HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance

Chapter 1. Underwriting Overview

Section A. General Information on the Underwriting Process

Section B. Documentation Requirements

Section C. Credit Reporting Requirements

Chapter 2. Maximum Mortgage Amounts/Cash Investment Requirements on Purchase Transactions

Section A. Calculating Maximum Mortgage Amounts on Purchase Transactions

Continued on Next Page

HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance, Continued

Continued on Next Page

HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance, Continued

HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance, Continued

Continued on next page

HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance, Continued

Chapter 6. Special Underwriting

Section A. Special Underwriting Instructions

Section B. ARMs

Section C. Streamline Refinances

Continued on next page

HUD 4155.1, Mortgage Credit Analysis for Mortgage Insurance, Continued

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.

Change Date

October 18, 2010

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.

Continued on next page

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.

Change Date

October 18, 2010

Continued on next page

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.

Continued on next page

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

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.

Continued on next page

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.

Continued on next page

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.

Change Date

October 18, 2010

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.

Continued on next page

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.

Change Date

October 18, 2010

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.

Continued on next page

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..

Change Date

October 18, 2010

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.

Continued on next page

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.

Continued on next page

5. Borrower Approval or Rejection and Term of the Firm Commitment or Underwriter's Approval, 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 (form HUD-59100, *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.

Section B. Documentation Requirements

Overview

Contents

This section contains the topics listed in the table below.

1. General Documentation Standards

Introduction

This topic contains information on general documentation standards, including

- signature requirements for application forms
- borrower authorization for verification of information
- mortgage loan application name requirements
- the policy prohibiting documents signed in blank
- use of self-adhesive labels
- the policy prohibiting the use of documents handled by third parties
- contents of the mortgage loan application package
- maximum age of mortgage loan application documentation
- verification of employment and asset information received via fax or the Internet
- use of Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard, and
- policy on use of electronic signatures on third party documents.

Change Date

March 1, 2011

Continued on next page

1. General Documentation Standards, Continued

4155.1 1.B.1.a Signature Requirements for Application Forms

All borrowers applying for the mortgage and assuming responsibility for the debt must sign Fannie Mae Form 1003, *Uniform Residential Loan Application* (URLA), and all addenda.

Either the initial loan application or the final, if one is used, must contain the signatures of *all* borrowers.

Note: The initial loan application may not be executed by power of attorney except for military personnel and incapacitated borrowers as discussed in HUD 4155.1 1.B.3.d.

References: For information on the use of a power of attorney
- for execution of the loan application, see HUD 4155.1 1.B.3.d, and
- at loan closing, see HUD 4155.2 6.A.1.f.

Continued on next page

1. General Documentation Standards, Continued

4155.1 1.B.1.b Borrower Authorization for Verification of Information

The lender may ask the borrower to sign a general authorization form that gives the lender blanket authority to verify information needed to process the mortgage loan application, such as

- past and present employment records
- bank accounts, and
- stock holdings.

If using a blanket authorization form, the lender

- must attach a copy of the authorization to each verification sent, and
- *may* use self-adhesive signature labels for laser printed verifications.

Reference: For more information on the use of self-adhesive labels, see HUD 4155.1 1.B.1.d.

4155.1 1.B.1.c Mortgage Loan Application Name Requirements

Except for nonprofit corporations that provide assistance to low and moderate income families, all mortgage loan applications *must* be in one or more individual's name.

Mortgage loan applications from a corporation, partnership, sole proprietorship, or trust *must*

- *also* provide the name of one or more individuals, and
- be analyzed on the basis of the individual *and* the organization.

Reference: For more information on the eligibility of nonprofit organizations to apply for an FHA-insured mortgage, see HUD 4155.1 4.A.6.

4155.1 1.B.1.d Use of Self-Adhesive Labels

Lenders may use self-adhesive signature labels for laser printed verifications.

Each label must

- completely and clearly indicate its use, and
- contain the Privacy Act notification.

Continued on next page

1. General Documentation Standards, Continued

4155.1 1.B.1.e Policy Prohibiting Documents Signed in Blank

Lenders may *not* have borrowers sign

- documents in blank
- incomplete documents, or
- blank sheets of paper.

4155.1 1.B.1.f Policy Prohibiting the Use of Documents Handled by Third Parties

Lenders may not accept or use documents relating to the credit, employment, or income of borrowers that have been handled by, or transmitted from or through the equipment of interested third parties, such as

- real estate agents
- builders, or
- sellers.

4155.1 1.B.1.g Contents of the Mortgage Loan Application Package

The mortgage loan application package must contain all documentation that supports the lender's decision to approve the mortgage loan.

When standard documentation does not provide enough information to support the approval decision, the lender must provide additional, explanatory statements that are consistent with information in the application. The explanatory statements must clarify or supplement the documentation submitted by the borrower.

Continued on next page

1. General Documentation Standards, Continued

4155.1 1.B.1.h Maximum Age of Mortgage Loan Application Documentation

At loan closing, all documents in the mortgage loan application may be up to 120 days old, or 180 days old for new construction, unless

- a different time frame is specified in this handbook or in other applicable HUD instructions, or
- the nature of the documents is such that their validity for underwriting purposes is not affected by the prescribed time frame, such as
  - divorce decrees, or
  - tax returns.

If the age of documents exceeds the above limits, the lender must obtain updated written verification of the documentation.

Continued on next page

1. General Documentation Standards, Continued

4155.1 1.B.1.i Verification of Employment and Asset Information Sent Via Fax or Internet

Income, employment, or asset documents sent to the lender by fax must clearly identify the

- name of the employer or depository/investment firm and the source of information, and
- name and telephone number of the individual at the employer or financial institution responsible for verifying the accuracy of the data.

The lender is accountable for determining the authenticity of faxed documents by examining the information included at the top or banner portion of the fax.

Likewise, income/employment or asset documentation from an Internet website must clearly identify the employer or depository/investment firm's name, as well as the source of information.

Documentation from an Internet website for depository accounts must provide the same information as a standard original statement, including

- account holder
- account number
- detailed transaction history, and
- account balance.

The lender must examine portions of printouts downloaded from the Internet for authenticity.

Printed web pages must

- show the uniform resource locator (URL) address, as well as the date and time the documents were printed
- be derived from a website that has been verified by the lender to have existed, and
- be placed in the case binder**.**

Continued on next page

1. General Documentation Standards, Continued

4155.1 1.B.1.j Use of TOTAL Mortgage Scorecard

The Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard has proven to be a successful tool for lenders to more efficiently determine borrower creditworthiness. Based on FHA's positive experience with TOTAL, the agency requires that all transactions be scored through TOTAL Mortgage Scorecard *except* transactions involving borrowers without credit scores and streamline refinances. TOTAL Scorecard was never intended to be used for streamlines and the results are not considered valid. Therefore, lenders must not use TOTAL Scorecard on streamline refinance transactions.

4155.1 1.B.1.k Policy on Use of Electronic Signatures on Third Party Documents

FHA accepts electronic signatures on third party documents for forward mortgages and Home Equity Conversion Mortgages (HECMs), in accordance with the Electronic Signatures in Global and National Commerce Act (ESIGN), and the Uniform Electronic Transactions Act (UETA).

Third party documents are documents originated and signed outside of the lender's control, such as a sales contract.

An indication of the electronic signature and date must be clearly visible when viewed

- electronically, or
- in a paper copy of the electronically signed document.

Lenders must

- employ the same level of care and due diligence with electronically signed documents as they would for paper documents with "wet" or ink signatures, and
- maintain the origination case binder in either hard copy or electronic format for two years from the date of endorsement.

2. Required Documents for Mortgage Credit Analysis

Introduction

This topic contains information on required documents for mortgage credit analysis, including

- general mortgage credit analysis documents
- evidence of Social Security Number
- verification of deposit
- verification of employment (VOE)
- alternative employment documentation
- TOTAL Scorecard Accept/Approve and Refer feedback for employment verification
- federal income tax returns, and
- appraisal documentation.

Change Date

October 18, 2010

4155.1 1.B.2.a General Mortgage Credit Analysis Documents

Lenders must obtain the most recent documents required to perform the mortgage credit analysis. "Most recent" refers to the most recent document available at the time the loan application is made. See HUD 4155.1 1.B.1.h for the maximum allowable age of documents.

The documents listed in the table below are the general documents required for mortgage credit analysis.

Note: This is not a complete listing. Additional documentation may be required, as discussed in HUD 4155.1 1.B.1.g.

Document	Requirements
Loan Application	• Fannie Mae Form 1003, *Uniform Residential Loan Application* (URLA) signed and dated by all borrowers and the lender, and • Form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*.
Loan Underwriting and Transmittal Summary	HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*, for both purchase and refinance transactions.

Continued on next page

2. Required Documents for Mortgage Credit Analysis,
Continued

4155.1 1.B.2.a General Mortgage Credit Analysis Documents (continued)

Document	Requirements
Social Security Number Evidence	For information on obtaining Social Security Number (SSN) evidence, see HUD 4155.1 1.B.2.b.
Credit Report	The lender must obtain a credit report on all borrowers who will be obligated on the mortgage note, except in cases involving certain streamline refinance transactions. ***Reference***: For more information on • credit reports, see HUD 4155.1 1.4 , and • credit report review guidelines, see HUD 4155.1 4.C.2.
Verification of Deposit (VOD)	For information on verification of deposit, see HUD 4155.1 1.B.2.c.
Verification of Employment (VOE)	For information on verification of employment, see • HUD 4155.1 1.B.2.d • HUD 4155.1 1.B.2.e, and • HUD 4155.1 1.B.2.f.
Federal Income Tax Returns	For information on obtaining federal income tax returns, see HUD 4155.1 1.B.2.g.
Sales Contract	The lender must obtain the sales contract and any amendments or other agreements and certifications.

Continued on next page

2. Required Documents for Mortgage Credit Analysis,
Continued

4155.1 1.B.2.a General Mortgage Credit Analysis Documents (continued)

Document	Requirements
Real Estate Certification	If not contained within the purchase agreement, the lender must provide the real estate certification, signed by the • buyer • seller, and • selling real estate agent or broker. ***References***: For more information on the real estate certification, see • HUD 4155.2 6.A.5.f, and • HUD 4155.2 6.A.5.g.
Amendatory Clause	The lender must provide the amendatory clause, signed by the borrower and seller, if it is not contained in the purchase agreement. ***References***: For more information on the amendatory clause, see • HUD 4155.2 6.A.5.d, and • HUD 4155.2 6.A.5.e.
Verification of Rent or Payment History on Past/Previous Mortgages	This document must be in the form of • direct written verification from the landlord or mortgage servicer • information shown on the credit report, or • the most recent 12 months of cancelled checks or receipts for payment of the rent/mortgage. *TOTAL* ***Scorecard Accept/Approve recommendation***: A separate rental reference is not required. ***Reference***: For information on the TOTAL Scorecard, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

2. Required Documents for Mortgage Credit Analysis, Continued

4155.1 1.B.2.a General Mortgage Credit Analysis Documents (continued)

Document	Requirements
Uniform Residential Appraisal Report (URAR)	For information on obtaining the URAR, see HUD 4155.1 1.B.2.h.
Explanatory Statement	The lender must include, in the case binder, any explanatory statements or additional documentation necessary to make a sound underwriting decision.

Continued on next page

2. Required Documents for Mortgage Credit Analysis, Continued

4155.1 1.B.2.b Evidence of Social Security Number

All borrowers, including United States (U.S.) citizens, must have a valid Social Security Number (SSN) and must provide evidence of that SSN to the lender.

The lender is responsible for

- documenting an SSN for each borrower, coborrower, or cosigner on the mortgage
- validating each SSN either through
  - entering the borrower's name, date of birth and SSN in the borrower/address validation screen through the FHA Connection (FHAC) or its functional equivalent
  - examination of the borrower's pay stubs, W-2 forms, valid tax returns obtained directly from the Internal Revenue Service (IRS), or other documentation acceptable to FHA, or
  - use of a service provider, including those with direct access to the Social Security Administration (SSA), and
- resolving, if necessary, any inconsistencies or multiple SSNs for individual borrowers that are revealed during loan processing and underwriting.

Note: These requirements apply to purchase money loans and all refinances, including streamline refinances.

Continued on next page

2. Required Documents for Mortgage Credit Analysis,
Continued

4155.1 1.B.2.c Verification of Deposit

The lender must obtain a written Verification of Deposit (VOD) and the borrower's most recent statements for all asset accounts to be used in qualifying.

Alternative Documentation
As an alternative to obtaining a written VOD, the lender may obtain from the borrower original asset statements covering the most recent three-month period. Provided that the asset statement shows the previous month's balance, this requirement is met by obtaining the two most recent, consecutive statements.

TOTAL Scorecard Accept/Approve Recommendation
If a written VOD is not obtained, the lender may obtain a statement showing the previous month's ending balance for the most recent month. If the previous month's balance is not shown, the lender must obtain statements for the most recent two months to verify that there are sufficient funds to close.

References: For additional information on
- the TOTAL Scorecard Accept/Approve Recommendation, see the *TOTAL Mortgage Scorecard User Guide*
- asset information, see HUD 4155.1.1.B.1.j
- the meaning of most recent as it applies to the mortgage credit analysis, see HUD 4155.1 1.B.2.a.

4155.1 1.B.2.d Verification of Employment (VOE)

The lender must obtain a Verification of Employment (VOE), and the borrower's most recent pay stub.

Reference: For more information on
- employment information, see
  - HUD 4155.1 1.B.2.e, and
  - HUD 4155.1 1.B.2.f, and
- the meaning of most recent as it applies to the mortgage credit analysis, see HUD 4155.1 1.B.2.a.

Continued on next page

2. Required Documents for Mortgage Credit Analysis, Continued

4155.1 1.B.2.e Alternative Employment Documentation

As an alternative to obtaining a written VOE, the lender may obtain the borrower's

- original pay stub(s) covering the most recent 30-day period, and
- original IRS W-2 forms from the previous two years. (***Note***: Any copy of the IRS W-2 not submitted with the borrower's tax return is considered an "original". The original may be photocopied and returned to the borrower.)

The lender must also

- verify, by telephone, all current employers
- include in the loan file a certification stating that original documents were examined and the name, title, and telephone number of the person with whom employment was verified
- sign and date the verification, and
- for all loans processed in this manner, obtain a signed copy of IRS 4506, *Request for Copy of Tax Form*, form IRS 8821, *Tax Information Authorization*, or a document that is appropriate for obtaining tax returns directly from the IRS.

Notes:
- The lender may also use an electronic retrieval service to obtain W-2 and tax return information.
- The lender must use standard employment documentation if the
  - employer will not provide telephone confirmation of employment, or
  - W-2(s) and/or pay stub(s) indicates inconsistencies (for example, Federal Insurance Contributions Act (FICA) payments not reflecting earnings).

Continued on next page

2. Required Documents for Mortgage Credit Analysis, Continued

4155.1 1.B.2.f TOTAL Scorecard Accept/ Approve and Refer Feedback Certificate for Employment Verification

The lender must obtain the most recent pay stub showing year-to-date earnings of at least one month, and one of the following to verify current employment:

- a written VOE verbal verification of employment, or
- electronic verification acceptable to FHA.

The table below outlines additional requirements based on the TOTAL Scorecard Accept/Approve and Refer Feedback Certificate.

Total Recommendation	Requirements for VOE
TOTAL Accept/Approve Recommendation	The lender is required to verify the applicant's employment history for the previous two years. However, direct verification is *not* required if *all* of the following conditions are met: • the current employer confirms a two-year employment history (this may include a pay stub indicating a hiring date) • the lender only uses base pay (no overtime or bonus pay) to qualify the borrower and • the borrower signs Form IRS 4506 or Form IRS 8821 for the previous two tax years. ***Borrower Not Employed with Same Employer:*** If the borrower was not employed with the same employer for the previous two years, and/or the above conditions cannot be met, the lender must verify the most recent two years of employment history by obtaining • copies of W-2s • written VOEs, or • electronic verification acceptable to FHA. No explanation is required for gaps in employment of six months or less during the most recent two years.

