the lender must provide a copy of the VA-MCRV or NOV to the borrower. If the borrower requests a copy of the appraisal, the lender must provide it to the borrower.

CHAPTER 3 MORTGAGE CREDIT ANALYSIS AND BORROWER APPROVAL

3-1 PURPOSE OF MORTGAGE CREDIT ANALYSIS. <TOP> Mortgage credit analysis is used to determine the borrowers credit and capacity to repay the mortgage, and to limit foreclosures or collection difficulties. See HUD Handbook 4155.1, Chapter 2 for complete mortgage credit underwriting requirements.

3-2 EQUAL CREDIT OPPORTUNITY. <TOP> The predetermined standards of acceptable risks must be applied equally to all borrowers, regardless of race, color, creed, religion, sex, marital status, age, or physical handicap.

3-3 CONFIDENTIAL NATURE OF CREDIT INFORMATION. <TOP> Sources must never be divulged, except as required by the contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with the following:

A. Title VIII of the Civil Rights Act of 1968

B. The Fair Credit Reporting Act, Public Law 91-508

C. The Privacy Act, Public Law 93-579

D. The Financial Privacy Act, Public Law 95-630

E. The Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202

3-4 APPLICATION. <TOP> All borrowers must complete the loan application and all additional FHA documents. Except for nonprofit corporations that provide assistance to low- and moderate-income families, all applications must be in the name of one or more individuals. An application from a corporation, partnership, sole proprietorship, or trust also must name one or more individuals and must be analyzed on the basis of the individual, as well as the organization.

The lender must ask sufficient questions of the borrower to elicit a complete picture of the borrower's financial position, source of funds for the transaction, and intended use of the property. Additionally, the lender is responsible for verifying the identity of the borrower(s).

3-5 CREDIT REPORT AND VERIFICATIONS. <TOP> Lenders must obtain and verify information with as much care as would be used if entirely dependent on the property as security. The credit report and verification forms must not pass through the hands of the borrower, a real estate agent, or other interested third party.

3-6 BORROWER APPROVAL OR REJECTION. <TOP> The DE underwriter determines the creditworthiness of the borrower(s).

A. Approved Borrowers. Results of the analysis are recorded on the Mortgage Credit Analysis Worksheet (Form HUD-92900-WS/92900-PUR). Modification of the mortgage amount or approval conditions and necessary explanatory statements are entered under "Remarks."

For HUD employee loans, FHA issues a Firm Commitment to the lender, which obligates FHA to insure the mortgage, provided all conditions are met. For DE cases, the lender's underwriter approves the borrower and authorizes closing.

1. Notice to Borrower. The lender is responsible for notifying the borrower of the approval, either in writing or verbally, immediately upon receipt of the underwriter's decision.

B. Rejection/Disapproval of Borrower. The following notices are required when an application is rejected:

1. To Lender on FHA-Processed Cases. FHA issues a Non-Endorsement Notice, Form HUD-59100, showing all reasons for ineligibility, plus any counterproposal to effectuate loan approval (e.g., a reduced mortgage amount).

2. Notice to Borrower(s). The lender must immediately deliver a copy of the Non-Endorsement Notice and, when required, an Equal Credit Opportunity Act Notice to the borrower.

Whenever a borrower is rejected for unacceptable credit characteristics on the basis of information contained in a credit report, the borrower must be notified and be given the name, address, and, where available, the telephone number of the credit reporting agency.

3-7 INVESTMENT PROPERTIES AND DWELLINGS FOR TWO OR MORE FAMILIES. <TOP> Borrower's Contract with Respect to Hotel and Transient Use of Property, Form HUD-92561, must be submitted with the request for insurance endorsement if the loan is on investment property (if permitted) or a dwelling for two or more families.

A. Seven Unit in Proximity. Qualified investor entities are limited to a financial interest (i.e., any type of ownership, regardless of type of financing) in seven rental dwelling units, when the subject property is part of, adjacent to, or contiguous to a property; subdivision; or group of properties owned by the investor. Each dwelling unit in two-, three-, and four-family properties counts toward the seven-unit limitation. The rental units in an owner-occupied toe-, three-, or four-unit property also count toward this limitation. The lender is responsible for assuring compliance with this regulation (see 24 CFR 203.42 for additional information). See HUD Handbook 4155.1 for additional information on the seven-unit limitation.

CHAPTER 4 CANCELLING CASES AND TRANSFERRING CASE NUMBERS

4-1 CANCELLING CASES. <TOP> The lender must notify the appropriate HOC via FHA Connection, or its functional equivalent, to close outstanding files and cancel the FHA case number if the origination and closing of a loan will not be completed or if FHA mortgage insurance endorsement will not be sought.

4-2 TRANSFERS OF CASE NUMBERS BETWEEN LENDERS. <TOP>

A. New Lender. Lenders are expected to cooperate in the transfer of case numbers. At the request of a borrower, the case number is to be assigned to the new lender using the Case Transfer function in FHA Connection. The transferring lender is not entitled to a fee for the transfer of a streamline refinance case number, regardless of the stage of processing the loan is in. The transferring lender may be entitled to any lock-in fee collected from the borrower at the time of application. The transferring lender is required to provide the new lender with the appraisal but is not required to provide any processing documents. If processing documents are transferred, the fee for providing these documents is to be negotiated between the lenders. No separate charge to the borrower is authorized for this transfer.

B. New Borrower Using an Existing Appraisal. If the transfer is made for a new borrower to use an existing appraisal, the new lender is to collect an appraisal fee from the new borrower. The appraisal fee is sent to the original lender who, in turn, is to refund the fee to the original borrower.

C. Rejected Loan. If the transfer involves a rejected loan, the original lender must complete the Mortgage Credit Reject function in FHA Connection prior to transferring the loan.

D. Master Appraisal Report (MAR), Form HUD-91322.1. In the case of a MAR, the transferring lender is only entitled to a pro-rata share of the cost of the MAR. For example, if the MAR is for 100 units and cost $10,000, the new lender would pay the transferring lender $100. While a lender may have provided resources to obtain the MAR in anticipation of capturing most – if not all – of the individual mortgage loans, it may not deny an appraisal assignment request to a borrower who wishes to use an alternative mortgage lender.

CHAPTER 5 LOAN CLOSING AND INSURANCE

5-1 LOAN CLOSING. <TOP> The conditions of the DE lender's approval (FHA's commitment if applicable) should be discussed with the borrower and, if applicable, the seller or builder.

A. Title Insurance. Title insurance is not required at closing. However, the lender is responsible for conveying good, marketable title to FHA when a claim is filed. The one exception to this involves property that previously had been sold by HUD (REO sale) and FHA has insured the mortgage financing the sale by HUD. If such a property had a title defect prior to the original conveyance to FHA, the lender will not be held responsible for any title defects arising prior to the sale by FHA. See 24 CFR 203.390 for additional information.

B. Title Objections. Any additional exceptions discovered during the title search should be reported to the DE underwriter before the loan is closed, unless the exceptions are covered by the General Waiver. Lenders should ensure that any conditions of title to the property will be acceptable to FHA. FHA regulations at 24 CFR 203.389 state that FHA will not object to title because of common customary easements, restrictions, and encroachments and provides a general waiver for these title conditions. These include easements for public utilities, party walls, driveways, wooden or wire fences and for other similar purposes. Lenders should review 24 CFR 203.389 for a full description of the general waiver provisions. Other title matters not covered by this general waiver must be reviewed by the lender. The lender will make the decision about other title conditions and whether the title condition will significantly affect the property's value and/or marketability.

C. Closing Instruments. Forms or language prescribed by FHA must be used.

D. Date of Closing. The date of closing is defined as the settlement date as it appears on the HUD-1 Settlement Statement. On refinance transactions, the date from which the lender must submit any upfront mortgage insurance premium begins when the lender disburses loan proceeds.

E. Date from which interest may be collected. The date from which interest may be collected is the date on which the lender disburses (relinquishes control of) the loan proceeds. Interim interest for the period preceding amortization must be computed using a daily factor of 1/365th of the annual rate.

5-2 CLOSING COSTS AND OTHER FEES. <TOP> Listed below are the customary and reasonable fees and charges that may be collected from the borrower by the lender and used to meet the minimum investment requirement for purchases and added to the existing indebtedness for refinances. The cost for any item charged to the borrower must not exceed the cost paid by the lender or charged to the lender by the service provider.

A. Appraisal Fee and Inspection Fee. The borrower may be charged an appraisal fee. Borrowers may only be charged a pro-rata appraisal fee on Master CRVs (MCRVs) or MARs since the fee charged by the appraiser is for all lots covered. This fee may not exceed the actual appraisal fee, divided by the number of lots covered by the appraisal. Inspection fees may be collected from the borrower for any inspections that must be conducted on the property.

B. Credit Reports (Actual Costs). The lender can charge a fee for a credit report when the loan is manually underwritten, and it also may charge a fee for Automated Underwriting System (AUS) credit reports.

C. AUS Fee. When the lender uses an AUS that is not the lender's own system or a system directly/indirectly owned by the lender, the lender may collect from the borrower the underwriting fee charged to the lender by the AUS. The lender can collect only one AUS underwriting fee from the borrower.

