Section A. General Information on the Underwriting Process

Overview

Contents

This section contains the topics listed in the table below.

1. General Information on Underwriting and Credit Policy

Introduction

This topic contains general information on underwriting and credit policy, including

- purpose of underwriting
- four C's of credit, and
- the general credit policy.

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4155.1 1.A.1.a Purpose of Underwriting

The purpose of underwriting is to

- determine a borrower's ability and willingness to repay a mortgage debt to limit the probability of default and collection actions, and
- examine the property offered as security to determine if it is sufficient collateral.

4155.1 1.A.1.b Four C's of Credit

The underwriter evaluates the four C's of credit to determine a borrower's creditworthiness.

The four C's of credit consist of a borrower's

- credit history
- capacity to repay
- cash assets available to close the mortgage, and
- collateral.

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1. General Information on Underwriting and Credit Policy, Continued

4155.1 1.A.1.c General Credit Policy

FHA's general credit policy requirements for underwriting a mortgage involve

- considering the type of income the borrower needs in order to qualify
- analyzing the borrower's liabilities to determine creditworthiness, and
- reviewing ratios, including debt-to-income, and compensating factors.

2. Maximum Loan Limits, Mortgage Amounts and Mortgage Terms

Introduction

This topic contains information on maximum loan limits, mortgage amounts and mortgage terms, including

- the National Housing Act provisions on loan limits
- basic nationwide loan limits
- loan limits for high cost areas
- appeals for higher loan limits
- maximum loan-to-value (LTV) ratios, and
- maximum mortgage terms.

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2. Maximum Loan Limits, Mortgage Amounts and Mortgage Terms, Continued

4155.1 1.A.2.a National Housing Act Provisions on Loan Limits

The statutory provisions of the National Housing Act establish the maximum loan limits and mortgage amounts for all FHA mortgage insurance programs. Maximum loan limits vary depending upon the

- specific program under which a loan is insured
- number of dwelling units in the property (one to four units), and
- geographic location of the property.

Under most programs, the maximum insurable mortgage is the *lesser* of

- the statutory loan limit for the area, or
- a percentage of the *lesser* of the
  - appraised value, or
  - sales price.

References: For more information on calculating maximum mortgage amounts and maximum loan-to-value (LTV) ratios, see
- HUD 4155.1 2.A
- HUD 4155.1 3.B, and
- HUD 4155.1 3.C.

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2. Maximum Loan Limits, Mortgage Amounts and Mortgage Terms, Continued

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4155.1 1.A.2.b 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 by 12 U.S.C.17091.

Under Section 203(b), the nationwide basic mortgage limits (the floor) may not

- exceed 150 percent of the Freddie Mac national loan limit, or
- be less than 65 percent of the dollar amount limitation of Freddie Mac.

References: For more information on
- the specific loan limits for each county in the United States, Guam, and the Virgin Islands, see HUD's website at www.hud.gov, and
- calculating maximum mortgage amounts and maximum LTV ratios, see
  - HUD 4155.1 2.A
  - HUD 4155.1 3.B, and
  - HUD 4155.1 3.C

4155.1 1.A.2.c Loan Limits for High Cost Areas

Section 203(b)(2)(A) of the National Housing Act states that mortgage limits in high cost areas (the ceiling) may increase to 150 percent of the dollar amount limitation as described under Section 305(a)(2) of Freddie Mac for a residence of applicable size.

In these high cost areas, the loan limit is equal to the *lesser* of

- 115 percent of the area median house price, or
- the statutory ceiling for the high cost areas.

Section 214 of the NHA provides that mortgage limits for Alaska, Hawaii, Guam, and the Virgin Islands may be adjusted up to 150 percent of the new FHA ceilings.

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2. Maximum Loan Limits, Mortgage Amounts and Mortgage Terms, Continued

4155.1 1.A.2.d Appeals for Higher Loan Limits

Anyone may appeal for a higher loan limit for a

- county within a Metropolitan Statistical Area (MSA) or
- non-metro county not part of an MSA.