Continued on next page

2. Required Documents for Mortgage Credit Analysis,
Continued

4155.1 1.B.2.f TOTAL Scorecard Accept/Approve and Refer Feedback Certificate for Employment Verification (continued)

Total Recommendation	Requirements for VOE
TOTAL Refer Recommendation	The lender is required to verify the applicant's employment history for the previous two years. For the most recent two years the lender must obtain • copies of W-2s • written VOEs, or • electronic verification acceptable to FHA. ***Borrower Not Employed with Same Employer AND Has Employment Gap:*** If the borrower was *not* employed with the same employer for the previous two years, and has an employment gap of 30 days or greater, he/she must provide a written explanation for the employment gap. ***References***: For information on the TOTAL Scorecard, see • HUD 4155.1 6.A.1, and • the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

2. Required Documents for Mortgage Credit Analysis, Continued

4155.1 1.B.2.g Federal Income Tax Returns

The lender must obtain

- federal income tax returns for the most recent two years, both individual and business, including all applicable schedules, for self-employed borrowers, and
- individual federal tax returns for commissioned individuals.

The lender must obtain signed forms IRS 4506, IRS 8821, *Tax Information Authorization*, or whatever form or electronic retrieval service is appropriate for obtaining tax returns directly from the IRS for any loan that requires the borrower's tax returns.

TOTAL Scorecard Accept/Approve Recommendation
Business tax returns are *not* required if the borrower meets *all* of the following conditions:

- individual federal income tax returns show increasing self-employed income over the past two years
- business accounts are not the source of funds to close, and
- the FHA-insured mortgage transaction is not a cash out refinance.

Note: If the lender obtains tax transcripts directly from the IRS or an electronic retrieval service, the loan approval must be based on the transcript data. Any discrepancies between the transcripts and the borrower provided tax returns must be resolved prior to loan approval.

References: For information on
- reviewing a borrower's tax returns, see HUD 4155.1 4.D.5, and
- the TOTAL Scorecard Accept/Approve Recommendation, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

2. Required Documents for Mortgage Credit Analysis, Continued

4155.1 1.B.2.h Appraisal Documentation

The lender must obtain

- Fannie Mae Form 1004MC, *Market Conditions Addendum to the Appraisal Report*, for all appraisals of properties that are to be security for FHA-insured mortgages, ***and***
- one of the following Fannie Mae forms, as appropriate, and any attachments and exhibits, completed and dated by the appraiser:
  - Fannie Mae Form 1004, March 2005, *Uniform Residential Appraisal Report* – required to report the appraisal of a one-unit property, or a one-unit property with an accessory unit
  - Fannie Mae Form 1004C, March 2005, *Manufactured Home Appraisal Report* – required to report an appraisal of a one-unit manufactured home
  - Fannie Mae Form 1073, March 2005, *Individual Condominium Unit Appraisal Report* – required to report the appraisal of a unit in a condominium project, or a condominium unit in a planned unit development (PUD), or
  - Fannie Mae Form 1025, *Small Residential Income Property Appraisal Report* – required to report the appraisal of a two to four unit property.

Exception: This requirement does *not* apply to streamline refinance transactions made without an appraisal.

3. Mortgage Loan Application Document Processing

Introduction

This topic includes information on mortgage loan application document processing, including

- signing and dating mortgage insurance applications
- using a signed initial form 1003, *Uniform Residential Loan Application* and form HUD-92900-A, *HUD/VA Addendum to URLA*
- who signs form HUD-92900-A
- use of a power of attorney (POA) to execute the loan application
- form HUD 92900-A for sponsored originations, and
- interviewer's signature on the URLA.

Change Date

March 1, 2011

4155.1 1.B.3.a Signing and Dating Mortgage Insurance Applications

The borrower(s) must sign and date the application for mortgage insurance before the lender underwrites the loan, due to

- various disclosure requirements, and
- the belief that borrowers are best served when the lender divulges information on required certifications as early as possible in the loan application process.

4155.1 1.B.3.b Using a Signed Initial Form 1003, Uniform Residential Loan Application and Form HUD-92900-A, HUD/VA Addendum to URLA

FHA recognizes the burden on lenders and borrowers of having to re-sign various documents after the loan application is taken. To alleviate this burden, lenders are permitted to process and underwrite the loan after the borrower completes an

- *initial* Fannie Mae Form 1003, *Uniform Residential Loan Application* (URLA), and
- *initial* form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application* as specified in HUD 4155.1 1.B.3.c.

If the lender asks the borrower to complete an initial HUD-92900-A based on the preliminary information obtained at loan application, the borrower does *not* need to sign final forms 1003 or HUD-92900-A before underwriting.

The underwriter must condition the loan approval for the final URLA and form HUD-92900-A to be signed and dated by the borrower(s) prior to, or at, loan closing.

Continued on next page

3. Mortgage Loan Application Document Processing, Continued

4155.1 1.B.3.c Who Signs Form HUD-92900-A

The table below describes the signatures required on different pages on form HUD-92900-A.

Note: The revised HUD-92900-A (dated 9/2010) must be used for all loan applications, as Page Three captures the name, tax ID (Employer Identification Number (EIN) issued by the Internal Revenue Service (IRS)) and Nationwide Mortgage Licensing System and Registry (NMLS) ID of the originating company, including sponsored third-party originators.

Page …	Must be completed, signed and/or dated by …
one of the *initial* Addendum	the interviewer, *unless* a sponsored third-party originator (TPO) is involved, in which case, the sponsoring lender must sign and date Page One.
one of the *final* Addendum	anyone authorized to bind the company in its business dealing with HUD. If a sponsored TPO is involved, the sponsoring lender must sign and date Page One.
two of the *initial* Addendum	the borrower(s) in two places: • in Part IV to provide consent for the Social Security Administration (SSA) to verify his/her Social Security Number (SSN), and • in Part V to acknowledge the certifications.

Continued on next page

3. Mortgage Loan Application Document Processing, Continued

4155.1 1.B.3.c Who Signs Form HUD- 92900-A (continued)

Page …	Must be completed, signed and/or dated by the…
three of the *final* Addendum	• Direct Endorsement (DE) underwriter, or the lender's representative's for "Accept" or "Approved" Automated Underwriting System (AUS) loans, or • DE underwriter for a manually underwritten loan. ***Note***: The lender must complete the approval of loan term section with the approval and expiration dates.
four of the Addendum	• borrower at loan closing, in the *Borrower Certification* section, and • lender, after loan closing, in the Lender Certification section.

References: For more information on

- requirements for an initial and/or final URLA and Addendum, see HUD 4155.1 1.B.3.b, and
- requirements for sponsored third-party originators, see HUD 4155.1 1.B.3.e and HUD 4155.2 2.B.6

Continued on next page

3. Mortgage Loan Application Document Processing, Continued

4155.1 1.B.3.d Use of a Power of Attorney to Execute the Loan Application

The *initial* mortgage loan application *may not* be executed by using a power of attorney, *except* in circumstances as indicated in the table below.

Note: Either the *initial* application or the final, if one is used, must contain the signatures of all borrowers.

Reference: For information on the use of a power of attorney for closing documents, see HUD 4155.2 6.A.1.f.

Permissible Use of a Power of Attorney for a Loan Application	Policy Description
Military personnel	A power of attorney may be used for military personnel on overseas duty or on an unaccompanied tour. The lender should obtain the absent borrower's signature on the application by mail or via fax.
Incapacitated borrowers	A power of attorney may be used for incapacitated borrowers who are unable to sign the mortgage application. The lender must provide evidence that the signer has authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable power of attorney specifically designed to survive incapacity and avoid the need for court proceedings. The incapacitated individual must occupy the property to be insured, except if it is an eligible investment property. ***Reference***: For information on eligible investment properties, see HUD 4155.1 4.B.4.

Continued on next page

3. Mortgage Loan Application Document Processing, Continued

4155.1 1.B.3.e Form HUD 92900-A for Sponsored Originations

For those loans originated by a sponsored TPO, the sponsoring lender must enter the following information on the sponsored TPO on page three of form HUD 92900-A:

- Loan Origination Company – entity's legal name
- Loan Origination Company Tax ID – Employer Identification Number (EIN) issued by the IRS, and
- NMLS ID of the Loan Origination Company – the unique identifier of the company assigned by the Nationwide Mortgage Licensing System & Registry (NMLS).

The sponsoring lender must enter its own name and address in Block 15 on pages one and three of the form.

4155.1 1.B.3.f Interviewer's Signature on the URLA

On the URLA, the actual interviewer's name, signature and telephone number must appear on page 4 regardless of whether the interviewer is employed by a sponsored TPO or the sponsoring lender.

Section C. Credit Reporting Requirements

Overview

Contents

This section contains the topics listed in the table below.

1. Confidential Nature of Credit Information

Change Date October 18, 2010

4155.1 1.C.1.a Confidentiality Policy for Credit Information

Lenders must not divulge sources of credit information, except as required by a 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

- Title VIII of the Civil Rights Act of 1968
- the Fair Credit Reporting Act, Public Law 91-508
- the Privacy Act, Public Law 93-579
- the Financial Privacy Act, Public Law 95-630, and
- the Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202.

2. General Information on Traditional and Non-Traditional Credit Reports

Introduction

This topic contains general information on traditional and non-traditional credit reports, including

- required credit report information
- types of traditional credit reports
- purpose and use of non-traditional credit reports
- developing credit information, and
- credit report retention and discrepancy reconciliation, and
- a reference for use of truncated Social Security numbers on credit reports.

Change Date

October 18, 2010

4155.1 1.C.2.a Required Credit Report Information

A credit report submitted with a loan application must contain all credit information available in the accessed repositories. Additionally, for each borrower responsible for the debt, the report must contain all of the information available in the credit repositories pertaining to

- credit
- residence history, and
- public records information.

Note: One report is required for each borrower. The lender may obtain a joint report for individuals with joint accounts.

Continued on next page

2. General Information on Traditional and Non-Traditional Credit Reports, Continued

4155.1 1.C.2.b Types of Traditional Credit Reports

The two types of traditional credit reports are the

- three repository merged credit report, also known as a "tri-merged" credit report (TRMCR), and
- Residential Mortgage Credit Report (RMCR).

The minimum credit report that FHA requires is the TRMCR. When required, the lender may also use an RMCR from an independent consumer-reporting agency.

Note: An RMCR is required under the circumstances described in HUD 4155.1 1.C.4.a.

References: For more information on the
- TRMCR, see HUD 4155.1.C.3, and
- RMCR, see HUD 4155.1 1.C.4.

4155.1 1.C.2.c Purpose and Use of Non-Traditional Credit Reports

A Non-Traditional Mortgage Credit Report (NTMCR) is

- designed to access the credit history of a borrower who do not have the types of trade references that appear on a traditional credit report, and
- used either as a
  - substitute for a TRMCR or an RMCR, or
  - supplement to a traditional credit report that has an insufficient number of trade items reported.

Reference: For more information on requirements for use of an NTMCR, see HUD 4155.1 1.C.5.

Continued on next page

2. General Information on Traditional and Non-Traditional Credit Reports, Continued

4155.1 1.C.2.d Developing Credit Information

A lender must develop credit information separately for any open debt listed on the loan application but not referenced in the credit report.

Accounts listed as "*rate by mail only*" or "*need written authorization*" require separate written notification for traditional credit reports.

4155.1 1.C.2.e Credit Report Retention and Discrepancy Reconciliation

The lender must

- retain copies of all credit reports
- document in writing an analysis of the reasons for any discrepancies between credit reports, and
- reconcile inconsistencies if it receives any information that is not consistent with information on a credit report.

4155.1 1.C.2.f Use of Truncated Social Security Numbers on Credit Reports (Reference)

For information on the use of truncated Social Security numbers on credit reports, see HUD 4155.1 4.C.2.j.

3. Three Repository Merged Credit Report (TRMCR)

Introduction

This topic contains information on the three repository merged credit report (TRMCR), including

- methods of TRMCR submission
- required TRMCR format
- required demographic information, and
- required TRMCR borrower credit related information

Change Date

October 18, 2010

4155.1 1.C.3.a Methods of TRMCR Submission

Three repository merged credit reports (TRMCRs) submitted by the lender must be

- originals, and
- either sent electronically and printed on the lender's printer, or
- delivered by the credit-reporting agency.

4155.1 1.C.3.b Required TRMCR Format

The TRMCR must be in an easy to read and understandable format, and should not require code translations.

Whiteouts, erasures, or alterations are *not* permitted.

4155.1 1.C.3.c Required Demographic Information

The TRMCR must include the

- name of the company ordering the report
- name, address, and telephone number of the consumer-reporting agency
- name and SSN of each borrower, and
- primary repository from which any particular information was pulled, for each account listed.

Continued on next page

3. Three Repository Merged Credit Report (TRMCR), Continued

4155.1 1.C.3.d Required TRMCR Borrower Credit Related Information

The TRMCR must include

- all inquiries made within the last 90 days
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding
  - bankruptcies
  - judgments
  - lawsuits
  - foreclosures, and
  - tax liens, and
- for each borrower debt listed, the
  - date the account was opened
  - high credit amount
  - required payment amount
  - unpaid balance, and
  - payment history.

Notes:
- A corrected credit report *must* supplement the TRMCR if the report *does not* verify legal actions such as bankruptcies, judgments, lawsuits, foreclosures, and tax liens.
- For any open debt listed on the loan application, but not referenced on the TRMCR, the lender must develop credit information separately.

4. Residential Mortgage Credit Report (RMCR)

Introduction

This topic contains information on the residential mortgage credit report (RMCR), including

- when an RMCR is required, and
- required RMCR information.

Change Date

October 18, 2010

4155.1 1.C.4.a When an RMCR Is Required

A residential mortgage credit report (RMCR) is required when the

- borrower disputes the ownership of accounts on the TRMCR borrower claims that collections, judgments, or liens listed as open have been paid, and documentation supporting his/her claim is not available
- borrower claims that certain debts on the TRMCR have different balances/payments, and current statements less than 30 days old supporting his/her claim are unavailable, or
- underwriter determines that it is more prudent to use an RMCR than a TRMCR to underwrite the loan.

4155.1 1.C.4.b Required RMCR Information

RMCRs must access at least two named repositories and meet all the requirements for the TRMCR, as described in HUD 4155.1 1.C.5. In addition, the RMCR must

- provide a detailed account of the borrower's employment history
- verify each borrower's current employment and income
- contain a statement attesting to the certification of employment for each borrower and the date the information was verified, and
- include a check with the creditor within 90 days of the credit report for each account with a balance.

Note: If the certification of employment is not obtained through an interview with the borrower's employer, the credit-reporting agency must state the reason for not completing this interview.

5. Non-Traditional Credit Report (NTMCR) Requirements

Introduction

This topic contains information on non-traditional credit report requirements, including

- FHA preference for verification of non-traditional credit references
- the purpose of non-traditional credit reports (NTMCRs)
- the format for credit references on an NTMCR when use of an NTMCR is not permitted
- insufficient credit report information, and
- consideration of credit that requires periodic payments.

Change Date

October 18, 2010

4155.1 1.C.5.a FHA Preference for Verification of Non-traditional Credit References

FHA prefers that all non-traditional credit references be verified by a credit bureau and reported back to the lender as a non-traditional mortgage credit report (NTMCR) in the same manner as traditional credit references.

Note: Only if an NTMCR is impractical or such a service is unavailable may a lender choose to obtain independent verification of trade references.

References: For more information on

- verifying and documenting non-traditional credit providers, see HUD 4155.1 4.C.1.e, and
- use of non-traditional credit reports provided by credit-reporting agencies, see HUD 4155.1 4.C.1.f.

Continued on next page

5. Non-Traditional Credit Report (NTMCR) Requirements,
Continued

4155.1 1.C.5.b Purpose of NTMCRs

NTMCRs are designed to assess the credit history of borrowers who do not have the types of trade references that normally appear on a traditional credit report. An NTMCR can be used as a

- substitute for a TRMCR or an RMCR for a borrower without a credit history with traditional credit grantors, or
- supplement to a traditional credit report that has an insufficient number of trade items reported.

Reference: For more information on using an NTMCR as a supplement when there is insufficient credit information, see HUD 4155.1 1.C.5.e

4155.1 1.C.5.c Format for Credit References on an NTMCR

Trade references appearing on an NTMCR should be formatted in a similar fashion to traditional references, and include the

- creditor's name
- date of opening
- high credit
- current status of the account
- required payment
- unpaid balance, and
- payment history in the delinquency categories (for example, 0x30, 0x60, and so on).

Note: The report should not include subjective statements such as "*satisfactory*" or "*acceptable*."

Continued on next page

5. Non-Traditional Credit Report (NTMCR) Requirements, Continued

4155.1 1.C.5.d When Use of an NTMCR Is Not Permitted

An NTMCR *cannot* be used to

- enhance the credit history of a borrower with a poor payment record
- manufacture a credit report for a borrower without a verifiable credit history, or
- offset derogatory references found in the borrower's traditional credit report, such as collections and judgments.