D. Verification Charges. The borrower may be charged only the actual charges imposed by the depository institution, employer, or property management firm, etc.

E. Origination Fee. The borrower may be charged an origination fee in accordance with 24 CFR 203.27. HUD is reviewing this regulation for possible amendment.

F. Home Inspection Fees. Home inspection fees up to $300, or the actual cost, may be included as closing costs in meeting the borrower's minimum investment.

G. Document Preparation Fees. Document preparation fees may be charged only if the documents are prepared by a third-party and are not controlled by the lender. The lender may not charge these fees if it prepares documents itself.

H. Property Survey Fees. The borrower may be charged property survey fees, although they are not required by FHA.

I. Title Examination and Title Insurance Fees. The borrower may be charged title examination and title insurance fees, although they are not required by FHA.

J. Attorney's Fees. The borrower may be charged attorney's fees, only if the attorney is not an employee of the lender.

K. Settlement Fees. The borrower may be charged settlement fees, only if the closing agent is not an employee of the lender. A fee may be charged if the settlement agent is an independent company or a subsidiary that regularly closes loans for several different lenders.

L. Real Estate Broker's Fees (Buyer Broker). The borrower may be charged real estate broker's fees, only if the borrower engages the broker independently and the fees are reasonable and customary. However, if the broker is not independently engaged, no fees may be charged to the borrower. See HUD Handbook 4155.1 for additional information.

M. Recording Fees and Taxes. The borrower may be charged recording fees and taxes that are customary or required in the area.

N. Test or Treatment Fees. The borrower may be charged test or treatment fees that are required by FHA or the lender. These fees include tests of water supplies, soil percolation tests for individual septic systems, or testing for or treating insect infestation.

O. Courier/Wire/Notary Fees. Courier fees and wire fees may be charged only on refinances and only for delivery of the mortgage payoff statement to the lien holder and for closing documents to the settlement agent. The borrower must agree in writing to pay for the courier and wire fees, prior to loan closing. Notary fees may be charged if notarization is required by state law and is performed by a notary who is not employed by the lender.

P. Other Fees and Charges. Other fees and charges that may be assessed, but are not considered "closing costs" include:

1. Discount Points. Discount points charged by the lender on a purchase transaction may be charged to the buyer but may not be financed into the mortgage amount. On refinance transactions, reasonable discount points may be financed into the mortgage amount subject to equity requirements and other restrictions applied to refinances.

2. Lock-Ins/Rate Locks. A written guarantee that ensures the loan terms will not change for a definite period of time (not less than 15 days) or that limits the extent to which the terms may change. See paragraph 1-9 of this handbook for additional information.

The appropriate HOC may authorize or reject any other charge or the amount of any charge, based on what is reasonable and customary in the area.

5-3 PROHIBITED PAYMENTS. <TOP>

A. Unearned Fees. A lender is not permitted to pay any fee, compensation, or thing of value:

1. Other than for services actually performed.

2. That is a kickback.

3. Above that actually paid for the service.

4. To any party for referring the loan (a finder's fee).

To a party that has or will receive other payment for the service, except in the case of a commission for selling a hazard insurance policy at the request of the borrower.

6. That is prohibited by the Real Estate Settlement Procedures Act (RESPA).

B. Advances. Advancing funds in anticipation of commissions on sales to be financed with FHA-insured mortgages is prohibited.

C. Loans. A lender may not make below-market or no-interest loans to a real estate broker, real estate agent, mortgage broker, packager, builder, or any other party from whom the lender accepts proposals involving FHA-insured mortgages.

5-4 UNIFORM CASE BINDER. <TOP> Lenders must prepare and submit a uniform case binder to the appropriate HOC. The case binder must be purchased from private sources, meet FHA specifications, and contain documents arranged as prescribed by FHA. HUD Handbook 4165.1 provides detailed information on assembling the case binder for insurance submission purposes, including the required stacking order of the documents.

5-5 SUBMISSION OF CLOSING PACKAGE FOR ENDORSEMENT. <TOP> Following mortgage closing, the lender must submit the case binder to the appropriate HOC for endorsement.

A. Timing of Submission. The case should be submitted for endorsement within 60 days after mortgage loan settlement or funds disbursement, whichever is later.

B. Delays in Submission. When there is a delay in submitting the case binder or a delay in closing the loan, the lender must submit additional documentation and comply with FHA's late endorsement policy to obtain a MIC. See Mortgagee Letter 2004-14 for additional information.

5-6 INSURANCE ENDORSEMENT. <TOP> If the closing package is acceptable, FHA provides an electronic acknowledgement that FHA has insured the mortgage. Mortgagees may download the electronic MIC from the FHA Connection for their records.

5-7 DEFICIENT SUBMISSIONS. <TOP> Requests for insurance endorsement that are deficient and do not meet our guidelines will be issued a Non-Endorsement Notice, Form HUD-59100 and the case binder will be returned to the lender.

5-8 RETENTION OF LENDER'S ORIGINATION FILE. <TOP> The originating lender must retain the entire case file pertaining to loan origination, either in hard copy or electronic form, for at least two years from the date of insurance endorsement for auditing purposes. Upon request, the lender must make legible hard copies of the material available to HUD staff.

A. Documents to be Retained.

1. The original mortgage note, and mortgage (or deed of trust and deed of trust note) must be preserved for all FHA-insured mortgages.

2. The remaining documents must be retained either in hard copy form or any electronic form. If the lender elects to retain the documents in electronic form, all documents (including notes to the file, forms and records) must be retained in this format.

B. Sale or Transfer of Servicing. Upon sale or transfer of servicing, the entire origination file, whether electronic or not, must accompany the transfer. Either the holding or servicing lender, by arrangement between them, retains the file for the life of the insurance, plus two years, whether the mortgage has been satisfied by payment-in-full, voluntary termination, or a claim for insurance benefits.

5-9 POST-ENDORSEMENT REVIEWS. <TOP> To ensure that lenders understand and comply with FHA's requirements, selected case binders are reviewed after insurance endorsement.

A. DE Cases. The post-endorsement review includes a technical review of the appraisal report, mortgage credit analysis, underwriting decisions, and the closing documents.

B. FHA-Processed Cases. A sampling of cases are fully reviewed after insurance endorsement to assure compliance with FHA's closing conditions and regulations.

CHAPTER 6 HOME MORTGAGE INSURANCE PROGRAMS

6-1 GENERAL. <TOP> This chapter gives a brief description of all of FHA's single-family mortgage insurance programs. Unless otherwise stated, FHA's single-family programs are limited to primary residences only. Section numbers refer to the section of the National Housing Act authorizing that program.

6-2 SECTION 203(b) HOME MORTGAGE INSURANCE. <TOP> Section 203(b) Home Mortgage Insurance insures lenders against losses on mortgage loans used to finance the purchase of proposed, under construction, or existing one- to four-family dwellings or manufactured homes, as well as to refinance indebtedness on existing housing.

A. Maximum Insurable Mortgage-Purchase Transactions. Determined by the lesser of the statutory maximum loan limit or the applicable LTV ratio. Statutory limits may be 50% higher in Alaska, Hawaii, Guam, and the Virgin Islands. Dollar limitations may be increased by up to 20% if the increase is directly attributable to the cost and installation of a solar energy system in the property.

1. Statutory Loan Limits. Limits in high-cost areas are based upon median sales prices in the area. The statutory loan limits can be found on the HUD Web site at www.hud.gov or by accessing FHA Connection at https://entp.hud.gov/clas/.

2. Maximum LTV Ratios. The maximum LTV for a property will depend upon its stage of construction (proposed construction, under construction, or existing home), its appraised value and sales price, and whether it is located in a state with high closing costs or low closing costs. The maximum LTVs are as follows:

Maximum Loan-to-Value Percentages

Low Closing Costs States

98.75 percent: For properties with values/sales price equal to or less than $50,000.

97.65 percent: For properties with values/sales prices in excess of $50,000 up to $125,000.

97.15 percent: For properties with values/sales prices in excess of $125,000.

High Closing Costs States

98.75 percent: For properties with values/sales prices equal to or less than $50,000.

97.75 percent: For properties with values/sales prices in excess of $50,000.

Although the UFMIP may be financed, it is not considered part of the loan amount when applying these ratios. See HUD Handbook 4155.1 for additional information on maximum LTVs for properties in different stages of construction and for refinance transactions.

B. Minimum Investment. Borrowers are required to invest the difference between the total acquisition cost (sales price, cost of any required repairs paid for by the borrower, and total closing costs to be paid by the borrower), and the amount of the mortgage to be insured. The borrower's minimum investment must be:

1. Principal Residence. Not less than 3% of the sales price.

2. Occupant Borrowers at Least 60 Years Old. Occupant borrowers at least 60 years old may borrow all or part of the required downpayment from a relative, employer, or humanitarian organization. The amount borrowed, when added to the mortgage amount, cannot exceed the total of appraised value, plus prepaid expenses and closing costs. The interest rate on the borrowed downpayment cannot exceed the mortgage interest rate, and the mortgaged property cannot be used as security for the downpayment loan. Evidence that these conditions are met must accompany the application.