It should be noted, however, that legislation enacted in 1998 provided that the county with the highest median house price in an MSA determines the mortgage limits of all counties within that MSA. For this reason, 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 of FHA mortgage limits. FHA will *not* consider an appeal for an area smaller than a county.

4155.1 1.A.2.e Maximum LTV Ratios

A mortgage that is to be insured by FHA cannot exceed a certain percentage of property value. The maximum LTV ratios vary depending upon the

- type of borrower
- type of transaction (purchase or refinance), and
- stage of construction.

References: For more information on
- maximum LTV ratios for purchase transactions, see HUD 4155.1 2.A
- transactions that affect maximum mortgage calculations, see HUD 4155.1 2.B, and
- maximum mortgage amounts on refinance transactions, see
  - HUD 4155.1 3.B, and
  - HUD 4155.1 3.C.

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2. Maximum Loan Limits, Mortgage Amounts and Mortgage Terms, Continued

4155.1 1.A.2.f Maximum Mortgage Terms

The maximum mortgage term may not exceed 30 years from the date that amortization begins. In the case of adjustable rate mortgages (ARMs), the term *must* be for 30 years. FHA does not require that loan terms be in five year multiples.

Note: Some programs require a shorter term, including certain streamline refinances made without appraisals.

Reference: For more information on streamline refinances without appraisals see HUD 4155.1 3.C.2.

3. Policies on Interest Rates and Related Fees

Introduction

This topic contains information on policies on interest rates and related fees, including

- establishment of the interest rate
- fees for lock-ins or rate locks
- interest rate disclosure, and
- circumstances requiring borrower re-qualification.

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4155.1 1.A.3.a Establishment of the Interest Rate

Under all currently active FHA single family mortgage insurance programs, the borrower and the lender negotiate the interest rate and any discount points.

4155.1 1.A.3.b Fees for Lock-Ins or Rate Locks

Lenders are permitted to charge a commitment fee to guarantee, in writing, the interest rate and any discount points for a specific period of time, or to limit the extent to which the interest rate or discount points 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 lender may still earn the lock-in fees. Lenders *must* honor all such commitments.

References: For information on
- determining the expected rate lock-in for the Home Equity Conversion Program (HECM), see
  - HUD 4235.1, *Home Equity Conversion Mortgages*, and
  - ML 06-22, and
- the extension of principal limit rate locks for HECM adjustable rate mortgages (ARMs), see ML 07-13.

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3. Policies on Interest Rates and Related Fees, Continued

4155.1 1.A.3.c Interest Disclosure

The lender must provide the borrower with HUD-92900-B, *HUD Interest Rate Disclosure Statement*, to explain that the loan terms are negotiable.

4155.1 1.A.3.d Circumstances Requiring Borrower Re-qualification

The lender must re-qualify a borrower if there is any increase in either

- the interest rate, or
- discount points.

4. General Information on Mortgage Credit Analysis

Introduction

This topic contains general information on mortgage credit analysis, including

- the purpose of a mortgage credit analysis
- the importance of verifying a borrower's credit information, and
- verifying a borrower's financial position.

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4155.1 1.A.4.a Purpose of a Mortgage Credit Analysis

The purpose of the mortgage credit analysis is to

- determine
  - a borrower's credit performance
  - a borrower's capacity to repay the mortgage, and
  - whether or not the borrower has sufficient funds to close, and
- limit collection actions or foreclosure.

Reference: For more information on completing a mortgage credit analysis, see HUD 4155.1 4.C.

4155.1 1.A.4.b Verifying Borrower Credit Information

Lenders must obtain and verify a borrower's information with as much care as they would take if the mortgage were entirely dependent on the property as security.

The credit report and verification forms *cannot* pass through the hands of

- the borrower
- a real estate agent, or
- any other interested third party.

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4. General Information on Mortgage Credit Analysis, Continued

4155.1 1.A.4.c Verifying a Borrower's Financial Position

The lender must

- verify the borrower's identity, and
- ask sufficient questions of the borrower to get a complete picture of the
  - borrower's financial position
  - source of funds for the mortgage transaction, and
  - intended use of the property.