4155.1 1.C.5.e Use of an NTMCR When There Is Insufficient Credit Report Information

A lender may use an NTMCR developed by a credit-reporting agency that documents all non-traditional credit references when the information in the standard credit report is not sufficient to make a prudent underwriting decision.

If an NTMCR is not available, the lender must develop its own non-traditional credit history consistent with the traditional credit report requirements described in HUD 4155.1 1.C.3.

Continued on next page

5. Non-Traditional Credit Report (NTMCR) Requirements, Continued

4155.1 1.C.5.f Guidelines for Determining That a Borrower Has Sufficient Credit References

In order for the underwriter to determine that a borrower has sufficient credit references to help evaluate bill paying habits, the credit history must

- include three credit references, including at least one from Group I (below), and
- exhaust all Group I references prior to considering Group II for eligibility purposes, as Group I is considered more indicative of a borrower's future payment performance.

The table below lists the Group I and Group II categories of credit references the underwriter can use to determine if a borrower has a sufficient credit history.

Group Number	Types of Credit References
Group I	• Rental housing payments (subject to independent verification if the borrower is a renter) • Utility company reference (if not included in the rental housing payment), including – gas – electricity – water – land-line home telephone service, and – cable TV. ***Note***: If the borrower is renting from a family member, the lender should request independent documents to prove regularity of payments, such as cancelled checks.

Continued on next page

5. Non-Traditional Credit Report (NTMCR) Requirements,
Continued

4155.1 1.C.5.f Guidelines for Determining That a Borrower Has Sufficient Credit References (continued)

Group Number	Types of Credit References
Group II	• Insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance) • Payment to child care providers made to businesses that provide such services • School tuition • Retail stores credit cards (for example, from department, furniture, appliance stores, or specialty stores) • Rent-to-own (for example, furniture, appliances) • Payment of that part of medical bills not covered by insurance • Internet/cell phone services • A documented 12 month history of savings evidenced by regular deposits resulting in an increased balance to the account that – were made at least quarterly – were not payroll deducted, and – caused no insufficient funds (NSF) checks • Automobile leases • A personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments

Note: Lenders must underwrite borrowers with no Group I trade references using the criteria set forth in

- HUD 4155.1 4.C.3.b, and
- HUD 4155.1 4.C.3.c.

Section A. Calculating Maximum Mortgage Amounts on Purchase Transactions

Overview

In This Section This section contains the topics listed in the table below.

1. Maximum Mortgage Amounts on Purchases

Introduction

This topic contains information on maximum mortgage amounts for purchasing property, including

- maximum insurable mortgage on a purchase
- upfront mortgage insurance premiums (UFMIP)
- statutory loan limits, and
- loan-to-value (LTV) limits.

Change Date

March 24, 2011

4155.1 2.A.1.a Maximum Insurable Mortgage on a Purchase

The maximum insurable mortgage on a purchase is the lesser of the

- statutory loan limit for the area (typically a county, or metropolitan statistical area (MSA), or
- applicable loan-to-value (LTV) limit, applied to the lesser of the
  - sales price, or
  - appraised value.

The Department of Housing and Urban Development (HUD) issues a Mortgagee Letter (ML) announcing the new mortgage limits every year.

4155.1 2.A.1.b Upfront Mortgage Insurance Premiums

Most FHA mortgages require the payment of an upfront mortgage insurance premium (UFMIP). The statutory loan amounts and LTV limits discussed in this handbook do not include the UFMIP.

Continued on next page

4155.1 2.A.1.c Statutory Loan Limits

Statutory loan amount limits vary by program and the number of family units within the dwelling.

References: For more information on

- current FHA standard and high-cost area mortgage limits, see the
  - – HUD website at www.hud.gov, or
  - – FHA Connection at https://entp.hud.gov/clas/, and
- the effect of secondary financing on loan limits, see HUD 4155.1 5.C.

4155.1 2.A.1.d LTV Limits

The determination of the maximum LTV percentage available to the borrower is influenced by

- the particular mortgage insurance program
- the property type (for example, new or existing construction), and
- various transactions that affect the maximum mortgage calculation, as described in HUD 4155.1 2.B.

Once determined, the LTV percentage is then applied to the *lesser* of the sales price or the appraised value, on a purchase, to determine the maximum insurable mortgage.

References: For more information on

- calculating maximum mortgage amounts, see HUD 4155.1 2.A.2
- transactions that affect maximum mortgage calculations, see HUD 4155.1 2.B, and
- the effect of secondary financing on LTV limits, see HUD 4155.1 5.C.5.

2. Calculating Maximum Mortgage Amounts on Purchases

Introduction

This topic contains information on how to calculate maximum mortgage amounts on purchases, including

- the maximum mortgage amount for a purchase
- maximum LTV for purchase of proposed/new construction
- closing costs as required investment, and
- credit card payment for appraisal/credit report.

Change Date

March 24, 2011

4155.1 2.A.2.a Maximum Mortgage Amount For a Purchase

The maximum mortgage amount that FHA will insure on a purchase is calculated by multiplying the appropriate loan-to-value (LTV) factor by the lesser of the property's

- sales price, subject to certain required adjustments, or
- appraised value.

In order for FHA to insure this maximum loan amount, the borrower must make a required investment of at least 3.5% of the lesser of the appraised value or the sales price of the property.

References: For more information on

- required adjustments to the sales price, see
  - HUD 4155.1 2.A.3
  - HUD 4155.1 2.A.4, and
  - HUD 4155.1 2.A.5
- the maximum LTV percentage on purchases for proposed and existing construction and borrower minimum cash investment, see HUD 4155.1 2.A.2.b.

Continued on next page

4155.1 2.A.2.b Maximum LTV for Purchase of Proposed/ New Construction	For purchase transactions, the maximum LTV is 96.5% percent (the reciprocal of the 3.5% required investment). Special requirements for maximum financing on properties proposed or under construction, or construction existing less than one year are stated at HUD 4155.1 2.B.7.b.
4155.1 2.A.2.c Closing Costs as Required Investment	Closing costs (non-recurring closing costs, pre-paid expenses, and discount points) may *not* be used to help meet the borrower's minimum required investment.
4155.1 2.A.2.d Credit Card Payment for Appraisal/ Credit Report	The borrower may use a credit card to pay for the appraisal and credit report. These costs cannot be considered to help meet the required investment.

3. Interested Third Party Contributions

Introduction

This topic contains information on the effect of contributions by interested third parties on calculating the maximum mortgage amount, including

- a definition of third party contribution
- interested third party contribution limitation
- payment of real estate commission, and
- a reference for amounts exceeding the contribution limitation.

Change Date

March 24, 2011

4155.1 2.A.3.a Definition: Third Party Contribution

A ***third party contribution*** is a payment by the seller and/or another interested third party, or a combination of parties toward the borrower's costs to close.

Continued on next page

4155.1 2.A.3.b Interested Third Party Contribution Limitation

The seller and/or third party may contribute up to six percent of the *lesser of* the property's sales price or the appraised value toward the buyer's closing costs, prepaid expenses, discount points and other financing concessions.

The six percent limit also includes

- third party payment for permanent and temporary interest rate buydowns, and other payment supplements
- payments of mortgage interest for fixed rate mortgages
- mortgage payment protection insurance, and
- payment of the upfront mortgage insurance premium (UFMIP).

Note: Contributions exceeding six percent are considered inducements to purchase.

Reference: For information on inducements to purchase, see HUD 4155.1 2.A.4.

4155.1 2.A.3.c Payment of Real Estate Commission

Payment of real estate commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an interested third party contribution.

4155.1 2.A.3.d Amounts Exceeding Contribution Limitation (Reference)

For information on the

- treatment of amounts in excess of the third-party contribution limitation discussed in HUD 4155.1 2.A.3.b, see HUD 4155.1 2.A.4, and
- maximum loan-to-value (LTV) percentage on purchases for proposed and new construction, see HUD 4155.1 2.A.2 b.

4. Inducements to Purchase

Introduction

This topic contains information on inducements to purchase that must be considered when calculating the maximum mortgage amounts, including

- payments considered inducements to purchase
- personal property inducements, and
- sales commission as inducement to purchase.

Change Date

March 24, 2011

4155.1 2.A.4.a Payments Considered Inducements to Purchase

Certain expenses paid by the seller and/or another interested third party on behalf of the borrower are considered "inducements to purchase" and result in a dollar-for-dollar reduction to the *lesser of* the sales price or appraised value of the property before applying the appropriate loan-to-value (LTV) factor.

These expenses include

- contributions exceeding 6% of the sales price
- contributions exceeding the actual cost of prepaid expenses, discount points, and other financing concessions
- decorating allowances
- repair allowances
- moving costs, and
- other costs as determined by the appropriate Homeownership Center (HOC).

Notes: A dollar-for-dollar sales price reduction is also required for
- excess rent credit, as described in HUD 4155.1 5.B.6.f, and
- gift funds not meeting the requirements described in HUD 4155.1 5.B.5.

Continued on next page

4155.1 2.A.4.b Personal Property Inducements

Personal property given by a seller and/or another interested third party to consummate the sale of a property results in a reduction in the mortgage amount. The value of the item(s) *must* be deducted from the *lesser of* the sales price or appraised value of the property before applying the LTV factor.

Depending on local custom or law, certain items may be considered part of the real estate transaction with no adjustment to the sales price or appraised value. The table below describes how to determine if personal property affects the sales price or appraised value.

If the personal property item is a ...	Then the ...
• car • boat • riding lawn mower • furniture, or • television	lender must deduct the value of the item(s) from the sales price or appraised value before applying the LTV factor.
• range • refrigerator • dishwasher • washer • dryer • carpeting • window treatment, or • other items determined appropriate by the HOC	HOC determines if the items are considered customary and affect the value of the property before applying the LTV factor. ***Exception***: Replacement of existing equipment or other realty items by the seller before closing, such as carpeting or air conditioners, does not require a value adjustment, provided that a cash allowance is *not* given to the borrower.

Continued on next page

4. Inducements to Purchase, Continued

4155.1 2.A.4.c Sales Commission as Inducement to Purchase

Sales commissions paid by an interested third party on a borrower's present residence can be considered inducements to purchase. The table below describes the conditions under which a sales commission is subtracted from the *lesser of* the sales price or appraised value before applying the LTV factor.

If the ...	Then the lender should ...
seller and/or interested third party agrees to pay any portion of the borrower's sales commission on the sale of the borrower's present residence	• treat the amount paid by the interested third party as an inducement to purchase, and • subtract dollar-for-dollar the amount paid by the seller or other party from the *lesser of* the sales price or appraised value before applying the LTV factor.
• borrower is not paying a real estate commission on the sale of his/her present home • same real estate broker or agent is involved in both transactions, and • seller of the property being purchased by the buyer is paying a real estate commission that exceeds what is typical for the area	• treat the amount of commission paid by the seller that exceeds what is typical for the area as an inducement to purchase, and • deduct that amount, dollar-for-dollar, from the *lesser of* the sales price or appraised value before applying the LTV factor.

5. Additions to the Mortgage Amount for Repair and Improvement

Introduction

This topic contains information on adjustments to the mortgage amount through allowable additions to the sales price or direct additions to the mortgage amount, including

- adding repair and improvement costs to the sales price
- the repair and improvement amount that can be added to the sales price
- repair and improvement exclusions
- energy-related weatherization items
- calculating the energy-related mortgage amount
- when repairs and energy-related items cannot be completed prior to closing
- adding solar energy system costs
- a reference for information on the mortgage amount on HUD REO sales with repair escrow, and
- a reference for energy efficient mortgage calculation.

Change Date

March 24, 2011

4155.1 2.A.5.a Adding Repair and Improvement Costs to Sales Price

Repairs and improvements may be added to the sales price before calculating the mortgage amount when the

- repairs and improvements are
  - required by the appraiser as essential for property eligibility, and
  - paid by the borrower, and
- sales contract or addendum identifies the borrower as responsible for
  - payment, and
  - completion of the repairs.

Important: Only repairs and improvements *required* by the appraiser may be included.

References: For information on

- the repair and improvement amount that can be added to the sales price, see HUD 4155.1 2.A.5.a, and
- repair and improvement exclusions, see HUD 4155.1 2.A.5.c.

Continued on next page

4155.1 2.A.5.b Repair and Improvement Amount That Can Be Added to Sales Price

The repair and improvement amount that may be added to the sales price before calculating the maximum mortgage amount is the lowest of the

- amount that the value of the property exceeds the sales price
- appraiser's estimate of repairs and improvements, or
- amount of the contractor's bid, if available.

4155.1 2.A.5.c Repair and Improvement Exclusions

Repairs and improvements completed by the borrower *before* the appraisal are *not* eligible to be included when calculating the maximum mortgage. This amount becomes part of the borrower's required cash investment.

4155.1 2.A.5.d Energy-Related Weatherization Items

The mortgage amount may be increased if the cost of energy-related weatherization items paid by the borrower is added to the property. Examples of energy-related weatherization items include

- thermostats
- insulation
- storm windows and doors, and
- weather stripping and caulking.

These items may be added to both the sales price and the appraised value before determining the maximum mortgage amount.

Note: A contractor's statement of the cost of work completed, or the buyer's estimate of the cost of materials must be submitted.

Reference: For information on cost estimates and statements of costs of work for weatherization items, see HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*.

Continued on next page

4155.1 2.A.5.e Calculating the Energy-Related Mortgage Amount

The energy-related amount that can be added when calculating the maximum mortgage amount is

- $2,000 without a separate value determination
- up to $3,500, if supported by a value determination by an approved FHA roster appraiser or Direct Endorsement (DE) Underwriter, or
- more than $3,500
  - subject to a value determination by an approved FHA roster appraiser or DE Underwriter, and
  - with a separate on-site inspection made by a FHA-approved fee inspector or DE staff appraiser.

4155.1 2.A.5.f When Energy Related Items Cannot Be Completed Prior to Closing

If repairs and energy-related items cannot be completed before loan closing due to weather-related delays, the lender *must* establish an escrow account to ensure all required repairs are eventually completed.

References: For more information on

- repairs and improvements, see HUD 4145.1, REV-2, *Architectural Processing and Inspections for Home Mortgage Insurance*, and
- satisfying repair requirements, see HUD 4155.2 4.6.

Continued on next page

5. Additions to the Mortgage Amount for Repair and Improvement, Continued

4155.1 2.A.5.g Adding Solar Energy System Costs

The cost of solar energy systems may be added directly to the mortgage amount before adding the upfront mortgage insurance premium (UFMIP), and after applying the loan-to-value (LTV) factor limits.

The amount added is limited to the *lesser* of the solar energy system's

- replacement cost, or
- effect on the property's market value.

The statutory mortgage limit for the area also may be exceeded by 20% to accommodate the cost of the system.

Note: Active and passive solar systems, as well as wind-driven systems are acceptable.

Reference: For more information on adding solar energy system costs, see HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*.

4155.1 2.A.5.h Mortgage Amount for HUD REO Sales With Repair Escrows (Reference)

For information on calculating the mortgage amount for HUD Real Estate Owned (REO) sales with repair escrows, see HUD 4155.1 6.A.10.a.

4155.1 2.A.5.i Energy Efficient Mortgage Calculation (Reference)

For information on the mortgage calculation for the Energy Efficient Mortgage Program, see HUD 4155.1 6.D.

Section B. Transactions Affecting Maximum Mortgage Calculations

Overview

In This Section This section contains the topics listed in the table below.

1. Transactions Affecting Maximum Mortgage Calculations

Change Date

March 24, 2011

4155.1 2.B.1.a Types of Transactions Affecting Maximum Mortgage Amount

Certain types of loan transactions affect the amount of financing available to a borrower and how the maximum mortgage amount is calculated. These transactions include

- identity-of-interest
- properties with non-occupying coborrowers
- three- and four-unit properties
- properties where a house will be constructed by a borrower
  - on his/her land, and/or
  - as a licensed general contractor
- payoffs of land contracts, and
- transactions involving properties
  - under construction, or
  - less than a year old.

Note: Unless otherwise stated in this handbook, the mortgage calculation procedures described in HUD 4155.1 2.A.2 also apply.

2. Identity-of-Interest Transactions

Introduction

This topic contains information on identity-of-interest transactions, including

- definition of the term *identity-of-interest transaction*
- maximum LTV on identity-of-interest transactions, and
- exceptions to the maximum LTV for identity-of-interest transactions.

Change Date

March 24, 2011

4155.1 2.B.2.a Definition: Identity-of-Interest Transaction

An ***identity of interest transaction*** is a sale between parties with family or business relationships.

4155.1 2.B.2.b Maximum LTV on Identity-of-Interest Transactions

The maximum loan-to-value (LTV) factor for identity-of-interest transactions on principal residences is restricted to 85%.