C. Mortgage Term. Up to 30 years.

6-3 SECTION 203(h) HOME MORTGAGE INSURANCE FOR DISASTER VICTIMS.
<TOP> Section 203(h) Home Mortgage Insurance for Disaster Victims insures lenders against losses on mortgage loans on principal residences of borrowers who are disaster victims. See HUD Handbook 4240.1 and 24 CFR 203.18(e) for additional information.

A. Eligibility Requirements.

1. Purchasing or reconstructing a one-family dwelling. If purchasing a new home, the home need not be located in the area where the previous home was located.

2. Previous home (owned or rented) was in an area the President has declared a major disaster and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Documentation attesting to the damage must accompany the loan application.

3. Application must be submitted within one year of the President's declaration.

B. Maximum Insurable Mortgage. Same statutory loan limits as Section 203(b). LTV ratio is 100%.

Closing Costs and Prepaid Expenses. These must be paid by the borrower in cash or paid through premium pricing.

Minimum Investment. None required.

E. Mortgage Term. Same as Section 203(b).

F. MIP. UFMIP and monthly.

G. Refinancing. Permitted in conjunction with rehabilitation.

6-4 SECTION 203(i) HOME MORTGAGE INSURANCE FOR OUTLYING AREAS. <TOP>
Section 203(i) Home Mortgage Insurance for Outlying Areas insures lenders against losses on mortgage loans used to purchase a proposed, under construction, or existing one-family dwelling (or manufactured home), or to refinance a mortgage on an existing one-family dwelling in a rural area or a farm home located on 2.5 or more acres of land adjacent to an

all-weather public road. See HUD Handbook 4240.1 and 24 CFR 203.18(d) for additional information.

A. Maximum Insurable Mortgage. Determined by the lesser of the statutory loan limit or the applicable LTV ratio.

1. Statutory Loan Limit. 75% of the amount available under Section 203(b). Loan limits may be increased by up to 20% if the increase is directly attributable to the cost and installation of a solar energy system in the property. Statutory loan limits are available on HUD's Web site at www.hud.gov.

2. LTV. Same as Section 203(b).

B. Minimum Investment. Same as Section 203(b). However, the borrower, under certain conditions, may borrow the required cash investment. See HUD Handbook 4240.1 for additional information.

C. Mortgage Term. Same as Section 203(b).

D. MIP. UFMIP and monthly.

E. Refinancing. Same as Section 203(b).

6-5 SECTION 203(k) REHABILITATION HOME MORTGAGE INSURANCE. <TOP>
Section 203(k) Rehabilitation Home Mortgage Insurance insures lenders against losses on mortgage loans used to: 1) purchase and rehabilitate an existing one- to four-family dwelling (completed for more than one year) that will be used for residential purposes, 2) refinance and rehabilitate such a structure and refinance the outstanding indebtedness, and 3) rehabilitate a dwelling after it has been moved from another site to a new foundation.

Section 203(k) should not be used unless the rehabilitation or improvement costs total a minimum of $5,000. See HUD Handbook 4240.4 and 24 CFR 203.50 for additional information.

A. Eligible Improvements. Eligible improvements include items such as structural alterations, additions, reconstruction, remodeling, new siding, plumbing, painting, decking, heating, air conditioning, electrical systems, roofing, flooring, carpeting, energy conservation improvements, and major landscape work. All health, safety, and energy-conservation items must be addresses prior to completing general home improvements.

B. Required Documentation. The application package must include drawings and specifications of the proposed improvements and the rehabilitation cost estimate. The work write-up must show that, when the property is completed, it will meet FHA's minimum property standards or, if more stringent, the local codes.

C. Maximum Insurable Mortgage. To assure that the mortgage is adequately supported by the property value, the maximum 203(k) mortgage amount must be based on the least of the following:

1. The "as-is" value, plus the cost of repairs (and improvements). If an "as-is" appraisal is not performed, use the contract sales price on a purchase transaction, plus the repairs costs, or

2. The existing debt on a refinance plus the repair costs, or

3. 110% of the “after improved” value.

D. Minimum Investment. Same as Section 203(b).

E. Mortgage Term. Same as Section 203(b).

F. MIP. Monthly.

G. Refinancing. Permitted in conjunction with rehabilitation.

H. 203 (k) Mortgage. A 203(k) mortgage is eligible for insurance before rehabilitation begins, provided that the mortgage proceeds allocated for the rehabilitation go into a Rehabilitation Escrow Account at closing and will be disbursed as work progresses.

1. Appraisal Fee. In some cases, a Section 203(k) mortgage requires two appraisals: one on the “as-is” value of the property, and a second on the estimated market value when the work is complete.

2. Supplemental Origination Fee. When the Section 203(k) mortgage involves insurance of advances and partial disbursements of the rehab escrow account, the lender may collect from the borrower a supplemental origination fee. This fee compensates the lender for the additional cost of disbursements and inspections of the work. The fee is 1.5% of the portion of the mortgage allocated to rehabilitation or $350, whichever is greater.

6-6 SECTION 203(n) SINGLE-FAMILY COOPERATIVE PROGRAM. <TOP> Section 203(n) Single-Family Cooperative Program insures lenders against losses on mortgage loans used to acquire corporate certificates (stock or membership) and occupancy certificates in a cooperative housing project covered by a blanket mortgage insured under the National Housing Act. See HUD Handbook 4240.3 and 24 CFR 203.43c for additional information. This program is not eligible for Direct Endorsement processing.

A. Occupancy. Purchaser must intend to occupy the unit and will be responsible for his or her share of common expenses or assessments and charges.

B. Maximum Insurable Mortgage. The maximum mortgage amount is the remaining balance of the amount calculated per instructions for Section 203(b) relating to owner-occupants minus the portion of the unpaid balance of the blanket mortgage which is attributable to the dwelling unit.

C. Minimum Investment. Same as Section 203(b).

D. Mortgage Term. The mortgage term is not to exceed 30 years, the remaining term of the blanket mortgage, or three-fourths of the remaining economic life of the building improvements, whichever is less.

E. MIP. UFMIP and monthly MIP.

F. Refinancing. Not available.

6-7 SECTION 220 (d)(3)(A) URBAN RENEWAL MORTGAGE INSURANCE. <TOP>
Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance insures lenders against losses on

mortgage loans used to rehabilitate one- to eleven-family dwellings or to build new ones in redevelopment areas. See HUD Handbook 4245.1 for additional information.

A. Area Eligibility. This program is limited to:

1. Urban renewal or code enforcement areas
2. Areas designated by local government (and approved by FHA) for concentrated housing, physical development, and public service activities under a locally developed comprehensive strategy to upgrade and stabilize the area.

B. Maximum Insurable Mortgage. Determined by the lesser of the statutory loan limit or the appropriate LTV ratio, using the cost of rehabilitation or construction instead of market value.

1. Statutory Limits.

a. One- to Four-Family Structures. Same as Section 203(b).

b. Five- to Eleven-Family Structures. The applicable Section 203(b) limit for a four-family dwelling, plus $9,165 for each additional family unit over four.

2. LTV Ratios.

a. Principal Residences. Same as Section 203(b).

b. Refinancing. Refinancing is permitted, except on proposed construction. The maximum mortgage is the sum of the following, plus closing costs:

(1) FHA's estimated cost of the rehabilitation, and

(2) The lesser of: “as-is” value or amount required to refinance the existing debt

C. Minimum Downpayment. Same as Section 203(b).

D. Mortgage Term. Same as Section 203(b).

E. MIP. Annual MIP.

F. Refinancing. Permitted in conjunction with rehabilitation.

6-8 SECTION 220(h) INSURED IMPROVEMENT LOANS-URBAN RENEWAL AREAS.
<TOP> Section 220(h) Insured Improvement Loans-Urban Renewal Areas insures lenders against losses on mortgage loans used for alterations, repairs, or improvements to existing one- to eleven-family dwellings in a redevelopment area. See paragraph 6-7 of this handbook for additional information. Cost certifications are required for five- to eleven-family dwellings. See HUD Handbook 4245.1 for additional information.

A. Property Eligibility. The property must have been completed not less than 10 years before the date of application, unless the loan will be used primarily for:

1. Major structural improvements

2. Correcting defects not apparent at completion

3. Correcting defects caused by fire, flood, or other casualty

B. Maximum Insurable Mortgage. The amount cannot exceed the difference between any existing debt on the property and the Section 220(d)(3)(A) loan limit for that size structure. Within this limit, the maximum insurable mortgage is the least of:

1. FHA's estimate of the cost of improvements

2. $40,000

3. $12,000 per family unit ($17,400 in high-cost areas)

C. Minimum investment. None required.

D. Mortgage Term. 10, 15, or 20 years.

E. MIP. Monthly.

F. Refinancing. Not available.

6-9 SECTION 223(e) MISCELLANEOUS HOUSING INSURANCE. <TOP> Section 223(e) Miscellaneous Housing Insurance insures lenders against losses on mortgage loans used to finance repair, rehabilitate, construct, or purchase property in an older, declining urban area. See HUD Handbook 4260.1 and 24 CFR 203.43a for additional information.