References: For more information on

- borrower credit analysis, see HUD 4155.1 4.C
- borrower income, see HUD 4155.1 4.D and HUD 4155.1 4.E
- acceptable sources of borrower funds, see HUD 4155.1 5.B, and
- borrower's completion of the loan application, see
  - HUD 4155.1 1.B.1.a, and HUD 4155.1 1.B.1.c.

5. Borrower Approval or Rejection

Introduction

This topic contains information on borrower approval or rejection, including

- the Direct Endorsement (DE) underwriter's responsibility for determining creditworthiness
- DE underwriter's responsibility upon loan approval
- lender notification to approved borrowers
- term of the firm commitment or underwriter's approval
- borrower rejection based on credit report information, and
- required notifications for rejected borrowers..

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4155.1 1.A.5.a DE Underwriter's Responsibility for Determining Creditworthiness

The Direct Endorsement (DE) underwriter is responsible for determining the creditworthiness of a borrower, which includes analyzing a borrower's overall pattern of credit behavior.

Reference: For guidelines on analyzing a borrower's credit, see HUD 4155.1 4.C.1.

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5. Borrower Approval or Rejection, Continued

4155.1 1.A.5.b DE Underwriter's Responsibility Upon Loan Approval

When a borrower is approved, the DE underwriter

- records the results of the credit analysis on the HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*
- enters any modification of the mortgage amount or approval conditions under "*Underwriter Comments*" on the form, and
- approves the borrower and authorizes closing, if the case is a DE case.

Note: If the case involves a HUD/FHA employee loan
- the lender submits the complete underwritten loan application to FHA prior to closing, and
- FHA issues a Firm Commitment to the lender, which obligates FHA to insure the mortgage.

Reference: For more information on loans for HUD/FHA employees, see HUD 4155.2 3.B.

4155.1 1.A.5.c Lender Notification to Approved Borrowers

The lender is responsible for notifying the borrower of the approval, either in writing or verbally, immediately after receipt of the underwriter's decision.

4155.1 1.A.5.d Term of the Firm Commitment or Underwriter's Approval of the Borrower

The term of the firm commitment or underwriter's approval of the borrower, on page three of form HUD-92900A, *HUD/VA Addendum to Uniform Residential Loan Application*, is 90 days or the remaining life or whichever is greater of the

- Conditional Commitment
- U.S. Department of Veterans Affairs (VA) Certificate of Reasonable Value (CRV), or
- underwriter's approval of the property, as appropriate.

Reference: For more information on mortgage loan application documentation processing see HUD 4155.1 1.B.3.

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5. Borrower Approval or Rejection, Continued

4155.1 1.A.5.e Borrower Rejection Based on Credit Report Information

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

Note: This is a requirement of the Fair Credit Reporting Act (FCRA).

Reference: For more information on the FCRA, see HUD 4155.2 1.B.4.

4155.1 1.A.5.f Required Notifications for Rejected Borrowers

When a loan is rejected, the lender must immediately complete

- a rejection notice consistent with the requirements of Regulation B and,
- when required, an Equal Credit Opportunity Act (ECOA) notice, forwarded to the borrower.

At least one credit aspect must be rejected before the lender can issue an overall rejection. The rejection notice must provide specific reasons for the rejection. Delinquent credit accounts need not be listed.

The rejection notice must contain all the reasons for denial/ineligibility and any counter proposals to effectuate loan approval, such as reduced mortgage amount.

Notes:
- On FHA-processed loans, FHA issues a rejection notice, *Mortgage Insurance Certificate/Non-Endorsement*, directly to the lender.
- The lender must retain case binders on rejected loans for 26 months from the date of
  – receipt of the application by the DE underwriter, or
  – rejection by the appropriate Homeownership Center (HOC).

Reference: For more information on ECOA, see HUD 4155.2 1.B.5.