Continued on next page

2. Identity-of-Interest Transactions, Continued

4155.1 2.B.2.c Exceptions to the Maximum LTV for Identity of Interest Transactions

Financing above the 85% maximum for identity-of-interest transactions is permitted under certain circumstances, as described in the table below.

Exception	Description
Family Member Purchase	A family member purchases another family member's home as a principal residence. If the property is sold from one family member to another and is the seller's investment property, the maximum mortgage is the lesser of • 85% of the appraised value, or • the appropriate LTV factor applied to the sales price, plus or minus required adjustments. ***Note***: The 85% limit may be waived if the family member has been a tenant in the property for at least six months immediately predating the sales contract. A lease or other written evidence must be submitted to verify occupancy. ***Reference***: For a definition *family member*, see HUD 4155.1 9.1.f.
Builder's Employee Purchase	An employee of a builder purchases one of the builder's new homes or models as a principal residence.

Continued on next page

2. Identity-of-Interest Transactions, Continued

4155.1 2.B.2.c Exceptions to the Maximum LTV for Identity of Interest Transactions (continued)

Exception	Description
Tenant Purchase	A current tenant, including a family member tenant, purchases the property where he/she has rented for at least six months immediately predating the sales contract. ***Note***: A lease or other written evidence to verify occupancy is required. The maximum mortgage calculation is not affected by a sales transaction between a tenant and a landlord with no identity-of-interest relationship.
Corporate Transfer	A corporation • transfers an employee to another location • purchases the employee's home, and • sells the home to another employee.

3. Non-Occupying Borrowers

Introduction

This topic contains information on non-occupying borrowers, including

- definition of the term *non-occupying borrower transaction*
- maximum LTV for non-occupying borrower transaction
- signature requirements for non-occupying borrowers
- restrictions on non-occupying borrower transactions, and
- underwriting criteria for non-occupying borrowers.

Change Date

March 24, 2011

4155.1 2.B.3.a Definition: Non-Occupying Borrower Transaction

A ***non-occupying borrower transaction*** involves two or more borrowers where one or more of the borrower(s) will not occupy the property as his/her primary residence.

4155.1 2.B.3.b Maximum LTV for Non-Occupying Borrower Transaction

When there are two or more borrowers, but one or more will *not* occupy the property as his/her principal residence, the maximum mortgage is limited to 75% loan-to-value (LTV). However, maximum financing, as described in HUD 4155.1 2.A.2, is available for

- borrowers related by blood, marriage, or law, such as
  - spouses
  - parents-children
  - siblings
  - stepchildren
  - aunts-uncles, and
  - nieces-nephews, or
- unrelated individuals who can document evidence of a longstanding, substantial family-type relationship *not arising out of the loan transaction*.

Note: If a parent is selling to a child, the parent cannot be the coborrower with the child, unless the LTV is 75% or less.

Continued on next page

3. Non-Occupying Borrowers, Continued

4155.1 2.B.3.c Signature Requirements for Non-Occupying Borrowers

All borrowers, regardless of occupancy status, must sign the security instrument and mortgage note.

Note: Cosigners do not execute the security instrument or take title, but they must sign the mortgage note.

4155.1 2.B.3.d Restrictions on Non-Occupying Borrower Transactions

If the LTV exceeds 75%, a mortgage with non-occupying borrower(s) is limited to a one-unit property.

The non-occupying borrower arrangement may *not* be used to develop a portfolio of rental properties. The financial contribution by the non-occupying borrower and the number of properties owned may indicate that the family members are acting as "strawbuyers."

4155.1 2.B.3.e Underwriting Criteria for Non-Occupying Borrowers

FHA does not require that additional underwriting criteria, such as specific qualifying ratios, be met by either

- non-occupying borrowers, or
- occupying borrowers with sufficient credit.

However, additional FHA underwriting criteria *do* apply to occupying borrowers with insufficient credit. Lenders must judge each transaction on its merits.

Reference: For information on underwriting criteria for borrowers with insufficient credit, see HUD 4155.1 4.C.3.c.

4. Transactions Involving Three and Four Unit Properties

Introduction

This topic contains information on transactions involving three and four unit properties, including

- three and four unit property mortgage limit
- the monthly payment calculation for three and four unit properties
- net rental income calculation for three and four unit properties, and
- mortgage reserves for three and four unit properties.

Change Date

March 24, 2011

4155.1 2.B.4.a Three and Four Unit Property Mortgage Limit

The maximum mortgage amount for three and four unit properties is limited so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100%, regardless of the occupancy status.

Form HUD 92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property* is required at application for all multi-unit properties .

Note: The calculations described in the remainder of this topic are *in addition to* the calculations found in HUD 4155.1 2.A.

Reference: For information on calculating monthly net rental income, see HUD 4155.1 2.B.4.c.

4155.1 2.B.4.b Monthly Payment Calculation for Three and Four Unit Properties

The monthly mortgage payment calculation for three and four unit properties includes

- Principal, Interest, Taxes, and Insurance (PITI), including
  - – monthly mortgage insurance, and
  - – hazard insurance, and
- homeowners' association (HOA) dues computed at the note rate, if applicable.

Reference: For more information on the maximum mortgage amounts, see
- HUD 4155.1 2.A.1, and
- HUD 4155.1 2.A.2.

Continued on next page

4. Transactions Involving Three and Four Unit Properties, Continued

4155.1 2.B.4.c Net Rental Income Calculation for Three and Four Unit Properties

Net rental income is used to determine the maximum loan amount for three and four unit properties, as described in HUD 4155.1 2.B.4.a. Net rental income is calculated by

- using the appraiser's estimate of fair market rent from all units, including the unit the borrower chooses for occupancy, and
- subtracting the *greater* of the
  - – appraiser's estimate for vacancies, or
  - – vacancy factor used by the jurisdictional Homeownership Center (HOC).

The borrower must still qualify for the mortgage based on

- income
- credit
- cash to close, and
- projected rents received from remaining units.

Projected rent may only be considered as gross income for qualifying purposes. It cannot be used to offset the monthly mortgage payment.

4155.1 2.B.4.d Mortgage Reserves for Three and Four Unit Property

For three and four unit properties, the borrower *must* have personal reserves equivalent to three months' PITI after closing on a purchase transaction. Reserves cannot be derived from a gift.

References: For more information on

- mortgage reserves, see
  - – HUD 4155.1 4.E.5.d, and
  - – HUD 4155.1 4.F.3.b, and
- TOTAL Scorecard and mortgage reserves, see the *TOTAL Mortgage Scorecard User Guide* at http://www.hud.gov/offices/hsg/sfh/total/total_userguide.pdf.

5. Loan Transactions for Building on Own Land

Introduction

This topic contains information on loan transactions for building on land the borrower already owns, including

- financing limits when building on own land
- LTV limits when building on own land
- equity as cash investment when building on own land, and
- borrower's required cash investment when building on own land.

Change Date

March 24, 2011

4155.1 2.B.5.a Financing Limits When Building on Own Land

A borrower is eligible for maximum financing if he/she

- acts as a licensed general contractor and is building a home on land that he/she already owns or acquires separately, and
- receives no cash from the settlement.

4155.1 2.B.5.b LTV Limits When Building on Own Land

When building on a borrower's own property, the appropriate loan-to-value (LTV) limits are applied to the *lesser* of the

- appraised value of the proposed home and land, or
- documented cost of the property.

The documented cost of the property includes the

- builder's price, or sum of all subcontractor bids and materials
- cost of the land (if the land has been owned more than six months or was received as an acceptable gift, the *value* of the land may be used instead of its cost), and
- interest and other costs associated with any construction loan obtained by the borrower to fund construction of the property.

Continued on next page

5. Loan Transactions for Building on Own Land, Continued

4155.1 2.B.5.c Equity as Cash Investment When Building on Own Land

Equity in the land (value or cost, as appropriate, minus the amount owed) may be used for the borrower's entire cash investment. However, if the borrower receives more than $500 cash at closing, the loan is limited to 85% of the appraised value.

Replenishing the borrower's own cash expended during construction is *not* considered "cash back," provided that the borrower can substantiate with cancelled checks and paid receipts all out-of-pocket funds used for construction.

4155.1 2.B.5.d Borrower's Required Cash Investment When Building on Own Land

In order to determine if a borrower has made the required 3.5% cash investment or its equivalent in land equity when building on his/her own land, all such mortgage transactions must be summarized using only HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

Lenders must record the sum total of the *documented* cost of the property, as defined in HUD 4155.1 2.B.5.b.

Additionally, the calculated LTV ratio (which is to be the same value used when seeking a risk classification from FHA's Technology Open To Approved Lenders (TOTAL)), must reflect, as it does on other purchase transactions, the *lesser* of the

- sales price, or
- appraised value.

6. Loan Transactions for Paying Off Land Contracts

Introduction

This topic contains information on loan transactions to pay off land contracts, including

- financing limit when paying off land contracts
- LTV ratio when paying off land contracts, and
- equity as cash investment when paying off land contracts.

Change Date

March 24, 2011

4155.1 2.B.6.a Financing Limit When Paying Off Land Contracts

If a borrower does *not* receive cash at closing, his/her new mortgage may be processed as a purchase or refinance transaction with maximum FHA-insured financing if he/she uses the loan to complete payment on a

- land contract
- contract for deed, or
- other similar financing arrangements in which the borrower does not have title to the property.

Lenders should process cash-out transactions to pay off land contracts, or refinances on properties subject to ground rents as if they were cash-out refinances on properties held in fee simple, as described in HUD 4155.1 3.B.2.

Reference: For more information on cash back to the borrower when paying off land contracts, see HUD 4155.1 2.B.6.c.

Continued on next page

6. Loan Transactions for Paying Off Land Contracts, Continued

4155.1 2.B.6.b LTV Ratio When Paying Off Land Contracts

If the property was acquired fewer than 12 months earlier, and the loan proceeds are to be used to pay off the outstanding balance on the land contract, plus eligible repairs and renovations, the loan-to-value (LTV) ratio is applied to the *lesser* of the

- appraised value of the land and improvements, or
- total cost to acquire the property, which includes the original purchase price, plus any documented costs the borrower incurs for rehabilitation, repairs, renovation, or weatherization, closing costs and reasonable discount points, if treated as a refinance.

References: For additional information on

- refinances, see HUD 4155.1 3.B.1, and
- use of rent credits, see HUD 4155.1 5.B.6.f.

4155.1 2.B.6.c Equity as Cash Investment When Paying Off Land Contracts

Equity in the property (original sales price minus the amount owed) may be used for the borrower's entire cash investment. However, if the property was acquired fewer than 12 months earlier, and the borrower receives more than $500 cash at closing, the loan is limited to 85% of the *lesser* of the

- appraised value of the land and improvements, or
- total cost to acquire the property, which includes the original purchase price, plus any documented costs the borrower incurs for rehabilitation, repairs, renovation, weatherization, closing costs and reasonable discount points, if treated as a refinance.

Replenishing the borrower's own cash expended for repairs, improvements, renovation, or weatherization is *not* considered "cash back," provided that the borrower can substantiate with cancelled checks and paid receipts all out-of-pocket funds for the improvements.

7. Transactions Involving Properties for Proposed Construction, Under Construction or Existing Construction Less Than One Year Old

Introduction

This topic contains information on transactions involving properties for proposed construction, under construction or existing construction less than one year old, including

- financing limit for proposed, under construction or existing less than one year, and
- criteria for maximum financing for proposed, under construction or existing less than one year.

Change Date

March 24, 2011

4155.1 2.B.7.a Financing Limit for Proposed, Under Construction or Existing Less than One Year

Properties that are proposed, under construction or existing construction less than one year old are limited to 90% financing, calculated by using the *lesser* of the

- appraiser's estimate of value, or
- sales price, plus or minus required adjustments for
  - seller contributions
  - inducements to purchase, and/or
  - additions to the mortgage amount.

Reference: For more information on required adjustments, see HUD 4155.1 2.A.

Continued on next page

7. Transactions Involving Properties for Proposed Construction, Under Construction or Existing Construction Less Than One Year Old, Continued

4155.1 2.B.7.b Criteria for Maximum Financing for Proposed, Under Construction or Existing Less than One Year

The table below describes the criteria that properties must meet to be eligible for greater than 90% financing, whether or not the property has been previously occupied.

One of these criteria must be evidenced in order for the borrower to be eligible for a high ratio mortgage.

Criteria	Description
Approval of Dwelling Site Plans	The dwelling's site plans and materials were approved before construction began by • the Department of Veterans Affairs (VA) • an eligible Direct Endorsement (DE) underwriter, through issuance of a(n) – Conditional Commitment prior to framing, or – early start letter.
Local Jurisdiction Building Permit and Certificate of Occupancy	The local jurisdiction has issued both a • building permit or its equivalent prior to construction, and • Certificate of Occupancy (CO) or equivalent. ***Note***: This does not apply to condominiums or manufactured housing. These properties have special circumstances for financing approval.
Builder's Warranty	The dwelling is covered by a builder's ten-year insured warranty plan that is acceptable to HUD.
Dwelling Relocation	The dwelling • will be moved to a new location, and • is eligible for an insured mortgage at the new location based on approval of the dwelling site plan criteria listed previously in this table.

8. Manufactured Home Construction-Permanent Loans

Introduction

This topic contains information on construction-permanent (CP) loans for manufactured homes, including

- manufactured home CP loan is a purchase transaction
- maximum mortgage amount for manufactured home CP loan
- property status for a manufactured home
- length of ownership for a manufactured home
- formulas for maximum mortgage amount on a manufactured home CP loan
- maximum mortgage calculation for manufactured home CP loan based on total cost or itemized value
- maximum mortgage calculation for manufactured housing CP loan based on allowable LTV
- maximum mortgage calculation for manufactured home CP loan based on existing indebtedness, and
- additional concerns for calculating the maximum mortgage amount on manufactured home CP loan.

Change Date

March 24, 2011

4155.1 2.B.8.a Manufactured Home CP Loan is a Purchase Transaction

For purposes of underwriting and calculating the maximum mortgage amount, the construction-permanent (CP) loan on a newly-constructed manufactured home should be considered a purchase loan transaction, requiring a minimum 3.5% cash investment of the Total Cost or Itemized Value (including land).

To maintain consistency with FHA Connection (FHAC) data requirements and the Uniform Residential Loan Application (URLA), the purpose of the loan transaction should be designated as "CP."

References: For more information on

- construction permanent loan characteristics and requirements, see HUD 4155.1 6.A, and
- Total Cost and Itemized Value, see HUD 4155.1 2.B.8.e.

Continued on next page

8. Manufactured Home Construction-Permanent Loans, Continued

4155.1 2.B.8.b Maximum Mortgage Amount for Manufactured Home CP Loan

To determine the maximum insurable mortgage amount for a manufactured housing CP transaction, the lender must consider the

- property status
- length of ownership, and
- accepted formula to determine value.

The length of time the property was owned in a given property status will determine if a transaction is considered a CP or refinance transaction. CP transactions involve manufactured homes with acceptable property status that are

- proposed for construction
- under construction, or
- existing construction less than 12 months old.

References: For more information on

- maximum mortgage amount calculations on refinance transactions, see
  - HUD 4155.1 3.A.1.i, and
  - HUD 4155.1 6.A
- property status, see HUD 4155.1 2.B.8.c
- length of ownership, see HUD 4155.1 2.B.8.d, and
- accepted formulas to determine value, see HUD 4155.1 2.B.8.e.

4155.1 2.B.8.c Property Status for a Manufactured Home

Property status refers to whether or not the property is classified or taxed as real property and whether the personal property title has been purged in compliance with state law.

Reference: For more information on purging personal property title on a manufactured home, see HUD 4155.2 6.A.1.j.

Continued on next page

8. Manufactured Home Construction-Permanent Loans, Continued

4155.1 2.B.8.d Length of Ownership for a Manufactured Home

Length of ownership refers to how long the prospective borrower has held an ownership interest in the manufactured housing unit and land.

4155.1 2.B.8.e Formulas for Maximum Mortgage Amount on a Manufactured Home CP Loan

The accepted formula to determine *Total Cost or Itemized Value* refers to calculating the mortgage amount based on the

- total cost or itemized value
- maximum allowable loan-to-value (LTV) percentages, and
- existing indebtedness.

The maximum insurable mortgage amount is determined by the lowest result of the calculations using the three formulas above.

In a CP transaction, itemized value should be applied when the manufactured home unit, the land, or both have been owned for 6 months or more, and fewer than 12 months. If either the unit or the land has been owned for fewer than 6 months, the lesser of total cost or itemized value should be applied.