A. Property Eligibility. Area must be reasonably viable, and property cannot qualify for other single-family programs. Initial determination of properties subject to Section 223(e) will be made by the appraiser.

B. Maximum Insurable Mortgage. Same as appropriate section.

C. Minimum Investment. Same as appropriate section.

D. Maximum Term. Same as appropriate section.

E. MIP. Monthly.

6-10 SECTION 233 MORTGAGE INSURANCE FOR EXPERIMENTAL HOUSING. <TOP> Section 233 Mortgage Insurance for Experimental Housing insures lenders against losses on mortgage loans used to build or rehabilitate one- to four-family dwellings (or one- to eleven-family dwellings meeting the requirements of Section 203(b), Section 220(d)(3)(A), or Section 220(h)) using: (1) advanced technology in housing design, material or construction, or (2) experimental property standards for neighborhood design. See HUD Handbook 4290.1 and 24 CFR 233 for additional information.

A. Property Eligibility. The property must be approved for insurance before construction, repair, rehabilitation, or improvement can begin.

B. Maximum Insurable Mortgage. The requirements of the applicable program, Sections 203(b), 220(d)(3)(A), 220(h), or 234(c), must be met (except that LTV ratios are applied to the estimated replacement cost, rather than value, for new construction or to the estimated rehabilitation cost, using, in either case, conventional or advanced methods, whichever is less).

C. Minimum Investment. Same as appropriate section.

D. Mortgage Term. Same as appropriate section.

E. MIP. Monthly.

6-11 SECTION 234(c) MORTGAGE INSURANCE FOR CONDOMINIUM UNITS. <TOP> Section 234(c) Mortgage Insurance for Condominium Units insures lenders against losses on mortgage loans used to purchase or refinance individual units in eligible condominium projects. See HUD Handbook 4150.1 and 24 CFR 234 for additional information.

A. Project Eligibility. The condominium project must be on FHA's approved list. See HUD's Web site at www.hud.gov for the list of approved condominium projects. In specific circumstances, a loan on a single unit in an unapproved condominium project, known as a "spot loan," may qualify for mortgage insurance. The lender must certify that a project satisfies the eligibility criteria for a spot loan condominium project that has not been approved by FHA. See Mortgagee Letter 96-41 for more information.

B. Borrower Eligibility. Same as Section 203(b).

C. Maximum Insurable Mortgage. Same as Section 203(b).

D. Minimum Investment. Same as Section 203(b).

E. Mortgage Term. Same as Section 203(b).

F. MIP. Upfront and monthly.

G. Refinancing. Same as Section 203(b).

6-12 SECTION 238(c) MORTGAGE INSURANCE IN MILITARY IMPACTED AREAS (MIAs). <TOP> Section 238(c) MIAs insures lenders against losses on mortgage loans financing construction, repair, rehabilitation, or purchase of property near any military installation in federally impacted areas. See 24 CFR 203.43e for additional information.

A. Area Eligibility. The Secretary of Defense must have certified that there is a need for additional housing in the area and that there are no plans to close or relocate the military base during the five years following the certification.

B. Application Eligibility. Same as appropriate section.

C. MIP. Monthly

6-13 SECTION 245(a) GPMs AND GEMs. <TOP> Section 245(a) Graduated Payment Mortgages (GPM) and Growing Equity Mortgages (GEM) insures lenders against loss on mortgage loans that involve increasing or graduated mortgage payments.

A. GPMs. This program facilitates early homeownership for households that expect their incomes to rise. Initially, monthly payments are smaller than payments in a level-payment mortgage. Later, the payments gradually increase. The program is limited to principal residences. Only one-family dwellings are eligible.

Five plans are available, varying in duration and rate of payment increase. Higher downpayments are required under some plans. Mortgages are insured under Section 203(b) or 234(c), pursuant to Section 245(a). Requirements of the applicable section must be met. See HUD Handbook 4240.2 and 24 CFR 203.45 for additional information.

1. Maximum Insurable Mortgage. The principal amount of the mortgage cannot exceed the least of:

a. Section 203(b) statutory loan limit for the area

b. Applicable 203(b) LTV ratio , or

c. An amount which, when added to the deferred interest that will be added to the principal, does not exceed 97% of value

2. Mortgage Term. Same as Section 203(b).

3. MIP. Same as appropriate section.

4. Authorized Plans. Monthly payments increase annually. Starting in the 6th year (for the 5-year plans) or the 11th year (for the 10-year plans), the monthly payments will be level for the remaining term. The annual increases for the various plans are:

a. Plan I (Code A): 2.5% each year for 5 years.
b. Plan II (Code B): 5% each year for 5 years.
c. Plan III (Code C): 7.5% each year for 5 years.
d. Plan IV (Code D): 2% each year for 10 years.
e. Plan V (Code E): 3% each year for 10 years.

5. Refinancing.

a. Section 245(a) cannot be used to draw equity out of property owned by the borrower, or if the present financing does not contain a mandatory prepayment clause. Refinancing an existing mortgage is only permitted when:

(1) Owner is required to pay-in-full a conventional mortgage used to purchase the home, and the mortgage required a balloon payment within 3 to 5 years.

(2) Borrower has contracted to have a home built and, when construction is complete, the construction loan must be paid-in-full.

(3) Borrower purchased a home on a land contract or contract for deed.

b. Borrowers with a GPM may refinance at any time to a level-payment mortgage:

(1) If the borrower is eligible for a streamline refinance, without an appraisal, or
(2) If the unpaid balance, including the negative amortization, does not exceed the appropriate LTV ratio, based on a new appraisal.

B. GEMs. There is no interest deferral or negative amortization with a GEM. Scheduled increases in monthly payments are applied to reduce the principal, resulting in a shorter term and lower total cost to the borrower.

Mortgages are insured under Section 203(b), 203(k), or 234(c), pursuant to Section 245(a). Requirements of the appropriate section must be met. See 24 CFR 203.47 for additional information.

1. Maximum Insurable Mortgage. Same as Section 203(b).

2. Minimum Investment. Same as Section 203(b).

3. Mortgage Term. Varies with each plan and the mortgage interest rate.

4. MIP. Same as appropriate section.

5. Five Specific Plans are Authorized. Each plan has an annual increase in the monthly payments for the life of the loan. For the initial year, the monthly payments to principal and interest are based on a 30-year level-payment amortization schedule. Thereafter, monthly payments increase by one of the following fixed percentages each year for the life of the loan:

a. Plan I (Code L): 1% each year.
b. Plan II (Code M): 2% each year.
c. Plan III (Code N): 3% each year.
d. Plan IV (Code O): 4% each year.
e. Plan V (Code P): 5% each year.

6. Refinancing. Same as appropriate section.

6-14 SECTION 247 SINGLE-FAMILY MORTGAGE INSURANCE ON HAWAIIAN HOME LANDS (HHL) [See 24 CFR 203.43(i)]. <TOP>

A. Property Eligibility. Covers one- to four-family dwellings in Hawaii that are under a homestead lease.

B. Borrower Eligibility. Limited to owner-occupants who are native Hawaiians. (Requires a certificate of eligibility issued by the Department of Hawaiian Home Lands.)

C. MIP. One-time MIP only.

6-15 SECTION 248 SINGLE-FAMILY MORTGAGE INSURANCE ON INDIAN LANDS (IL) [See 24 CFR 203.43(h)]. <TOP>

A. Property Eligibility. Covers one- to four-family dwellings on Indian lands (on trust lands or otherwise restricted lands).

B. Borrower Eligibility. Borrower must be a member of an Indian tribe or the tribe itself.

C. Other. Tribe must have adopted eviction procedures acceptable to FHA.

D. MIP. Monthly.

6-16 SECTION 251 ARMs. <TOP> Section 251 ARMs insures lenders against loss on variable rate mortgages. Mortgages are insured under Section 203(b), 203(h), 203(k), or 234(c), pursuant to Section 251. Requirements of the appropriate section must be met.

A. Property Eligibility. One- to four-family dwellings and condominium units.

B. Insurance Authority. The number of ARMs that FHA may insure in a year is limited to 30% of the total number of mortgages insured under Title II during the preceding fiscal year.

C. Maximum Insurable Mortgage. Same as appropriate section.

D. Minimum Investment. Same as appropriate section.

E. Mortgage Term. Only 30-year mortgages are permitted.

F. MIP. Same as appropriate section. NOTE: The monthly MIP is calculated on initial interest rate for term of loan.

G. Interest Rate Adjustments.

1. Index. Weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year (published in the Federal Reserve Board's Statistical Release H.15(519)), which is available on the Federal Reserve System Web site at www.federalreserve.gov. The rate must be the one effective 30 calendar days before the Change Date. See Mortgagee Letter 2004-10 for more information.

2. Interest Rate Caps.

a. The 1-, 3-, and 5-year ARMs allow a one percentage point annual interest rate adjustment after the initial fixed interest rate period and a five percentage point interest rate cap over the life of the loan.

b. The 7-, and 10-year ARMs allow a two percentage point annual interest rate adjustment after the initial fixed interest rate period and a six percentage point interest rate cap over the life of the loan.

Frequency.

Interest rate adjustments occur on an annual basis, except that the first adjustment will occur no sooner than:

1-year ARMs - no sooner than 12 months nor later than 18 months
3-year ARMs – no sooner than 36 months nor later than 42 months
5-year ARMs – no sooner than 60 months nor later than 66 months
7-year ARMs – no sooner than 84 months nor later than 90 months
10-year ARMs – no sooner than 120 months nor later than 126 months

The date of the first adjustment to the interest rate and the frequency of adjustments must be specified in the mortgage documents.

H. Required Disclosures.

1. At Application. Before signing the application, the borrower must receive and sign an ARM disclosure statement prescribed by the Federal Reserve Board.

2. Annually. The lender must send the borrower a notice at least 25 days before the change date (i.e., 25 days before the new payment amount is due). The notice must include the following:

a. Prior year's interest rate, monthly payments, and governing index,

b. Current value of the index, loan margin, new interest rate, and new monthly payments.

c. An explanation of how the new interest rate was calculated.

I. Refinancing. Owner-occupants may refinance any loan to an FHA ARM. See HUD Handbook 4155.1 for underwriting details.

6-17 SECTION 255 Home Equity Conversion Mortgage. <TOP> Section 255 HECM insures lenders against loss on reverse mortgages, which convert equity into monthly income or lines of credit. See HUD Handbook 4235.1 for complete programmatic instructions.

A. Borrower Eligibility. Homeowners must be 62 years of age and older. Only one-family dwellings are eligible.

B. Plans. Line of credit and/or monthly payments for a term (fixed period) or tenure (life). Interest rates may be fixed or variable.

C. MIP. Two percent of the maximum claim amount prior to insurance endorsement; thereafter, a monthly MIP based on the outstanding balance.

APPENDIX I <TOP>

SINGLE-FAMILY HOMEOWNERSHIP CENTER JURISDICTIONS

Philadelphia
Connecticut
Delaware
District of Columbia
Maine
Maryland
Massachusetts
Michigan
New Hampshire
New Jersey
New York
Ohio
Pennsylvania
Rhode Island
Vermont
Virginia
West Virginia

Atlanta
Alabama
Florida
Georgia
Illinois
Indiana
Kentucky
Mississippi
North Carolina
Puerto Rico
South Carolina
Tennessee
Virgin Islands

Denver
Arkansas
Colorado
Iowa
Kansas
Louisiana
Minnesota
Missouri
Montana
Nebraska
New Mexico
North Dakota
Oklahoma
South Dakota
Texas
Utah
Wisconsin
Wyoming

Santa Ana
Alaska
Arizona
California
Guam
Hawaii
Idaho
Nevada
Oregon
Washington

APPENDIX II <TOP>

CASE NUMBER PREFIXES

Note: Lender Option prefix codes are no longer available for use but the list is included for informational purposes only.

Case Number Prefix	State	Field Office Name	Field Office Code	HOC
011	AL - Alabama	Birmingham	0409	Atlanta
021 (retired)	AZ - Arizona	Phoenix	0920	Santa Ana
022	AZ - Arizona	Tucson	0945	Santa Ana
023	AZ - Arizona	Phoenix	0920	Santa Ana
031	AR - Arkansas	Little Rock	0637	Denver
032	AR - Arkansas	Memphis	0440	Atlanta
033	AR - Arkansas	Jackson	0426	Atlanta
041 (retired)	CA - California	Los Angeles	0916	Santa Ana
042	CA - California	San Francisco	0939	Santa Ana
043	CA - California	Sacramento	0930	Santa Ana
044	CA - California	San Diego	0933	Santa Ana
045	CA - California	Fresno	0905	Santa Ana
046 (retired)	CA - California	Santa Ana	0943	Santa Ana
048	CA - California	Santa Ana	0943	Santa Ana
051 (retired)	CO - Colorado	Denver	0806	Denver
052	CO - Colorado	Denver	0806	Denver
061	CT - Connecticut	Hartford	0126	Philadelphia
071	DE - Delaware	Wilmington	0344	Philadelphia
081	DC - District of Columbia	Washington	0339	Philadelphia
091	FL - Florida	Jacksonville	0429	Atlanta
092	FL - Florida	Coral Gables	0414	Atlanta
095	FL – Florida	Coral Gables	0414	Atlanta
093	FL - Florida	Tampa	0450	Atlanta
094	FL - Florida	Orlando	0444	Atlanta
098	FL - Florida	Tampa	0450	Atlanta
099	FL - Florida	Birmingham	0409	Atlanta
124	ID - Idaho	Salt Lake City	0830	Denver
131 (retired)	IL - Illinois	Chicago	0506	Atlanta
132	IL - Illinois	Springfield	0550	Atlanta
133	IL - Illinois	St. Louis	0736	Denver
134	IL - Illinois	Des Moines	0705	Denver
135	IL - Illinois	Des Moines	0705	Denver
136	IL - Illinois	Indianapolis	0536	Atlanta
137	IL - Illinois	Chicago	0506	Atlanta
141	HI - Hawaii	Honolulu	0908	Santa Ana

Case Number Prefix	State	Field Office Name	Field Office Code	HOC
151	IN - Indiana	Indianapolis	0536	Atlanta
152 (retired)	IN - Indiana	Indianapolis	0536	Atlanta
153	IN - Indiana	Louisville	0436	Atlanta
154	IN - Indiana	Cincinnati	0510	Philadelphia
161	IA - Iowa	Des Moines	0705	Denver
162	IA - Iowa	Omaha	0726	Denver
163	IA - Iowa	Sioux Falls	0835	Denver
169	IA - Iowa	Omaha	0726	Denver
171	TX - Texas	Shreveport	0662	Denver
172	TX - Texas	Little Rock	0637	Denver
173	TX - Texas	Shreveport	0662	Denver
181	KS - Kansas	Topeka	0740	Denver
182	KS - Kansas	Kansas City	0716	Denver
183	KS - Kansas	Kansas City	0716	Denver
192	CA - California	Reno	0925	Santa Ana
193	CA - California	Reno	0925	Santa Ana
196	CA - California	Fresno	0905	Santa Ana
197	CA - California	Los Angeles	0916	Santa Ana
201	KY - Kentucky	Louisville	0436	Atlanta
202	KY - Kentucky	Cincinnati	0510	Philadelphia
203	KY - Kentucky	Charleston	0315	Philadelphia
204	KY - Kentucky	Knoxville	0437	Atlanta
205	KY - Kentucky	Nashville	0443	Atlanta
221	LA - Louisiana	New Orleans	0648	Denver
222	LA - Louisiana	Shreveport	0662	Denver
223	LA - Louisiana	Jackson	0426	Atlanta
231	ME - Maine	Bangor	0102	Philadelphia
232	ME - Maine	Manchester	0136	Philadelphia
241	MD - Maryland	Baltimore	0306	Philadelphia
242	MD - Maryland	Wilmington	0344	Philadelphia
243	MD - Maryland	Washington	0339	Philadelphia
249	MD - Maryland	Washington	0339	Philadelphia
251	MA - Massachusetts	Boston	0106	Philadelphia
252	MA - Massachusetts	Albany	0202	Philadelphia
253	MA - Massachusetts	Hartford	0126	Philadelphia
261	MI - Michigan	Detroit	0528	Philadelphia
262	MI - Michigan	Flint	0544	Philadelphia
263	MI - Michigan	Grand Rapids	0533	Philadelphia
271	MN - Minnesota	Minneapolis	0546	Denver
272	MN - Minnesota	Fargo	0815	Denver
273	MN - Minnesota	Sioux Falls	0835	Denver
281	MS - Mississippi	Jackson	0426	Atlanta
282	MS - Mississippi	Little Rock	0637	Denver
283	MS - Mississippi	Memphis	0440	Atlanta
284	MS - Mississippi	Birmingham	0409	Atlanta
291	MO - Missouri	Kansas City	0716	Denver
292	MO - Missouri	St. Louis	0736	Denver