Evidence must be provided to certify how long the borrower has owned the land and/or manufactured unit. A contract or payoff statement for the land is required if it is currently encumbered by a lien payable by the borrower.

References: For more information on the formulas used to determine the maximum mortgage amount on a manufactured home CP loan based on
- total cost or itemized value, see HUD 4155.1 2.B.8.f
- maximum allowable LTV percentages, see HUD 4155.1 2.B.8.g, and
- existing indebtedness, see HUD 4155.1 2.B.8.h.

Continued on next page

8. Manufactured Home Construction-Permanent Loans,
Continued

4155.1 2.B.8.f Maximum Mortgage Calculation for Manufactured Home CP Loan Based on Total Cost or Itemized Value

1. Mortgage Amount based on Total Cost or Itemized Value

a. Total Cost or Itemized Value:

Unit ______
Land ______ ______

OR

Combined Construction ______ ______

Hard Costs ______
Soft Costs ______ ______

Total Cost or Itemized Value Cost ______

b. Minimum Cash Investment:

Total Cost or Itemized Value from 1a
x 3.5% Required Statutory Investment ______

c. Subtract Minimum Cash Investment from Total Cost or Itemized Value

Amount based on Total Cost or Itemized Value (1a-1b) ______

4155.1 2.B.8.g Maximum Mortgage Calculation for Manufactured Home CP Loan Based on Allowable LTV

2. Amount based on Maximum Allowable Loan-to-Value Percentages

Lesser of Total Cost or Itemized Value or Appraised Value x Applicable Maximum Loan-to-Value Percentage: 96.5% for purchase transactions

Amount based on Maximum Allowable Loan-to-Value Percentages______

Continued on next page

8. Manufactured Home Construction-Permanent Loans, Continued

4155.1 2.B.8.h Maximum Mortgage Calculation for Manufactured Home CP Loan Based on Existing Indebtedness

3. Amount Based on Existing Indebtedness

Unit			______	
Less Trade-in			(______)	
Land			______	
Construction				
Hard Costs	______			
Soft Costs	______			
		______		
Borrower Paid:				
Discount Points		______		
Prepaids		______		
Closing Costs			______	
Amount Based on Existing Indebtedness				______

Continued on next page

8. Manufactured Home Construction-Permanent Loans, Continued

4155.1 2.B.8.i Additional Concerns for Calculating the Maximum Mortgage Amount on Manufactured Home CP Loan

Financing on a manufactured home being constructed and installed is considered a construction loan or construction line-of-credit. Associated construction financing costs are to be itemized on a draw request or cost breakdown form. The loan file must include the contract or sales invoice for the manufactured home unit and the contract for the land.

The construction loan [hard] costs and construction loan financing [soft] costs must be identified. The lenders may obtain and provide information from the general contractor or another party who has knowledge of the related costs for completion of required work items.

The major installation charges require supporting documentation and separate invoices for the manufactured unit and the contractor's foundation and set-up costs. Razing and removing existing properties is considered part of the site preparation and may be included in the calculations as a component of the construction costs.

If the manufactured home dealer is the general contractor for the foundation and installation, the cost of the unit and additional charges must be itemized on an invoice. Aggregate amounts for total costs are not acceptable.

Section A. Refinance Transaction Overview

Overview

In This Section

This section contains the topic "General Information on Refinance Transactions."

1. General Information on Refinance Transactions

Introduction

This topic contains general information on refinancing transactions, including

- the purpose of a refinance transaction
- the maximum percentage of financing for a refinance
- types of refinances
- the maximum refinancing term
- re-using an appraisal for a refinance
- refinance authorization numbers for FHA-to-FHA refinances
- maximum LTV factors, combined loan-to-value ratios (CLTV), and upfront mortgage insurance premiums (UFMIP) for various types of refinance transactions
- skipped payments on refinances
- refinance transactions on manufactured homes
- payoff statements for liens against subject property
- borrower occupancy of former investment property being refinanced, and
- a reference for refinances of three and four unit properties.

Change Date

March 24, 2011

4155.1 3.A.1.a Purpose of a Refinance Transaction

A refinance transaction is used to pay off an existing real estate debt with the proceeds of a new mortgage

- for borrower(s) with legal title, and
- on the same property.

Note: The borrower is eligible to refinance the loan, as long as he/she has legal title, even if he/she was not originally on the loan.

Continued on next page

1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.b Maximum Percentage of Financing for a Refinance

The maximum percentage of financing for a refinance transaction is governed by

- the occupancy status of the property
- the use of the loan proceeds, and
- how and when the property was purchased.

Generally, the maximum mortgage amount may never exceed the statutory limit, except by the amount of any new upfront mortgage insurance premium (UFMIP). However, the maximum mortgage may exceed the statutory limit on certain specialty products.

Note: Most FHA mortgages require payment of an UFMIP. The statutory loan amount and loan-to-value (LTV) limits described in this handbook do *not* include UFMIP.

References: For more information on
- statutory loan limits for purchases, see HUD 4155.1 2.A.1.c, and
- maximum loan-to-value and combined loan-to-value limits, see HUD 4155.1 3.A.1.g.

4155.1 3.A.1.c Types of Refinances

FHA insures several different types of refinance transactions, including

- streamline refinances of existing FHA-insured mortgages made with or without appraisals
- no cash out refinances (rate and term) of conventional and FHA-insured mortgages, where all proceeds are used to pay existing liens and costs associated with the transactions, and
- cash out refinances.

References: For information on
- streamline refinances
  - – with an appraisal, see HUD 4155.1 3.C.3 , and
  - – without an appraisal, see HUD 4155.1 3.C.2
- no cash out refinances, see HUD 4155.1 3.B.1, and
- cash out refinances, see HUD 4155.1 3.B.2.

Continued on next page

1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.d Maximum Refinancing Term

The maximum term of any refinance with an appraisal is 30 years.

The maximum term of a streamline refinance without an appraisal is limited to the lesser of

- the remaining term of the existing mortgage, plus 12 years, or
- 30 years.

Reference: For more information on streamline refinances, see HUD 4155.1 3.C.

4155.1 3.A.1.e Re-Using an Appraisal for a Refinance

FHA appraisals on existing properties are valid for six months. However, appraisals cannot be reused

- during the six month validity period once the mortgage for which the appraisal was ordered has closed, or
- for a subsequent refinance, even if six months have not passed.

A new appraisal is required for each refinance transaction requiring an appraisal.

Reference: For more information on appraisal reuse, see HUD 4155.2 4.4.e.

4155.1 3.A.1.f Refinance Authorization Numbers for FHA-to-FHA Refinances

A lender *must* obtain a Refinance Authorization Number from the FHA Connection (FHAC), or functional equivalent, for all FHA-to-FHA refinances.

Continued on next page

1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.g Maximum LTV Factors, CLTV Ratios, and UFMIP for Various Types of Refinance Transactions

The table below lists the maximum LTV factors, combined LTV (CLTV) ratios, and UFMIP for various types of refinance transactions.

References: For more information on
- no cash out (rate and term) refinances with an appraisal, see HUD 4155.1 3.B.1
- streamline refinances with an appraisal, see HUD 4155.1 3.C.3
- streamline refinances without an appraisal, see HUD 4155.1 3.C.2, and
- cash out refinances, see HUD 4155.1 3.B.2.

Type of Refinance	Maximum LTV	Maximum CLTV	UFMIP
Rate and Term (No Cash Out)	97.75%	97.75%	100 BPS
FHA-to-FHA Streamline w/Appraisal or w/o Appraisal	97.75% ***Reference***: For more information, see HUD 4155.1 3.C.2.	125%	100 BPS
Cash Out Refinance	85%	85%	100 BPS

Continued on next page

1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.g Maximum LTV Factors, CLTV Ratios, and UFMIP for Various Types of Refinance Transactions (continued)

Type of Refinance	Maximum LTV	Maximum CLTV	UFMIP
Refinances for Borrowers in Negative Equity Positions ***Note***: This is a temporary program valid from October 7, 2010 through December 31, 2012. ***References***: For more information, see • HUD 4155.1 6.F • ML 10-23, and • ML 10-35.	97.75%	115%	100 BPS

Continued on next page

1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.h Skipped Payments on Refinances

The borrower must be current on the loan being refinanced for the month due ***prior*** to the month in which he/she closes the refinancing, ***and*** for the month in which he/she closes.

Example: If the borrower is closing on April 8, he/she must have made the March payment within the month of March, and the April payment by closing. The April payment may be included in the payoff amount at closing.

Lenders are not permitted to allow borrowers to "skip" payments when refinancing. When the new mortgage amount is calculated, FHA does not permit any mortgage payments "skipped" by the borrower to be included in the new mortgage amount.

The borrower must either

- make the payment when it is due, or
- bring the monthly mortgage payment check to settlement.

4155.1 3.A.1.i Refinance Transactions on Manufactured Homes

For a transaction involving a manufactured home to be considered a refinance, the manufactured home must

- have acceptable property status
- be complete, and
- have been permanently erected on a site for more than one year (12 months) prior to the date of the application for mortgage insurance.

Standard maximum mortgage calculations apply.

References: For more information on determining
- property status on a manufactured home, see 4155.1 2.B.8.c, and
- maximum mortgage amount for a manufactured home less than 12 months old, see 4155.1 2.B.8.b.

Continued on next page

1. General Information on Refinance Transactions, Continued

4155.1 3.A.1.j Payoff Statements for Liens Against Subject Property

A lender must obtain payoff statements for all liens that are to be satisfied from the proceeds of a refinance transaction.

For any lien against the subject property that is subject to payments, it is the responsibility of the lender to review and ascertain that the lien/loan/mortgage is current for the month due, for both streamline and cash out refinance transactions.

4155.1 3.A.1.k Borrower Occupancy of Former Investment Property Being Refinanced

Effective with case numbers assigned on or after April 18, 2011, the table below describes the maximum mortgage amount available, for all refinances, to a borrower who re-occupies his/her investment property that is security for the mortgage being refinanced.

If the borrower has occupied his/her former investment property for…	Then he/she is eligible for…
12 months or more prior to the loan application date of the refinance	maximum financing at the same level as an owner-occupant.
fewer than 12 months prior to the loan application date of the refinance	rate and term refinancing ***only***, with an LTV not to exceed 85%.

4155.1 3.A.1.l Refinances of Three and Four Unit Properties (Reference)

Effective with case numbers assigned on or after April 18, 2011, all refinance transactions of three and four unit properties must comply with the guidance provided in HUD 4155.1 2.B.4, as outlined in the table below.

Policy	Reference
Maximum mortgage amount	HUD 4155.1 2.B.4.a
Monthly mortgage payment calculation	HUD 4155.1 2.B.4.b
Net rental income calculation	HUD 4155.1 2.B.4.c
Required reserves	HUD 4155.1 2.B.4.d

Section B. Maximum Mortgage Amounts on No Cash Out/Cash Out Refinance Transactions

Overview

In This Section

This section contains the topics listed in the table below.

1. No Cash Out Refinance Transactions With an Appraisal

Introduction

This topic contains information on no cash out refinance transactions with an appraisal, including

- the maximum mortgage calculation
- calculating the existing debt
- subordinate liens
- refinancing to buy out ex-spouse or coborrower equity
- mortgage calculation for a property acquired less than one year before loan application, and
- short payoffs.

Change Date

March 24, 2011

4155.1 3.B.1.a Maximum Mortgage Calculation

The maximum mortgage for a no cash out refinance with an appraisal (credit qualifying) is the *lesser* of the

- 97.75% Loan-To-Value (LTV) factor applied to the appraised value of the property, or
- existing debt.

The total FHA first mortgage is limited to 100% of the appraised value, *including* any financed upfront mortgage insurance premium (UFMIP).

Most FHA mortgages require payment of an UFMIP. The statutory loan amounts and LTV limits described in this handbook do not include the UFMIP.

Generally, the maximum mortgage may *never* exceed the statutory limit, except by the amount of any new UFMIP. However, the maximum mortgage may exceed the statutory limit on certain specialty products.

Note: The borrower must comply with any appraisal requirements, including repairs, before the mortgage is eligible for insurance endorsement.

References: For more information on
- maximum LTV factors, see HUD 4155.1 2.A.2.b, and
- UFMIP amounts, see HUD 4155.2 7.2.a.

Continued on next page

1. No Cash Out Refinance Transactions With an Appraisal,
Continued

4155.1 3.B.1.b Calculating the Existing Debt on a No Cash Out Refinance With an Appraisal

The underwriter should follow the steps in the table below to calculate the existing debt.

Note: On this type of refinance transaction, the borrower may not receive cash back in excess of $500 at closing.

Step	Action
1	Determine the amount of the existing first mortgage. The existing first mortgage must be current for the month due and • *may* include – the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages) – any prepayment penalties assessed on a conventional mortgage or an FHA Title I loan – late charges, and – escrow shortages, and • *may not* include delinquent interest.
2	Determine the prepaid expenses, which may include • the per diem interest to the end of the month on the new loan • hazard insurance premium deposits • monthly mortgage insurance premiums, and • any real estate tax deposits needed to establish the escrow account.

Continued on next page

1. No Cash Out Refinance Transactions With an Appraisal,
Continued

4155.1 3.B.1.b Calculating the Existing Debt on a No Cash Out Refinance With an Appraisal (continued)

Step	Action
3	Add the following to the existing first mortgage amount: • any purchase money second mortgage • any junior liens over 12 months old • closing costs • prepaid expenses (even if the lender refinancing the loan is the servicer) • borrower-paid repairs required by the appraisal, and • discount points. ***Note***: If the balance or any portion of an equity line of credit in excess of $1000 was advanced within the past 12 months and was for purposes *other* than repairs and rehabilitation of the property, that portion above and beyond $1,000 of the line of credit is *not* eligible for inclusion in the new mortgage.
4	Subtract any refund of UFMIP. ***Result***: The resulting figure is the existing debt.

Continued on next page

1. No Cash Out Refinance Transactions With an Appraisal, Continued

4155.1 3.B.1.c Subordinate Liens

A subordinate lien, including a Home Equity Line of Credit (HELOC), regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage), provided the

- FHA insured mortgage meets the eligibility criteria for mortgages with secondary financing outlined in HUD 4155.1 5.C, and
- combined amount of the FHA-insured mortgage and the entire subordinate lien does not exceed the applicable FHA LTV ratios.

The lender must use the maximum accessible credit limit of the existing subordinate lien to calculate the Combined Loan-to-Value (CLTV) ratio.

References: For more information on
- the refinance of borrowers in a negative equity position program, see
  – HUD 4155.1 6.F
  – ML 10-23, and
  – ML 10-35, and
- streamline refinances, see HUD 4155.1 6.C.

Note: Both of these programs may have different LTV requirements.

4155.1 3.B.1.d Refinancing to Buy Out Ex-Spouse or Coborrower Equity

When the purpose of the new loan is to refinance an existing mortgage in order to buy out an ex-spouse's or other coborrower's equity, the specified equity to be paid is

- considered property-related indebtedness, and
- eligible to be included in the new mortgage calculation.

The divorce decree, settlement agreement, or other bona fide equity agreement must be provided to document the equity awarded to the ex-spouse or coborrower.

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1. No Cash Out Refinance Transactions With an Appraisal,
Continued

4155.1 3.B.1.e Mortgage Calculation for a Property Acquired Less Than One Year Before Loan Application

If the property was acquired less than one year before the loan application, and is not already FHA-insured, the original sales price of the property must be considered in determining the maximum mortgage, in addition to the calculations described previously in this topic.

Using conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price in calculating the mortgage amount.

The maximum mortgage amount will be based on the *lesser* of the

- total cost to acquire the property, which includes the original purchase price plus any
  - documented costs incurred for rehabilitation, repairs, renovation, or weatherization
  - closing costs, and
  - reasonable discount points, **or**
- current appraised value, **or**
- total of all mortgage liens held against the subject property.

Continued on next page

1. No Cash Out Refinance Transactions With an Appraisal, Continued

4155.1 3.B.1.f Short Payoffs

To be eligible for refinancing with a short payoff, a borrower must be current on his/her mortgage.

FHA will insure the first mortgage where the existing note holder(s) write off the amount of the indebtedness that cannot be refinanced into the new FHA-insured mortgage if

- there is insufficient equity in the home based on its current appraised value, and/or
- the borrower has experienced a reduction in income and does not have the capacity to repay the existing indebtedness against the property.

For instances where the existing note holders are reluctant to write down indebtedness, a new subordinate lien may be executed for the amount by which the payoff is short.

If payments on subordinate financing are required, they must be included in the qualifying ratios unless payments have been deferred for no less than 36 months. This policy applies *only* to no cash out (rate and term) refinances with short payoffs.