Case Number Prefix	State	Field Office Name	Field Office Code	HOC
293	MO - Missouri	Memphis	0440	Atlanta
311	MT - Montana	Helena	0820	Denver
312	MT - Montana	Spokane	1025	Santa Ana
321	NE - Nebraska	Omaha	0726	Denver
331	NV - Nevada	Reno	0925	Santa Ana
332	NV - Nevada	Las Vegas	0944	Santa Ana
333	NV - Nevada	Boise	1008	Santa Ana
334	NV - Nevada	Salt Lake City	0830	Denver
341	NH - New Hampshire	Manchester	0136	Philadelphia
351	NJ - New Jersey	Camden	0216	Philadelphia
352	NJ - New Jersey	Newark	0239	Philadelphia
361	NM - New Mexico	Albuquerque	0602	Denver
371	NY - New York	Albany	0202	Philadelphia
372	NY - New York	Buffalo	0206	Philadelphia
373 (retired)	NY - New York	New York	0236	Philadelphia
374	NY - New York	New York	0236	Philadelphia
378	NY - New York	Burlington	0110	Philadelphia
381	NC - North Carolina	Greensboro	0419	Atlanta
382	NC - North Carolina	Knoxville	0437	Atlanta
383	NC - North Carolina	Columbia	0416	Atlanta
401	ND - North Dakota	Fargo	0815	Denver
411	OH - Ohio	Cincinnati	0510	Philadelphia
412	OH - Ohio	Cleveland	0512	Philadelphia
413	OH - Ohio	Columbus	0516	Philadelphia
414	OH - Ohio	Charleston	0315	Philadelphia
421	OK - Oklahoma	Oklahoma City	0656	Denver
422	OK - Oklahoma	Tulsa	0670	Denver
431	OR - Oregon	Portland	1016	Santa Ana
432	OR - Oregon	Boise	1008	Santa Ana
441	PA - Pennsylvania	Philadelphia	0326	Philadelphia
442	PA - Pennsylvania	Pittsburgh	0328	Philadelphia
443	PA - Pennsylvania	Buffalo	0206	Philadelphia
444	PA - Pennsylvania	Baltimore	0306	Philadelphia
451	RI - Rhode Island	Providence	0143	Philadelphia
461	SC - South Carolina	Columbia	0416	Atlanta
471	SD - South Dakota	Sioux Falls	0835	Denver
472	SD - South Dakota	Fargo	0815	Denver
481	TN - Tennessee	Knoxville	0437	Atlanta
482	TN - Tennessee	Memphis	0440	Atlanta
483	TN - Tennessee	Nashville	0443	Atlanta
491	TX - Texas	Dallas	0616	Denver
492	TX - Texas	Fort Worth	0621	Denver
493	TX - Texas	Houston	0624	Denver
494	TX - Texas	Lubbock	0641	Denver
495	TX - Texas	San Antonio	0659	Denver
497	TX - Texas	Lubbock	0641	Denver

Case Number Prefix	State	Field Office Name	Field Office Code	HOC
(retired)				
498	TX - Texas	Shreveport	0662	Denver
499	TX - Texas	Little Rock	0637	Denver
501	PR - Puerto Rico	Caribbean	0446	Atlanta
521	UT - Utah	Salt Lake City	0830	Denver
522	UT - Utah	Las Vegas	0944	Santa Ana
531	VT - Vermont	Burlington	0110	Philadelphia
532	VT - Vermont	Albany	0202	Philadelphia
533	VT - Vermont	Manchester	0136	Philadelphia
541	VA - Virginia	Richmond	0336	Philadelphia
542 (retired)	VA - Virginia	Richmond	0336	Philadelphia
543	VA - Virginia	Washington	0339	Philadelphia
545	VA - Virginia	Greensboro	0419	Atlanta
546	VA - Virginia	Knoxville	0437	Atlanta
547	VA - Virginia	Charleston	0315	Philadelphia
548	VA - Virginia	Washington	0339	Philadelphia
561	WA - Washington	Seattle	1019	Santa Ana
562	WA - Washington	Spokane	1025	Santa Ana
565	WA - Washington	Portland	1016	Santa Ana
569	WA - Washington	Portland	1016	Santa Ana
571	WV - West Virginia	Charleston	0315	Philadelphia
572	WV - West Virginia	Baltimore	0306	Philadelphia
573	WV - West Virginia	Pittsburgh	0328	Philadelphia
581	WI - Wisconsin	Milwaukee	0539	Denver
582	WI - Wisconsin	Minneapolis	0546	Denver
591	WY - Wyoming	Casper	0805	Denver
593	WY - Wyoming	Salt Lake City	0830	Denver
821	VI - Virgin Islands	Caribbean	0446	Atlanta
831	GU - Guam	Honolulu	0908	Santa Ana
861	AS - American Samoa	Honolulu	0908	Santa Ana
871	MP - Mariana Islands	Honolulu	0908	Santa Ana

Source: FHA Connection – FHA Approvals Lists

APPENDIX III <TOP>

HOME MORTGAGE ADP CODES

Commonly Used Home Mortgage ADP Codes. This appendix provides information on commonly used ADP codes in processing FHA-insured home mortgages. They are presented according to the Section of the National Housing Act under which FHA loans are insured. Additional information about the ADP code categories and FHA insurance funds is included in the Notes section of this appendix.

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code if pursuant to 223(e)	ADP Code for HUD
203(b)	Basic Home Mortgage Insurance	703	503	303	203
203(b)	Federal National Mortgage Association (FNMA) Direct Financing	--	550	--	250
203(b)	ARM	729	529	--	229
203(b)	223(e) ARM	829	--	--	--
203(b)	VA-CRV 223(e) Mortgage	792	--	392	--
203(b)	HHL	759	--	--	259
203(b)	HHL/ARM	780	--	--	280
203(b)	HHL/Interest Buy-Down (IBD)	811	--	--	411
203(b)	IL	783	583	--	283
203(b)	IL/ARM	788	588	--	288
203(b)	IL (Salamanca, NY)	--	591	--	291
203(b)/238(c)	MIA	774	574	374	274
203(b)/238(c)/245(a)	MIA/GPM	776	576	--	276
203(b)/238(c)	MIA/Alternate GPM	--	568	--	268
203(b)/245(a)	GPM	770	570	--	270
203(b)/245(a)	GPM/GEM	741	541	341	241
203(b)/245(a)	GPM/IBD	763	563	--	263
203(b)/245(a)	GPM/IL	787	587	--	287
203(b)/245(a)	GPM/IL/GEM	782	582	--	282
203(b)/245(a)	GPM/HHL	793	--	--	293
203(b)	Alternate GPM	761	561	--	261
203(k)	Rehabilitation Home Mortgage Insurance	702	502	302	202
203(k)	223(e)/DE	802	--	--	--
203(k)	Second Lien	753	553	353	253
203(k)	ARM	730	530	--	230

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code if pursuant to 223(e)	ADP Code for HUD
203(k)/245(a)	GPM/GEM	754	554	--	254
203(k)	Escrow Commitment	707	--	--	207
203(k)	Energy Efficiency Mortgage (EEM)	807	507	307	--
203(k)	HHL	808	--	--	408
203(k)	HHL/IBD	805	--	--	405
203(k)	IL	801	--	--	401
203(k)	Condominium	804	--	--	404
203(k)	Condominium/ARM	815	--	--	415
203(k)	Condominium/IBD	812	--	--	412
203(k)	IBD	813	--	--	413
203(n)	Cooperative - Individual Unit	--	560	360	260
203(n)/245(a)	GPM/GEM	--	547	--	247
213	Cooperative - Sales - Type Releases	--	513	313	213
220(d)(3)	Urban Renewal	720	520	320	220
220(h)	Improvements	719	519	--	219
234(c)	Condominium	734	534	334	234
234(c)	ARM	731	531	--	231
234(c)/238(c)/245(a)	MIA/GPM	777	577	--	277
234(c)/238(c)	MIA/Alternate GPM	--	569	--	269
234(c)/245(a)	GPM	771	571	--	271
234(c)/245(a)	GPM/GEM	742	542	342	242
234(c)	Alternate GPM	762	562	--	262
235(r) REV	Homeownership Assistance/Refinance	765	--	--	165
235(r) REV	Refinance (Special Allocation No. 1)	755	--	--	155
235(r) REV	Refinance (Recap/Special Allocation No. 1)	756	--	--	156
235(r) REV	Refinance (Recap/Other than Special Allocation No. 1)	766	--	--	166
235(r) REV	Refinance of Ten-Year Subsidy Mortgage	746	--	--	146
240	Fee Simple Title	740	540	--	240

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code if pursuant to 223(e)	ADP Code for HUD
255	HECM Assignment/Fixed	951	--	--	911
255	HECM-Assignment/ARM	952	--	--	912
255	HECM-Shared Premium/Fixed	953	--	--	913
255	HECM-Shared Premium/ARM	954	--	--	914
255	HECM-Shared Appreciation/Fixed	955	--	--	915
255	HECM-Shared Appreciation/ARM	956	--	--	916
255	HECM-Condominium/Fixed	957	--	--	917
255	HECM-Condominium/ARM	958	--	--	918
Other Sections-MIA		779	579	379	279
All MMI Sections-3% Down Payment Program (3% DPMT)		748	548	348	248
All GI Sections-3% DPMT		749	549	349	249
All MMI Sections-IBD excluding 245(a)		796	596	--	296
All GI Sections-IBD		797	597	--	297
All SRI Sections-IBD		798	598	398	298

NOTE:

1. ADP Code if pursuant to 223(3): All mortgages insured pursuant to Section 223(e) are obligations of the Special Risk Insurance (SRI) Fund.
2. ADP Code for HUD: FHA-processed cases.

Revised: February 22, 2002

APPENDIX IV <TOP>

STATES WITH LOW AND HIGH AVERAGE CLOSING COSTS

Low Closing Costs

Arizona
California
Colorado
Guam
Idaho
Illinois
Indiana
New Mexico
Nevada
Oregon
Utah
Virgin Islands
Washington
Wisconsin
Wyoming

High Closing Costs

Alabama
Alaska
Arkansas
Connecticut
District of Columbia
Delaware
Florida
Georgia
Hawaii
Iowa
Kansas
Kentucky
Louisiana
Massachusetts
Maryland
Maine
Michigan
Missouri
Minnesota
Mississippi
Montana
North Carolina
North Dakota
Nebraska
New Hampshire
New Jersey
New York
Ohio
Oklahoma
Pennsylvania
Puerto Rico
Rhode Island
South Carolina
South Dakota
Tennessee
Texas
Vermont
Virginia
West Virginia

APPENDIX V <TOP>

PROGRAM IDENTIFICATION CODES

Program Identification Codes to Identify Special Programs. Codes also apply when insurance is pursuant to Section 223(e), VA-CRV and DE cases.

Code	Program	Explanation
01	Section 203(b)(9)	Housing for the elderly
02	Section 203(h)	Disaster housing
03	Sections 203(i) & 222	Low-cost housing in suburban area (Obsolete)
04	Section 203 (i)	Farm homes on 5 or more acres (Obsolete)
05		Reserved for inactive program
06		Reserved for inactive program
07	All home mortgage transactions pursuant to Section 223(a) involving public housing properties sold by Federal, State, or local governments or agencies thereof	Inactive
08	All home mortgage and home improvement loan transactions involving properties located in redevelopment or urban renewal areas	
09	Section 809	Cases not guaranteed by the military (Code 00 will be applicable for guaranteed cases) (Inactive)
10	Sections 203(b) (2) & 234(c)	Housing for veterans
11	Section 809	Special veteran provision, guaranteed (Inactive)
12	Section 809	Special veteran provision, not guaranteed (Inactive)
13	Sections 220(d)(3)	Special veteran provision
14	Sections 203, 220, & 809	Veteran in urban renewal area (Inactive)
15	Sections 203, 220, & 809	Veteran in model city area (Inactive)
16	Sections 203, 220, & 809	Veteran in model city area in urban renewal area (Inactive)
17	Sections 203, 220, & 809	Veteran in periphery of model city area (Inactive)
18	Sections 203, 220, & 809	Veteran in periphery of model city area in urban renewal area (Inactive)
19	All home mortgage, home improvement, and fee simple title loan transactions	Located in model city area (Inactive)
20	All home mortgage, home improvement, and fee simple title loan transactions	Veteran in periphery of model city area in urban renewal area (Inactive)
21	All home mortgage, home	Veteran in periphery of model city area (Inactive)

Code	Program	Explanation
	improvement, and fee simple title loan transactions	
22	All home mortgage, home improvement, and fee simple title loan transactions	Veteran in periphery of model city area in urban renewal area (Inactive)
23	Sections 235(i) & 235(i) REV	Family unit in condominium
24	Sections 235(i) & 235(i) REV	Family unit in condominium in urban renewal area (Inactive)
25	Sections 235(i) & 235(i) REV	Family unit in condominium in model city area (Inactive)
26	Sections 235(i) & 235(i) REV	Family unit in condominium in model city area in urban renewal area (Inactive)
27	Sections 235(i) & 235(i) REV	Family unit in condominium in periphery of model city area (Inactive)
28	Sections 235(i) & 235(i) REV	Family unit in condominium in periphery of model city area in urban renewal area (Inactive)
29	Section 235(i) REV	Family unit in a cooperative project
30	Section 234(c)	Resale of a conventionally financed unit – veteran (Inactive)
31	Section 234(c)	Resale of a conventionally financed unit – non-veteran (Inactive)
35	Sections 235(i) & 235(i) REV	Cases originated by Department of Agriculture
36	All home mortgage transactions involving construction/perm properties	
40	All home mortgage sections	Secretary-held sale-substantial rehabilitation
46	All home mortgage sections	Indian claims area
48	Sections 203(b), 203(b) – ARM, 203(b)/245(a), 203(k) ,203(k) - ARM, & 203(k)/245(a)	Indian Reservations (Obsolete: Section of the Act ADP Codes now apply)
50	Sections 203(b), 203(k), 203(n), 233, 244, & 245	Solar Energy dwelling for veterans
51	Sections 203(b), 203(k), 203(n), 233, 244, 245, & 809	Solar Energy dwelling for non-veterans
52	All home mortgage sections	IBD provision
53	All home mortgage sections	State-purchase property mortgages-formerly Secretary-held (Inactive)
60	All home mortgage sections	Subject to Second Trust
65	All home mortgage	Shared Equity mortgages

Code	Program	Explanation
	sections except 222 & 235	
70	Section 245(a)	Obsolete: Section of the Act ADP Codes now apply.
77	All home mortgage sections	GEMs (Obsolete: Section of the Act ADP Codes now apply)
88	Section 8	Section 8 Homeownership Programs
90	Sections 203(b), 203(b) - ARM, 203(b)/245(a) - GPM, & 203(b)/245(a) - GPM/GEM	Operative Builder Firm Commitment.
00	All cases not in program codes shown above	

APPENDIX VI <TOP>

EXTENDED LENDING AREAS FOR LOAN ORIGINATION

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
0202 Albany, NY	0206, Buffalo, NY 0236, New York City, NY 0106, Boston, MA 0110, Burlington, VT 0216, Camden, NJ 0126, Hartford, CT 0239, Newark, NJ
0602 Albuquerque, NM	0641, Lubbock, TX
1006 Anchorage, AK	*
0406 Atlanta, GA	0409, Birmingham, AL 0416, Columbia, SC 0429, Jacksonville, FL 0437, Knoxville, TN 0443, Nashville, TN
0306 Baltimore, MD	0216, Camden, NJ 0315, Charleston, WV 0239, Newark, NJ 0326, Philadelphia, PA 0328, Pittsburgh, PA 0336, Richmond, VA 0339, Washington, DC 0344, Wilmington, DE
0102 Bangor, ME	0106, Boston, MA 0110, Burlington, VT 0126, Hartford, CT 0136, Manchester, NH
0409 Birmingham, AL	0406, Atlanta, GA 0426, Jackson, MS 0437, Knoxville, TN 0440, Memphis, TN 0443, Nashville, TN

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
1008 Boise, ID	0820, Helena, MT
0106 Boston, MA	0202, Albany, NY 0102, Bangor, ME 0110, Burlington, VT 0126, Hartford, CT 0136, Manchester, NH 0236, New York City, NY 0239, Newark, NJ 0143, Providence, RI
0206 Buffalo, NY	0202, Albany, NY 0512, Cleveland, OH
0110 Burlington, VT	0202, Albany, NY 0102, Bangor, ME 0106, Boston, MA 0126, Hartford, CT 0136, Manchester, NH
0216 Camden, NJ	0239, Newark, NJ 0202, Albany, NY 0306, Baltimore, MD 0126, Hartford, CT 0236, New York City, NY 0326, Philadelphia, PA 0336, Richmond, VA 0339, Washington, DC 0344, Wilmington, DE
0446 Caribbean	*
0805 Casper, WY	0806, Denver, CO
0315 Charleston, WV	0306, Baltimore, MD 0510, Cincinnati, OH 0512, Cleveland, OH 0516, Columbus, OH 0328, Pittsburgh, PA 0336, Richmond, VA 0339, Washington, DC

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
0506 Chicago, IL	0550, Springfield, IL 0533, Grand Rapids, MI 0536, Indianapolis, IN 0539, Milwaukee, WI
0510 Cincinnati, OH	0512, Cleveland, OH 0516, Columbus, OH 0315, Charleston, WV 0536, Indianapolis, IN 0436, Louisville, KY
0512 Cleveland, OH	0510, Cincinnati, OH 0516, Columbus, OH 0206, Buffalo, NY 0315, Charleston, WV 0528, Detroit, MI
0416 Columbia, SC	0406, Atlanta, GA 0419, Greensboro, NC 0437, Knoxville, TN
0516 Columbus, OH	0510, Cincinnati, OH 0512, Cleveland, OH 0315, Charleston, WV 0528, Detroit, MI 0536, Indianapolis, IN 0328, Pittsburgh, PA
0414 Coral Gables, FL	0429, Jacksonville, FL 0444, Orlando, FL 0450, Tampa, FL
0616 Dallas, TX	0621, Ft. Worth, TX 0641, Lubbock, TX 0624, Houston, TX 0659, San Antonio, TX 0662, Shreveport, LA 0656, Oklahoma City, OK
0806 Denver, CO	0805, Casper, WY

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
0705 Des Moines, IA	0716, Kansas City, KS 0546, Minneapolis/St. Paul, MN 0726, Omaha, NE 0835, Sioux Falls, SD
0528 Detroit, MI	0544, Flint, MI 0533, Grand Rapids, MI 0512, Cleveland, OH 0516, Columbus, OH
0815 Fargo, ND	0546, Minneapolis/St. Paul, MN 0835, Sioux Falls, SD
0544 Flint, MI	0528, Detroit, MI 0533, Grand Rapids, MI
0905 Fresno, CA	0916, Los Angeles, CA 0930, Sacramento, CA 0939, San Francisco, CA 0943, Santa Ana, CA
0621 Ft. Worth, TX	0616, Dallas, TX 0624, Houston, TX 0641, Lubbock, TX 0659, San Antonio, TX 0662, Shreveport, LA 0656, Oklahoma City, OK
0533 Grand Rapids, MI	0528, Detroit, MI 0544, Flint, MI 0506, Chicago, IL
0419 Greensboro, NC	0416, Columbia, SC 0437, Knoxville, TN 0336, Richmond, VA
0126 Hartford, CT	0202, Albany, NY 0102, Bangor, ME 0106, Boston, MA 0110, Burlington, VT 0216, Camden, NJ 0136, Manchester, NH 0236, New York City 0239, Newark, NJ 0143, Providence, RI
0820 Helena, MT	1008, Boise, ID