References: For more information on

- mortgage payment history required for refinancing, see HUD 4155.1 4.C.2.b,
- new subordinate financing see HUD 4155.1 3.B.1.c, and
- short sales, see HUD 4155.1 4.C.2.l.

2. Cash Out Refinance Transactions

Introduction

This topic contains general information for cash out refinance transactions, including

- eligibility for cash out refinances
- ineligibility of delinquent borrowers and payment history requirement for cash out refinances
- restriction on addition of non-occupant coborrower for credit underwriting compliance
- subordinate liens and combined loan-to-value (CLTV) ratios on cash out refinances
- maximum mortgage amount calculation based on length of ownership, and
- cash out refinancing for debt consolidation.

Change Date

March 24, 2011

4155.1 3.B.2.a Eligibility for Cash Out Refinances

Cash out refinance transactions are only permitted on owner-occupied principal residences.

Properties owned free and clear *may* be refinanced as cash out transactions.

References: For more information on
- three and four unit properties, including self-sufficiency requirements, see HUD 4155.1 2.B.4, and
- eligibility and mortgage payment history, see HUD 4155.1 3.B.2.b.

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2. Cash Out Refinance Transactions, Continued

4155.1 3.B.2.b Ineligibility of Delinquent Borrowers and Payment History Requirement for Cash Out Refinances

Borrowers who are delinquent, in arrears, or who have suffered any mortgage delinquencies within the most recent 12 month period under the terms and conditions of their mortgages are *not* eligible for cash out refinances.

If a property is encumbered by a mortgage, the refinancing lender must document that the borrower has an acceptable payment history.
The payment history is acceptable if the borrower

- is current, and
- has made all payments on the mortgage being refinanced within the month due for the previous 12 months.

For mortgages with more than six months and fewer than 12 months of payment history, the borrower must have made all payments when due. Mortgages with fewer than six months of payment history are not eligible for cash out refinances.

4155.1 3.B.2.c Restriction on Addition of Non-Occupant Coborrower for Credit Underwriting Compliance

Non-occupant coborrowers may *not* be added in a cash out refinance transaction in order to meet FHA's credit underwriting guidelines for the mortgage. Any coborrower or cosigner being added to the note must be an occupant of the property.

Continued on next page

2. Cash Out Refinance Transactions, Continued

4155.1 3.B.2.d Subordinate Liens and CLTV Ratios on Cash Out Refinances

The table below lists the policy requirements regarding subordinate financing and combined loan-to-value (CLTV) requirements on cash out refinances.

Type of Subordinate Lien	Policy Requirement
New subordinate financing	If new subordinate financing is being offered by the lender or other permitted entity, the CLTV is limited to 85% (the FHA-insured first mortgage and any new junior liens when added together).
Existing subordinate financing	Existing subordinate financing may remain in place, but must be subordinated to the FHA-insured first mortgage, regardless of the total indebtedness or CTLV ratio, provided the borrower qualifies for making scheduled payments on all liens. The lender must use the maximum accessible credit limit of the existing subordinate lien to calculate the CLTV ratio.
Modified subordinate lien	Many subordinate lien holders request modifications to the terms of the lien (typically a reduction in the amount of the lien) in exchange for remaining in a subordinate position. Modifying a subordinate lien in this manner often results in re-executing the lien at closing, which is acceptable to FHA. In this case, FHA does not consider the lien a new subordinate lien.

Continued on next page

2. Cash Out Refinance Transactions, Continued

4155.1 3.B.2.e Maximum Mortgage Amount Calculation Based on Length of Ownership

The table below describes the maximum mortgage amount calculation for cash out refinance transactions, based on the length of ownership.

If the property has been owned by the borrower as his/her principal residence for …	Then the mortgage …
12 months or more preceding the date of the loan application	is eligible for the maximum amount of 85% of the appraiser's estimate of value.
fewer than 12 months preceding the date of the loan application	is limited to the *lesser* of 85% of the • appraiser's estimate of value, or • sales price of the property when acquired. ***Note***: The sales price does not need to be considered if the property was acquired as the result of inheritance and is, or will become, the heir's principal residence.

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2. Cash Out Refinance Transactions, Continued

4155.1 3.B.2.f Cash Out Refinancing for Debt Consolidation

Cash out refinancing for debt consolidation represents considerable risk, especially if the borrowers have not had a corresponding increase in income.

Careful evaluation of this type of transaction is required.

Section C. Maximum Mortgage Amounts on Streamline Refinances

Overview

In This Section

This section contains the topics listed in the table below.

1. General Information on Streamline Refinances

Introduction

This topic contains general information on streamline refinances, including

- the purpose of a streamline refinance, and
- a reference for additional policies and instructions on streamline refinances.

Change Date

January 31, 2011

4155.1 3.C.1.a Purpose of a Streamline Refinance

Streamline refinances

- are designed to lower the monthly principal and interest payments on a current FHA-insured mortgage, and
- must involve no cash back to the borrower, except for minor adjustments at closing, not to exceed $500.

Streamline refinances can be made with or without an appraisal.

References: For information on streamline refinances
- without an appraisal, see HUD 4155.1 3.C.2 , and
- with an appraisal, see HUD 4155.1 3.C.3.

4155.1 3.C.1.b Additional Streamline Refinance Policies and Instructions (Reference)

For additional policies, processing guidelines, and underwriting instructions for streamline refinances, see HUD 4155.1 6.C.

2. Streamline Refinances Without an Appraisal

Introduction

This topic contains information about streamline financing without an appraisal, including

- streamline refinancing mortgage limits
- maximum mortgage term
- maximum insurable mortgage calculation
- applicability of the mortgage calculation process
- streamline refinances for non owner occupant properties, and
- policy on subordinate financing on streamline refinances.

Change Date

March 24, 2011

4155.1 3.C.2.a Streamline Refinancing Mortgage Limits

Generally, the streamline refinance mortgage amount may never exceed the statutory limits, except by the amount of any new upfront mortgage insurance premium (UFMIP). However, the maximum mortgage may exceed the statutory limits on certain specialty products.

4155.1 3.C.2.b Maximum Mortgage Term for Streamline Refinances

The streamline refinance mortgage term is the *lesser* of

- 30 years, or
- the remaining term of the mortgage plus 12 years.

Continued on next page

2. Streamline Refinances Without an Appraisal, Continued

4155.1 3.C.2.c Maximum Insurable Mortgage Calculation for Streamline Refinances Without an Appraisal

The maximum insurable mortgage for streamline refinances without an appraisal cannot exceed the outstanding principal balance

- *minus* the applicable refund of the UFMIP,
- *plus* the new UFMIP that will be charged on the refinance.

Note: The outstanding principal balance
- *may* include interest charged by the servicing lender when the payoff is not received on the first day of the month, but
- *may not* include delinquent interest, late charges or escrow shortages.

References:
- For step-by-step instructions on calculating the existing debt, see HUD 4155.1 3.B.1.b.
- For more information on UFMIP amounts, see HUD 4155.2 7.2.a.

4155.1 3.C.2.d Applicability of the Mortgage Calculation Process

The mortgage calculation process described in HUD 4155.1 3.C.2.c applies *only* to owner-occupied properties. Non-owner occupant properties, even if originally acquired as principal residences by the current borrowers, may only be refinanced for the outstanding principal balance.

References: For more information on
- streamline refinances for secondary residences or non-owner occupied properties, see HUD 4155.1 3.C.2.e, and
- refinances of former investment properties, see HUD 4155.1 3.A.1.k.

Continued on next page

2. Streamline Refinances Without an Appraisal, Continued

4155.1 3.C.2.e Streamline Refinances For Non Owner Occupant Properties

Streamline financing by investors, or for secondary residences may *only* be made without an appraisal. If the residence was previously insured in a business entity's name, the new loan must be made solely in the business entity's name.

The new security instruments must contain FHA's standard provision permitting acceleration of the mortgage when assumed by an investor, or as a secondary residence. However, FHA does *not* authorize the lender to exercise the acceleration provision if the investor assumptor is found to be creditworthy.

Although a property purchased as a principal residence, under certain circumstances as described in the security instruments, *may* be rented or become a secondary residence, a streamline refinance without an appraisal does *not* "convert" the mortgage to one eligible for assumption by an investor.

References: For more information on refinancing non-owner occupant properties, see

- HUD 4155. 3.A.1.k
- HUD 4155.1 4.B.3
- HUD 4155.1 4.B.4
- HUD 4155.1 6.C.5.a, and
- HUD 4155.1 6.C.5.b.

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2. Streamline Refinances Without an Appraisal, Continued

4155.1 3.C.2.f Policy on Subordinate Financing on Streamline Refinances Without an Appraisal

A subordinate lien, including a Home Equity Line of Credit (HELOC), regardless of when taken, may remain outstanding, but the entire lien must be subordinated at refinance.

If subordinate financing remains in place, the

- maximum combined loan-to-value (CLTV) is 125%
- CLTV is based on the original appraised value of the property, and
- maximum CLTV is calculated by taking the original FHA base loan amount (the original FHA principal balance excluding financed UFMIP), adding all other financed liens still outstanding, and dividing by the appraised value. This calculation may not exceed 125%.

Note: The lender must use the maximum accessible credit limit of the existing subordinate lien to calculate the CLTV ratio.

Continued on next page

3. Streamline Refinances with an Appraisal (No Credit Qualifying)

Introduction

This topic contains information on streamline refinances with an appraisal, including

- the maximum insurable mortgage calculation
- subordinate financing on streamline refinances with an appraisal
- borrower cash back at closing on streamline refinances with an appraisal, and
- maximum insurable mortgage amount for streamline refinance with appraisal (after 4/18/2011).

Change Date

March 24, 2011

Continued on next page

3. Streamline Refinances with an Appraisal (No Credit Qualifying), Continued

4155.1 3.C.3.a Maximum Insurable Mortgage Calculation for Streamline Refinances with an Appraisal

The maximum insurable mortgage amount for a streamline refinance with an appraisal is the *lesser* of

- the existing principal balance
  - *minus* the applicable refund of upfront mortgage insurance premium (UFMIP)
  - *plus* closing costs, prepaid items to establish the escrow account, and the new UFMIP that will be charged on the refinance transaction, or
- 97.75% of the appraised value of the property plus the new UFMIP that will be charged on the refinance.

Notes:
- The outstanding principal balance
  - *may* include interest charged by the servicing lender when the payoff is not received on the first day of the month, but
  - *may not* include delinquent interest, late charges or escrow shortages.
- Prepaid expenses may include
  - per diem interest to the end of the month on the new loan
  - hazard insurance premium deposits
  - monthly mortgage insurance premiums, and
  - any real estate tax deposits needed to establish the escrow account, regardless of whether or not the lender refinancing the existing loan is also the servicing lender for that mortgage.
- Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify that the borrower has the assets to pay them, along with any other financing costs not included in the new mortgage amount.

Important: Effective with case numbers assigned on or after April 18, 2011, the above guidance will change. See HUD 4155.1 3.C.3.d for the new policy.

Continued on next page

3. Streamline Refinances with an Appraisal (No Credit Qualifying), Continued

4155.1 3.C.3.b Subordinate Financing on Streamline Refinances with an Appraisal

A subordinate lien, including a Home Equity Line of Credit (HELOC), regardless of when taken, may remain outstanding, but the entire lien must be subordinated at refinance.

If subordinate financing remains in place, the

- maximum combined loan-to-value (CLTV) is 125%, and
- CLTV is based on the new appraised value.

Note: The lender must use the maximum accessible credit limit of the existing subordinate lien to calculate the CLTV ratio.

4155.1 3.C.3.c Borrower Cash Back at Closing on a Streamline Refinance with an Appraisal

A streamline refinance transaction with an appraisal must involve no cash back to the borrower, except for minor adjustments at closing, not to exceed $500.

4155.1 3.C.3.d Maximum Insurable Mortgage Amount for Streamline Refinance With Appraisal (after 4/18/2011)

Effective with case numbers assigned on or after April 18, 2011, the maximum insurable mortgage amount for a streamline refinance with an appraisal is limited to the sum of the outstanding principal balance of the loan being refinanced plus the new UFMIP.

The lender may not use an appraisal to increase the insurable balance, nor add

- closing costs
- discount points
- prepaid items, or
- other financing costs.

The maximum insurable amount may only be increased through a credit-qualifying refinance with an appraisal, as described in HUD 4155.1 6.C.2.

Section A. Borrower Eligibility Requirements

Overview

In This Section

This section contains the topics listed in the table below.

1. Borrower, Coborrower and Cosigner Eligibility Requirements

Introduction

This topic contains information on borrower, coborrower, and cosigner eligibility requirements, including

- who is eligible for FHA mortgage insurance
- borrower age limits
- determination of creditworthiness
- borrower and coborrower requirements
- cosigner requirements
- additional coborrower and cosigner requirements
- military personnel eligibility
- veteran eligibility documentation requirements
- title issues regarding non-borrowing spouses or other parties in interest, and
- a definition of minimum decision credit score.

Change Date

March 1, 2011

4155.1 4.A.1.a Who Is Eligible for FHA Mortgage Insurance

FHA insures mortgages made

- to individuals with valid Social Security numbers (SSN), and
- under the conditions described in this section, to
  - state and local government agencies, and
  - approved nonprofit organizations.

Note: Employees of the World Bank, foreign embassies, etc., may not be required to have an SSN. Conclusive evidence of this exception must be provided.

Reference: For more information on evidence of Social Security Number, see HUD 4155.1 1.B.2.b.

4155.1 4.A.1.b Borrower Age Limits

There is no *maximum* age limit for a borrower. The *minimum* age is the age for which a mortgage note can be legally enforced in the state, or other jurisdiction, where the property is located.

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1. Borrower, Coborrower and Cosigner Eligibility Requirements, Continued

4155.1 4.A.1.c Determination of Credit Worthiness and Minimum Credit Score Requirements

When determining the creditworthiness of borrowers, coborrowers, or cosigners, the underwriter considers their

- income
- assets
- liabilities, and
- credit histories.

The table below describes the relationship between the borrower's minimum credit score and the maximum loan-to-value (LTV) ratio for which he/she is eligible.

If the borrower's minimum decision credit score is …	Then the borrower is …
at or above 580	eligible for maximum financing.
between 500 and 579	limited to a maximum LTV of 90%.
less than 500	*not* eligible for FHA-insured financing.

Exceptions: These minimum credit score requirements are applicable to all Single Family programs *except*

- Section 223(e)
- Section 238
- Section 247
- Section 248
- Section 255, Home Equity Conversion Mortgages (HECM)
- Title I, and
- HOPE for Homeowners.

Note: Borrowers with non-traditional or insufficient credit histories are eligible for maximum financing, but must meet the underwriting guidance in HUD 4155.1 4.C.3.

References:
- For additional information on application of minimum credit scores in the 203(h) program, Mortgage Insurance for Disaster Victims, see HUD 4155.1 6.A.6.
- For a definition of minimum decision credit score, see HUD 4155.1 4.A.1.j.

Continued on next page

1. Borrower, Coborrower and Cosigner Eligibility Requirements, Continued

4155.1 4.A.1.d Borrower and Coborrower Requirements

Both occupying and non-occupying borrowers and coborrowers

- take title to the property at settlement
- are obligated on the mortgage note, and
- must sign all security instruments.

Reference: For additional information on borrower and coborrower eligibility requirements, see HUD 4155.1 4.A.1.f.

4155.1 4.A.1.e Cosigner Requirements

Cosigners

- do *not* hold ownership interest in a property
- *are* obligated on the mortgage note and have no liability for repaying the obligation, and
- must complete and sign all loan documents except the security instruments.

Reference: For additional cosigner eligibility requirements, see HUD 4155.1 4.A.1.f.

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1. Borrower, Coborrower and Cosigner Eligibility Requirements, Continued

4155.1 4.A.1.f Additional Borrower and Coborrower Eligibility Requirements

The table below describes additional requirements and conditions for coborrowers and cosigners.

Condition/Requirement	Description
Financial Interest Prohibited	A party who has a financial interest in the mortgage loan transaction, such as the seller, builder, or real estate agent, may *not* be a coborrower or a cosigner. ***Exception***: Exceptions may be granted when the party with the financial interest is related to the borrower by blood, marriage, or law. ***Reference***: For more information on identity of interest transactions, see HUD 4155.1 2.B.2.
Basic Ineligibility for Participation	An individual signing the loan application must not be otherwise ineligible for participation in the mortgage loan transaction for reasons described in HUD 4155.1 4.C. ***Note***: This condition applies to all borrowers, regardless of occupancy status.
Principal United States (U.S.) Residence	Non-occupying coborrowers or cosigners must have a principal residence in the U.S., unless exempted • due to military service with overseas assignments, or • as U.S. citizens living abroad.