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
0908 Honolulu, HI	*
0624 Houston, TX	0616, Dallas, TX 0621, Ft. Worth, TX 0659, San Antonio, TX 0662, Shreveport, LA
0536 Indianapolis, IN	0506, Chicago, IL 0510, Cincinnati, OH 0436, Louisville, KY 0550, Springfield, IL
0426 Jackson, MS	0409, Birmingham, AL 0637, Little Rock, AR 0440, Memphis, TN 0648, New Orleans, LA 0662, Shreveport, LA
0429 Jacksonville, FL	0414, Coral Gables, FL 0444, Orlando, FL 0450, Tampa, FL 0406, Atlanta, GA
0716 Kansas City, KS	0740, Topeka, KS 0705, Des Moines, IA 0726, Omaha, NE 0736, St. Louis, MO
0437 Knoxville, TN	0440, Memphis, TN 0443, Nashville, TN 0406, Atlanta, GA 0409, Birmingham, AL 0416, Columbia, SC 0419, Greensboro, NC 0436, Louisville, KY
0944 Las Vegas, NV	0916, Los Angeles, CA 0920, Phoenix, AZ 0943, Santa Ana, CA
0637 Little Rock, AR	0426, Jackson, MS 0440, Memphis, TN 0662, Shreveport, LA

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
0916 Los Angeles, CA	0905, Fresno, CA 0933, San Diego, CA 0943, Santa Ana, CA 0944, Las Vegas, NV
0436 Louisville, KY	0510, Cincinnati, OH 0536, Indianapolis, IN 0437, Knoxville, TN 0443, Nashville, TN
0641 Lubbock, TX	0616, Dallas, TX 0621, Ft. Worth, TX 0602, Albuquerque, NM
0136 Manchester, NH	0102, Bangor, ME 0106, Boston, MA 0110, Burlington, VT 0126, Hartford, CT 0143, Providence, RI
0440 Memphis, TN	0437, Knoxville, TN 0443, Nashville, TN 0409, Birmingham, AL 0426, Jackson, MS 0637, Little Rock, AR
0539 Milwaukee, WI	0506, Chicago, IL 0550, Springfield, IL
0546 Minneapolis/ St. Paul, MN	0705, Des Moines, IA 0815, Fargo, ND 0835, Sioux Falls, SD
0443 Nashville, TN	0437, Knoxville, TN 0440, Memphis, TN 0406, Atlanta, GA 0409, Birmingham, AL 0436, Louisville, KY
0236 New York City, NY	0202, Albany, NY 0106, Boston, MA 0216, Camden, NJ 0126, Hartford, CT 0239, Newark, NJ 0326, Philadelphia, PA 0143, Providence, RI 0344, Wilmington, DE
0648	0662, Shreveport, LA

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
New Orleans, LA	0426, Jackson, MS
0239 Newark, NJ	0216, Camden, NJ 0202, Albany, NY 0306, Baltimore, MD 0106, Boston, MA 0126, Hartford, CT 0236, New York City, NY 0326, Philadelphia, PA 0344, Wilmington, DE
0656 Oklahoma City, OK	0670, Tulsa, OK 0616, Dallas, TX 0621, Ft. Worth, TX
0726 Omaha, NE	0705, Des Moines, IA 0716, Kansas City, KS
0444 Orlando, FL	0414, Coral Gables, FL 0429, Jacksonville, FL 0450, Tampa, FL
0326 Philadelphia, PA	0328, Pittsburgh, PA 0306, Baltimore, MD 0216, Camden, NJ 0236, New York City, NY 0239, Newark, NJ 0336, Richmond, VA 0339, Washington, DC 0344, Wilmington, DE
0920 Phoenix, AZ	0945, Tucson, AZ 0944, Las Vegas, NV
0328 Pittsburgh, PA	0326, Philadelphia, PA 0306, Baltimore, MD 0315, Charleston, WV 0516, Columbus, OH
1016 Portland, OR	1019, Seattle, WA
0143 Providence, RI	0106, Boston, MA 0126, Hartford, CT 0136, Manchester, NH 0236, New York City, NY

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
0925 Reno, NV	0905, Fresno, CA 0930, Sacramento, CA 0939, San Francisco, CA
0336 Richmond, VA	0306, Baltimore, MD 0216, Camden, NJ 0315, Charleston, WV 0419, Greensboro, NC 0326, Philadelphia, PA 0339, Washington, DC
0930 Sacramento, CA	0905, Fresno, CA 0939, San Francisco, CA 0925, Reno, NV
0830 Salt Lake City, UT	*
0659 San Antonio, TX	0616, Dallas, TX 0621, Ft. Worth, TX 0624, Houston, TX
0933 San Diego, CA	0916, Los Angeles, CA 0943, Santa Ana, CA
0939 San Francisco, CA	0905, Fresno, CA 0930, Sacramento, CA 0925, Reno, NV
0943 Santa Ana, CA	0905, Fresno, CA 0916, Los Angeles, CA 0933, San Diego, CA 0944, Las Vegas, NV
1019 Seattle, WA	1025, Spokane, WA 1016, Portland, OR
0662 Shreveport, LA	0648, New Orleans, LA 0426, Jackson, MS 0616, Dallas, TX 0621, Ft. Worth, TX 0637, Little Rock, AR 0624, Houston, TX
0835	0815, Fargo, ND

PRIMARY FIELD OFFICE	ADDITIONAL FIELD OFFICES
Sioux Falls, SD	0705, Des Moines, IA 0546, Minneapolis/St. Paul, MN
1025 Spokane, WA	1019, Seattle, WA
0550 Springfield, IL	0506, Chicago, IL 0536, Indianapolis, IN 0539, Milwaukee, WI 0736, St. Louis, MO
0736 St. Louis, MO	0716, Kansas City, KS 0550, Springfield, IL 0740, Topeka, KS
0450 Tampa, FL	0414, Coral Gables, FL 0429, Jacksonville, FL 0444, Orlando, FL
0740 Topeka, KS	0736, St. Louis, MO 0716, Kansas City, KS 0726, Omaha, NE 0705, Des Moines, IA
0945 Tucson, AZ	0920, Phoenix, AZ
0670 Tulsa, OK	0656, Oklahoma City, OK
0339 Washington, DC	0306, Baltimore, MD 0216, Camden, NJ 0315, Charleston, WV 0326, Philadelphia, PA 0328, Pittsburgh, PA 0336, Richmond, VA 0344, Wilmington, DE
0344 Wilmington, DE	0306, Baltimore, MD 0216, Camden, NJ 0239, Newark, NJ 0236, New York City, NY 0326, Philadelphia, PA 0339, Washington, DC

*There is no extended lending area for this Field Office jurisdiction

Source: Mortgagee Letter 95-36 as modified by the Office of Lender Activities and Program Compliance

APPENDIX VII <TOP>

SUGGESTED FORMAT FOR REQUEST FOR MIC CORRECTION

Date: __________________

To: __________________HOC/(MIC Corrections)

From: _____________________________ _____________________________ ___________________________
(Lender's Name) (Contact Person) (Phone Number)

____
(Lender's ID Number)

Address to send MIC:
____
_

We are requesting a corrected Mortgage Insurance Certificate (MIC) for FHA Case #:
.

The required documentation is provided as indicated below as well as the original MIC.

Request Correction to: Required Documentation

	Address Correction	URAR and Note (1)
	Borrower Name(s)	Note. Document the reason for a COMPLETE name change.
	**ADP Code	Note. Other supporting documentation (Buydown Agreement, 203k worksheet etc.)
	Maturity Date	Note
	First Payment Date	Note
	P&I	Note, Mortgage Credit Analysis Worksheet (MCAW)
	Interest Rate	Note, MCAW
	Addition of co-borrower	Note, URLA, MCAW
	Social Security Number	Social Security Card, pay stub, W-2, etc

	Other (Identify)	Appropriate Supporting Documentation
	(2) (3) Increased Mortgage Amount (Check payment history for a principal reduction)	Note, HUD-1, MCAW, and full payment history
	(2) FHA Case Number	Note, MCAW and URLA
	(2) **ADP Code – Major Change (703 to 734, etc.)	Note, MCAW and URLA **

(1) In some states, the Deed of Trust must be submitted. Please contact the appropriate HOC for additional information.
(2) Corrections that require recalled case binders from a Records Holding Center and will require additional processing time.
(3) Requests for an additional mortgage amount require payment of the difference in UFMIP before correction can be made.
** The LTV cannot be changed (CHUMS computes and will not allow manual over-ride); 748 ADP code is for purchases only, with value $50,000 or less.

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