Continued on next page

1. Borrower, Coborrower and Cosigner Eligibility Requirements, Continued

4155.1 4.A.1.g Military Personnel Eligibility

Military personnel are considered occupant-owners, and are eligible for maximum financing if a member of the immediate family will occupy the subject property as his/her principal residence, whether or not the military person is stationed elsewhere.

Reference: For information on eligibility documentation requirements for FHA-insured mortgages to veterans, see HUD 4155.1 4.A.1.h.

4155.1 4.A.1.h Veteran Eligibility Documentation Requirements

A completed Certificate of Veteran Status (CVS) (VA Form 26-8261) issued to a veteran borrower is the only document that may be used for program eligibility. The Department of Veterans Affairs (VA) is solely responsible for determining eligibility for a CVS and its subsequent issuance.

Requests for a CVS must be sent on VA Form 26-8261a, *Request for Certificate of Veteran Status*, along with proof of military service, to the appropriate VA Eligibility Center. VA forms are available at http://www.va.gov/vaforms/.

4155.1 4.A.1.i Title Issues Regarding Non-Borrowing Spouses or Other Parties in Interest

If two or more parties have an ownership interest in the property, but only one of the parties is applying for the loan (and credit qualifies for the loan on his/her own), it is not required that the non-applicant individual(s) execute the mortgage note and security instrument.

The lender is still required to ensure a valid and enforceable first lien on the property under applicable state law, which may require the execution of the security instrument (but typically not the note) by all parties who have an ownership interest in the property.

If the party in question must execute only the security instrument and not the note, he/she is not considered a borrower for FHA purposes, and therefore need not sign the loan application or be considered in credit underwriting.

Reference: For more information on non-borrowing spouses, see HUD 4155.1 4.5.

Continued on next page

1. Borrower, Coborrower and Cosigner Eligibility Requirements, Continued

4155.1 4.A.1.j Definition of Minimum Decision Credit Score

If a credit score is available, it must be used to determine the decision credit score for the application and for eligibility for FHA-insured mortgage financing. A "decision credit score" is determined for each applicant according to the following rule: when three scores are available (one from each repository), the median (middle) value is used; when only two are available, the lesser of the two is chosen; when only one is available that score is used.

2. Eligibility for FHA-Insured Financing

Introduction

This topic contains information on determining eligibility for FHA-insured financing, including

- reference for definition of 'Federal debt'
- mandatory rejection of a borrower
- parties ineligible to participate in FHA-insured mortgage transactions
- lender responsibility for documenting borrower eligibility
- location of the LDP and GSA lists
- borrower ineligibility due to delinquent federal debts
- waiting period for borrowers with past delinquencies, defaults and claims on FHA loans
- tax liens and eligibility for federally-related credit, and
- effect of past delinquencies on eligibility.

Change Date

March 1, 2011

4155.1 4.A.2.a Definition: Federal Debt (Reference)

For a definition of the term ***Federal debt***, see HUD 4155.1 9.1.f.

Continued on next page

2. Eligibility for FHA-Insured Financing, Continued

4155.1 4.A.2.b Mandatory Rejection of a Borrower

A borrower is not eligible to participate in FHA-insured mortgage transactions if he/she is suspended, debarred, or otherwise excluded from participating in HUD programs.

A lender *must* reject a borrower from participation if the borrower is on the

- HUD Limited Denial of Participation (LDP) list
- U.S. General Services Administration (GSA) *List of Parties Excluded from Federal Procurement or Non-procurement Programs,* and/or
- HUD's Credit Alert Interactive Voice Response System (CAIVRS), unless an exception exists as noted in HUD 4155.1 4.A.7.e.

A borrower must also be rejected if he/she is presently delinquent on any Federal debt or has a lien placed against his/her property for a debt owed to the United States Government.

References: For information on

- repaying delinquent Federal debt, see HUD 4155.1 4.A.2.f, and
- using CAIVRS to determine eligibility, see HUD 4155.1 4.A.7.

4155.1 4.A.2.c Parties Ineligible to Participate in FHA-Insured Mortgage Transactions

A mortgage loan application is *not* eligible for FHA mortgage insurance if the name of *any* of the following parties to the mortgage transaction is found on HUD's LDP list or the GSA *List*:

- borrower
- seller
- listing or selling real estate agent, or
- loan officer.

Exception: A seller on the GSA list is exempt if the property being sold is his/her principal residence.

Continued on next page

2. Eligibility for FHA-Insured Financing, Continued

4155.1 4.A.2.d Lender Responsibility for Documenting Borrower Eligibility

To determine whether a borrower is eligible to participate in an FHA mortgage loan transaction or must be rejected, the lender *must*

- examine HUD's LDP list, the GSA *List* and CAIVRS, and
- document the reviews on the HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

Reference: For more information on documenting the Loan Transmittal form, see HUD 4155.1 4.A.7.c.

4155.1 4.A.2.e Location of the LDP and GSA Lists

The HUD LDP list can be found on the HUD website or on the FHA Connection (FHAC).

The GSA *List* can be found at http://epls.arnet.gov or on the FHAC.

4155.1 4.A.2.f Borrower Ineligibility due to Delinquent Federal Debts

If, after checking public records, credit information or CAIVRS, a borrower is found to be presently delinquent on any Federal debt or has had a lien (including taxes) placed against his/her property for a debt owed to the Federal government, he/she is *not* eligible for an FHA mortgage until

- the delinquent account is brought current, paid, or otherwise satisfied, or
- a satisfactory repayment plan is established between the borrower and the Federal agency owed, which is verified in writing.

Tax liens may remain unpaid provided the lien holder subordinates the tax lien to the FHA-insured mortgage.

References: For more information on
- tax liens affecting eligibility for federally related credit, see HUD 4155.1 4.A.2.h, and
- CAIVRS requirements, see HUD 4155.1 4.A.7.

Continued on next page

2. Eligibility for FHA-Insured Financing, Continued

4155.1 4.A.2.g Waiting Period for Borrowers With Past Delinquencies, Defaults or Claims on FHA Loans

If the borrower has had past delinquencies or has defaulted on an FHA-insured loan, there is a three-year waiting period before he/she can regain eligibility for another FHA-insured mortgage.

The three-year waiting period begins when FHA pays the initial claim to the lender. This includes deed-in-lieu of foreclosure, as well as judicial and other forms of foreclosures.

Lenders should contact the Homeownership Center (HOC) having jurisdiction over the area where the property subject to default is located for information such as the

- date the claim was paid, and
- date of the initial default.

4155.1 4.A.2.h Tax Liens and Eligibility for Federally Related Credit

The Internal Revenue Service (IRS) routinely takes a second lien position without the need for independent documentation. For this reason, eligibility for FHA mortgage insurance is *not* jeopardized by outstanding IRS tax liens remaining on the property, unless the lender has information that the IRS has demanded a first-lien position.

Tax liens may remain unpaid if the lien holder subordinates the tax lien to the FHA-insured mortgage.

Note: If any regular payments are to be made, they must be included in the qualifying ratios.

Continued on next page

2. Eligibility for FHA-Insured Financing, Continued

4155.1 4.A.2.i Effect of Past Delinquencies on Eligibility

Although a borrower's eligibility for an FHA-insured mortgage may be established by performing the actions described previously in this topic, the overall analysis of the borrower's creditworthiness must

- consider a borrower's previous failure to make payments to the Federal agency in the agreed-to manner, and
- document the lender's analysis as to how the previous failure does not represent a risk of mortgage default.

3. Citizenship and Immigration Status

Introduction

This topic contains information on citizen and immigration status, including

- residency requirements
- lawful permanent resident aliens
- non-permanent resident aliens
- Employment Authorization Document required as evidence of work status, and
- non-lawful residency.

Change Date

March 1, 2011

4155.1 4.A.3.a Residency Requirements

U.S. citizenship is not required for mortgage eligibility.

The lender must determine the residency status of the borrower, based on

- information provided on the loan application, and
- other applicable documentation.

4155.1 4.A.3.b Lawful Permanent Resident Aliens

FHA insures mortgages for borrowers with *lawful permanent resident alien status*, using the same terms and conditions as those for U.S. citizens.

The mortgage file *must*

- include evidence of the permanent residency, and
- indicate that the borrower is a lawful permanent resident alien on the Uniform Residential Loan Application (URLA).

Note: The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.

Continued on next page

3. Citizenship and Immigration Status, Continued

4155.1 4.A.3.c Non-Permanent Resident Aliens

FHA insures mortgages made to non-permanent resident aliens provided that the

- property will be the borrower's principal residence
- borrower has a valid Social Security Number (SSN), and
- borrower is eligible to work in the United States, as evidenced by an Employment Authorization Document (EAD) issued by the USCIS.

Note: The Social Security card *cannot* be used as evidence of work status.

Reference: For more information on the requirement to use the EAD as evidence of work status, see HUD 4155.1 4.A.3.d.

4155.1 4.A.3.d EAD Required as Evidence of Work Status

Although Social Security cards may indicate work status, such as "*not valid for work purposes*," an individual's work status may change without the change being reflected on the actual Social Security card. For this reason, the Social Security card must not be used as evidence of work status, and the EAD must be used instead.

If the EAD will expire within one year and a prior history of residency status renewals exists, the lender may assume that continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal, based on information from the USCIS.

Note: Borrowers residing in the U.S. by virtue of refugee or asylee status granted by the USCIS are automatically eligible to work in this country. An EAD is *not required*.

4155.1 4.A.3.e Non-Lawful Residency

Non-U.S. citizens who do *not* have lawful residency in the U.S. are *not* eligible for FHA-insured mortgages.

4. Living Trusts

Introduction

This topic contains information on living trusts, including

- property held in living trusts, and
- living trusts and security instruments.

Change Date

March 1, 2011

4155.1 4.A.4.a Property Held in Living Trusts

Property held in a living trust is eligible for FHA mortgage insurance when an individual borrower

- remains the beneficiary, and
- occupies the property as a principal residence.

The lender must be satisfied that the trust provides reasonable means to assure that it will be notified of any changes to the trust regarding

- occupancy changes, or
- transfer of beneficial interest.

4155.1 4.A.4.b Living Trusts and Security Instruments

The name of the living trust must appear on the security instrument, such as the mortgage, deed of trust, or security deed.

The individual borrower must appear on the security instrument when required to create a valid lien under state law. The owner-occupant, and other borrowers, if any, must also appear on the note with the trust.

The individual borrower is not required to appear on the property deed or title.

5. Non-Purchasing Spouses

Introduction

This topic contains information on non-purchasing spouses, including

- valid first liens
- non-purchasing spouse debt, and
- non-purchasing spouse credit history.

Change Date

March 1, 2011

4155.1 4.A.5.a Valid First Liens

If required by state law in order to perfect a valid and enforceable first lien, a non-purchasing spouse may be required to sign either the security instrument or documentation indicating that he/she is relinquishing all rights to the property.

When the security instrument is executed for this reason, the non-purchasing spouse is

- *not* considered a borrower, and
- *not* required to sign the loan application.

Note: Non-applicant individuals can have an ownership interest in the property at the time of settlement without executing the mortgage note and security instrument, regardless of whether the transaction is a purchase or a refinance.

Reference: For more information on title issues regarding non-borrowing spouses or other parties in interest, see HUD 4155.1 4.A.1.i.

Continued on next page

5. Non-Purchasing Spouses, Continued

4155.1 4.A.5.b Non-Purchasing Spouse Debt

Except for obligations specifically excluded by state law, the debts of the non-purchasing spouse *must* be included in the borrower's qualifying ratios, if the

- borrower resides in a community property state, or
- property being insured is located in a community property state.

4155.1 4.A.5.c Non-Purchasing Spouse Credit History

The non-purchasing spouse's credit history is not considered a reason to deny a loan application. However, the non-purchasing spouse's obligations must be considered in the debt-to-income (DTI) ratio unless excluded by state law.

A credit report that complies with the requirements of HUD 4155.1 4.C.2 must be provided for the non-purchasing spouse in order to determine the debts that must be counted in the DTI ratio.

Note: This requirement is applicable if the subject property or the borrower's principal residence is located in a community property state.

6. Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies

Introduction

This topic contains information on eligibility requirements for nonprofit organizations and state and local government agencies, including

- the general policy on the eligibility of nonprofit organizations
- the percentage of financing available
- the Homeownership Center and Direct Endorsement lender responsibilities for determining eligibility
- the requirements for nonprofit approval by HUD
- nonprofit organizations not meeting HUD approval requirements, and
- eligibility of state and local government agencies.

Change Date

March 1, 2011

4155.1 4.A.6.a General Policy on the Eligibility of Nonprofit Organizations

Nonprofit organizations are eligible to purchase rental properties with FHA-insured mortgages, provided that they

- intend to sell or lease the property to low- or moderate-income individuals (generally defined as income not exceeding 115% of the applicable median income), and
- meet the requirements for HUD approval listed in HUD 4155.1 4.A.6.d.

Nonprofit organizations may only obtain FHA-insured *fixed rate* mortgages. Only an existing FHA-insured mortgage is eligible for refinancing and may never result in equity withdrawal.

4155.1 4.A.6.b Percentage of Financing Available

Nonprofit organizations are eligible for the same percentage of financing that is available to an owner-occupant on his/her principal residence.

Reference: For more information on the percentage of financing available, see HUD 4155.1 2.A.

Continued on next page

6. Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies, Continued

4155.1 4.A.6.c HOC and DE Lender Responsibilities for Determining Eligibility and Verifying HUD Approval

The appropriate Homeownership Center (HOC) is responsible for determining a nonprofit organization's eligibility to participate in FHA programs.

The Direct Endorsement (DE) lender is responsible for determining

- the organization's financial capacity for repayment, and
- that the organization, at the time of underwriting, is approved by HUD as a participating nonprofit organization, as described in HUD 4155.1 4.A.6.d.

Note: Lenders can verify nonprofit approval status by visiting the HUD website at www.hud.gov.

4155.1 4.A.6.d Requirements for Nonprofit Approval by HUD

HUD must approve the nonprofit organization for it to be eligible to

- purchase properties with
  - FHA-insured mortgages, and
  - the same percentage of financing available to owner-occupants, and
- provide secondary financing.

In order to receive HUD approval, the nonprofit organization must

- be of the type described in Section 501(c)(3) as exempt from taxation under Section 501(a) of the Internal Revenue Code of 1986
- have a voluntary board
- have no part of the net earnings of the organization or funds from the transaction benefit any board member, founder, contributor, or individual, and
- have two years experience as a provider of housing for low- and moderate-income persons.

References: For more information on
- approved instrumentalities of government providing secondary financing, see HUD 4155.1 5.C.4, and
- *temporary* waivers of two of the above requirements for approval, see ML 09-38.

Continued on next page

6. Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies, Continued

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4155.1 4.A.6.e Nonprofit Organizations Not Meeting HUD Approval Requirements

A nonprofit organization not meeting any of the requirements listed in HUD 4155.1 4.A.6.d, including religious and charitable organizations, may only purchase properties backed by FHA mortgage insurance under the conditions described for other investors in HUD 4155.1 4.A.6.b.

Note: Questions concerning a nonprofit organization's approval should be directed to the appropriate HOC.

Reference: For detailed instructions on qualifying nonprofit organizations as borrowers, including documentation requirements, see ML 02-01.

4155.1 4.A.6.f Eligibility of State and Local Government Agencies

State and local government agencies involved in the provision of housing may obtain FHA-insured financing provided that the agency provides evidence from its legal counsel that

- the agency has the legal authority to become the borrower
- the particular state or local government is not in bankruptcy, and
- there is no legal prohibition that would prevent the lender from obtaining a deficiency judgment (if permitted by state law for other types of borrowers) on FHA's behalf in the event of foreclosure or deed-in-lieu of foreclosure.

Loan applications from entities meeting the above requirements may be processed under the DE program without prior approval from the appropriate HOC.

Note: FHA does not require credit reports, financial statements, bank statements, or CAIVRS/LDP/GSA checks.

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7. Using Credit Alert Interactive Voice Response System (CAIVRS) to Determine Eligibility for FHA-Insured Mortgage Transactions

Introduction

This topic contains information on using the Credit Alert Interactive Voice Response System (CAIVRS) to determine a borrower's eligibility for an FHA-insured mortgage transaction, including

- a description of CAIVRS
- lender responsibility for borrower screening using CAIVRS
- documenting CAIVRS authorization
- accessing CAIVRS
- exceptions to the eligibility rule
- handling incorrect CAIVRS information, and
- lender responsibility for resolving conflicting information.

Change Date

March 1, 2011

4155.1 4.A.7.a Description of CAIVRS

The Credit Alert Interactive Voice Response System (CAIVRS) is a Federal government-wide repository of information on those individuals

- with delinquent or defaulted Federal debt, and/or
- for whom the payment of an insurance claim has occurred.

4155.1 4.A.7.b Lender Responsibility for Borrower Screening Using CAIVRS

Lenders must use CAIVRS to screen all borrowers (except those involved in a streamline refinance), including nonprofit agencies acting as borrowers. The borrower is *not* eligible for Federally-related credit if CAIVRS indicates that he/she

- is presently delinquent on a Federal debt, or
- has had a claim paid within the previous three years on a loan made and insured on his/her behalf by HUD.

Exception: Certain exceptions to this eligibility rule are described in HUD 4155.1 4.A.7.e.

Continued on next page

7. Using Credit Alert Interactive Voice Response System (CAIVRS) to Determine Eligibility for FHA-Insured Mortgage Transactions, Continued

4155.1 4.A.7.c Documenting CAIVRS Authorization

Lenders *must* write the CAIVRS authorization code for each borrower on form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

4155.1 4.A.7.d Obtaining Internet Access to CAIVRS

The table below contains guidelines for FHA-approved lenders to use in accessing CAIVRS via the Internet. There is no telephone access.

If the lender's staff …	Then …
currently *have* FHA Connection User IDs	they should request that their FHA Connection (FHAC) Application Coordinator update their FHA Connection profile to include CAIVRS.
do not have FHA Connection User IDs	they should • access the FHAC at https://entp.hud.gov/clas/index.cfm, and • select *Registering to Use the FHA Connection* to request a User ID and access to CAIVRS.

Access by Non-FHA Participating Agency Lenders: Non-FHA lender staff should

- request access from HUD's Internet site at https://entp.hud.gov/caivrs/public/home.html
- select *Registering Lender User ID* from the main menu, and
- request at least one Application Coordinator User ID, as well as a Standard User ID for each individual user.

7. Using Credit Alert Interactive Voice Response System (CAIVRS) to Determine Eligibility for FHA-Insured Mortgage Transactions, Continued

4155.1 4.A.7.e Exceptions to the Eligibility Rule

The table below describes exceptions to the CAIVRS eligibility rule for an FHA-insured mortgage as stated in HUD 4155.1 4.A.7.b.

Exception	Description
Legal Assumptions	The borrower is eligible for an FHA-insured mortgage if he/she sold the property, with or without a release of liability, to an individual who subsequently defaulted. The borrower *must* prove that the loan was current at the time of the assumption.
Divorce	The borrower may be eligible for an FHA-insured mortgage if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. The borrower is *not* eligible if FHA paid a claim on his/her mortgage in default prior to the divorce.
Bankruptcy	The borrower *may* be eligible for an FHA-insured mortgage if • the property was included in a bankruptcy caused by circumstances beyond the borrower's control, such as – the death of the principal wage earner, or – a serious long-term uninsured illness, and • the borrower meets the requirements described in – HUD 4155.1 4.C.2.g for Chapter 7 bankruptcy, or – HUD 4155.1 4.C.2.h for Chapter 13 bankruptcy.

Continued on next page

7. Using Credit Alert Interactive Voice Response System (CAIVRS) to Determine Eligibility for FHA-Insured Mortgage Transactions, Continued

4155.1 4.A.7.e Exceptions to the Eligibility Rule (continued)

Exception	Description
Seller Who Is Selling Principal Residence	A mortgage loan is generally not eligible for insurance if *any party* to the transaction is on either the • HUD Limited Denial of Participation (LDP) list, or • General Services Administration's (GSA's) "*List of Parties Excluded from Federal Procurement or Nonprocurement Programs*," However, an exception exists for a seller on the GSA list who is selling his/her principal residence**.**
Disaster Victims (in Presidentially-Declared Disaster Areas)	For information on the eligibility of disaster victims, see HUD 4155.1 6.A.6.j.

Important: FHA does not require a *clear* CAIVRS authorization number as a condition for mortgage endorsement. The lender must, however, document and justify mortgage approval based on these exceptions.

Continued on next page

7. Using Credit Alert Interactive Voice Response System (CAIVRS) to Determine Eligibility for FHA-Insured Mortgage Transactions, Continued

4155.1 4.A.7.f Handling Incorrect CAIVRS Information

FHA may delete erroneous CAIVRS information indicating that a borrower has defaulted on an FHA mortgage, such as incorrect social security number reporting. However, FHA will *not*

- remove correct CAIVRS information, even if the borrower is judged eligible for Federally-related credit, or
- alter or delete CAIVRS information reported from other Federal agencies, such as the
  - Department of Education, or
  - Department of Veterans Affairs (VA).

The borrower and/or lender must contact those Federal agencies directly to correct or remove erroneous or outdated information.

4155.1 4.A.7.g Lender Responsibility for Resolving Conflicting Information

Lenders may not rely on a clear CAIVRS approval when there is independent evidence of conflicting delinquent Federal obligations. The lender must

- document the resolution of any conflicting information, and
- contact the appropriate Homeownership Center (HOC) for instructions or documentation to support the borrower's eligibility if the
  - CAIVRS message seems erroneous, or
  - date of claim payment needs to be established.

The HOC may provide lenders with

- information about
  - when the three-year waiting period described in HUD 4155.1 4.A.2.g will elapse, or
  - erroneous social security numbers, and
- instructions on processing requirements for other HUD-related defaults and claims, such as Title I loans.

Section B. Property Ownership Requirements and Restrictions

Overview

In This Section

This section contains the topics listed in the table below.

1. General Information on Property Requirements and Restrictions

Introduction

This topic contains general information on property requirements and restrictions, including

- occupancy restrictions
- description of a condominium
- requirements for condominium eligibility
- a reference for investor property limitations
- locating additional information on property eligibility and valuation
- manufactured housing condominium projects (MHCP), and
- requirements for site condominiums.

Change Date

March 1, 2011

4155.1 4.B.1.a Occupancy Restrictions

Except as otherwise stated in this handbook, FHA's single family programs are limited to owner-occupied principal residences only.

Reference: For more information on what FHA will and will not insure, see HUD 4155.2 1.A.1.b.

4155.1 4.B.1.b Description of a Condominium

A condominium is a multi-unit project that

- has individually-owned units, which may be either
  - attached in one or more structures, or
  - detached from each other, and
- is essentially residential in use (for FHA purposes).

A condominium regime is created by state or local law and is characterized by fee simple ownership of a unit which is 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 Homeowners' Association (HOA) that typically maintains the property and collects assessments or dues from each unit owner.

Reference: For more information on condominiums, see HUD 4910.1, *Minimum Property Standards for Housing*.

Continued on next page

1. General Information on Property Requirements and Restrictions, Continued

4155.1 4.B.1.c Requirements for Condominium Eligibility

FHA must approve condominium projects before a mortgage on an individual condominium unit can be insured.

Reference: For more information on condominiums, including condominium project approval requirements, see

- HUD 4150.2, *Valuation Analysis for Single Family One- to Four-Unit Dwellings*, and
- HUD 4265.1, *Section 234(c), Home Mortgage Insurance for Condominium Units*.

4155.1 4.B.1.d Investor Property Limitations (Reference)

Entities purchasing investment properties are limited to a financial interest in seven rental dwelling units.

References: For additional information on

- investment property requirements, see HUD 4155.1 4.B.4, and
- the dwelling unit limitation for investors, see HUD 4155.1 4.B.4.d.

4155.1 4.B.1.e Property Eligibility and Valuation (Reference)

For more information on property eligibility and valuation, see

- HUD 4155.2 4
- HUD 4150.2 *Valuation Analysis for Single Family One- to Four-Unit Dwellings*
- HUD 4910.1, *Minimum Property Standards for Housing*
- HUD 4145.1, *Architectural Processing and Inspections for Home Mortgage Insurance*, and
- Section 203(b) of the National Housing Act, 24 CFR 203.

Continued on next page

1. General Information on Property Requirements and Restrictions, Continued

4155.1 4.B.1.f Manufactured Housing Condominium Projects (MHCP)

Individual manufactured housing units in condominium projects are eligible for FHA insurance, on both Home Equity Conversion Mortgages (HECM) and forward mortgages. All manufactured housing condominium project (MHCP) approval requests must be processed by the Homeownership Center (HOC) having authority over the area in which the property is located.

References: For more information on

- MHCP approval, see HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*, and
- site condominiums, see 4155.1 4.B.1.g.

4155.1 4.B.1.g Site Condominiums Requirements

Site Condominiums are single family totally detached dwellings encumbered by a declaration of condominium covenants or condominium form of ownership. They have no shared garages or any other attached buildings. Project approval is not required for site condominiums unless they do not meet this definition.

Although processed as Section 203(b) loans, the applicable ADP codes for site condominiums are 731 for Adjustable Rate Mortgages (ARM) and 734 for fixed rate loans. Appraisal data is collected and reported on Fannie Mae form 1004, and the Condominium Rider must be included in the FHA case binder.

Note: Manufactured housing condominium projects may not be processed as site condominiums.

References: For more information on

- MHCP approval, see HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*, and
- modular homes, see HUD 4150.2, CHG-1, Appendix D-2.

2. Eligibility Requirements for Principal Residences

Introduction

This topic contains information on eligibility requirements for principal residences, including

- a definition of principal residence
- the FHA requirement for establishing owner occupancy
- FHA-insured Mortgages on principal residences and investment properties, and
- exceptions to the FHA policy limiting the number of mortgages per borrower.

Change Date

March 1, 2011

4155.1 4.B.2.a Definition: Principal Residence

A ***principal residence*** is a property that will be occupied by the borrower for the majority of the calendar year.

4155.1 4.B.2.b FHA Requirement for Establishing Owner Occupancy

At least one borrower must occupy the property and sign the security instrument and the mortgage note in order for the property to be considered owner-occupied.

FHA security instruments require a borrower to establish bona fide occupancy in a home as the borrower's principal residence within 60 days of signing the security instrument, with continued occupancy for at least one year.

Continued on next page

2. Eligibility Requirements for Principal Residences, Continued

4155.1 4.B.2.c FHA-Insured Mortgages on Principal Residences and Investment Properties

To prevent circumvention of the restrictions on making FHA-insured mortgages to investors, FHA *generally* will not insure more than one principal residence mortgage for any borrower. FHA will *not* insure a mortgage if it is determined that the transaction was designed to use FHA mortgage insurance as a vehicle for obtaining investment properties, even if the property to be insured will be the *only* one owned using FHA mortgage insurance.

Any person individually or jointly owning a home covered by an FHA-insured mortgage in which ownership is maintained may *not* purchase another principal residence with FHA insurance, *except* in certain situations as described in HUD 4155.1 4.B.2.d.

Exception: Properties previously acquired as investment properties are *not* subject to these restrictions.

References: For more information on
- exceptions to the above-stated policy, see HUD 4155.1 4.B.2.d
- investment property requirements, see HUD 4155.1 4.B.4, and
- the dwelling unit limitation for investors, see HUD 4155.1 4.B.4.d.

Continued on next page

2. Eligibility Requirements for Principal Residences, Continued

4155.1 4.B.2.d Exceptions to the FHA Policy Limiting the Number of Mortgages Per Borrower

The table below describes the exception situations in which FHA does *not* object to borrowers obtaining multiple FHA-insured mortgages.

Note: To determine the eligibility of a borrower for one of the exceptions in the table below, the underwriter must consider the

- length of time the previous property was owned by the borrower, and
- circumstances that compel the borrower to purchase another residence with an FHA-insured mortgage.

Important: In all cases other than those listed below, the borrower is **not** eligible to acquire another FHA-insured mortgage until he/she has either

- paid off the FHA-insured mortgage on the previous residence, or
- terminated ownership of that residence.

Policy Exception	Eligibility Requirements
Relocation	A borrower may be eligible to obtain another FHA-insured mortgage without being required to sell an existing property covered by an FHA-insured mortgage *if* the borrower is • relocating, and • establishing residency in an area outside reasonable commuting distance from his/her current principal residence. If the borrower subsequently returns to the area where he/she owns a property with an FHA-insured mortgage, he/she is *not* required to re-establish primary residency in that property in order to be eligible for another FHA-insured mortgage. ***Note***: The relocation need not be employer-mandated to qualify for this exception.

Continued on next page

2. Eligibility Requirements for Principal Residences, Continued

4155.1 4.B.2.d Exceptions to the FHA Policy Limiting the Number of Mortgages Per Borrower (continued)

Policy Exception	Eligibility Requirements
Increase in family size	A borrower may be eligible for another home with an FHA-insured mortgage if the number of his/her legal dependents increases to the point that the present house no longer meets the family's needs. The borrower must provide satisfactory evidence • of the increase in dependents and the property's failure to meet family needs, and • that the Loan-To-Value (LTV) ratio equals 75% or less, based on the outstanding mortgage balance and a current appraisal. If not, the borrower must pay the loan down to 75% LTV or less. ***Note***: A current residential appraisal *must* be used to determine LTV compliance. Tax assessments and market analyses by real estate brokers are *not* acceptable proof of LTV compliance.
Vacating a jointly owned property	A borrower may be eligible for another FHA-insured mortgage if he/she is vacating a residence that will remain occupied by a coborrower. ***Example***: A couple is divorcing and the vacating ex-spouse will purchase a new home.
Non-occupying coborrower	A borrower may be qualified for an FHA-insured mortgage on his/her own principal residence even if he/she is a non-occupying coborrower with a joint interest in a property being purchased by other family members as their principal residence with an FHA-insured mortgage.

Important: Under *no* circumstances may investors use the exceptions described in the table above to circumvent FHA's ban on loans to private investors and acquire rental properties through purportedly purchasing "principal residences."

3. Eligibility Requirements for Secondary Residences

Introduction

This topic contains information on eligibility requirements for secondary residences, including

- a definition of secondary residence
- secondary residence restrictions
- requesting a hardship exception
- limitation on the number of secondary residences, and
- secondary residence requirements.

Change Date

March 1, 2011

4155.1 4.B.3.a Definition: Secondary Residence

A ***secondary residence*** is a property that a borrower occupies in addition to his/her principal residence.

4155.1 4.B.3.b Secondary Residence Restrictions

Secondary residences are *only* permitted when

- the appropriate HOC determines that an undue hardship exists, meaning that affordable rental housing that meets the needs of the family is not available for lease in the area or within reasonable commuting distance of work, and
- the maximum loan amount is 85% of the *lesser* of the appraised value or sales price.

References: For more information on
- requesting a hardship exception, see HUD 4155.1 4.B.3.c, and
- other requirements for secondary residences, see HUD 4155.1 4.B.3.e.

4155.1 4.B.3.c Requesting a Hardship Exception

Direct Endorsement (DE) lenders are *not* authorized to grant hardship exceptions. Only the HOC may make the determination that an undue hardship exists. The lender must submit, in writing, any request for a hardship exception to the HOC having jurisdiction over the area in which the subject property is located.

Reference: For information on HOC jurisdictions, see HUD 4155.2 12.E.1.a.

Continued on next page

3. Eligibility Requirements for Secondary Residences, Continued

4155.1 4.B.3.d Limitation on the Number of Secondary Residences

A borrower may have only *one* secondary residence at any time.

4155.1 4.B.3.e Requirements for Secondary Residences

Secondary residences must meet all of the following requirements:

- the secondary residence must *not* be a vacation home or be otherwise used primarily for recreational purposes
- the borrower must obtain the secondary residence because of seasonal employment, employment relocation, or other circumstances not related to recreational use of the residence
- there must be a demonstrated lack of affordable rental housing meeting the needs of the borrower in the area or within a reasonable commuting distance of the borrower's employment, and
- the borrower must provide supporting documentation of the lack of affordable rental housing, including
  - a satisfactory explanation for the need of a secondary residence and the lack of available rental housing, and
  - written evidence from local real estate professionals who verify a lack of acceptable housing in the area.

4. Investment Property Eligibility and Underwriting Requirements

Introduction

This topic contains information on investment property eligibility and underwriting requirements, including

- a definition of investment property
- FHA-insured mortgages on investment properties
- underwriting considerations on investment properties
- dwelling unit limitation for investors, and
- restriction on investment properties for hotel and transient use.

Change Date

March 1, 2011

4155.1 4.B.4.a Definition: Investment Property

An ***investment property*** is a property that is *not* occupied by the borrower as a principal or secondary residence.

4155.1 4.B.4.b FHA-Insured Mortgages on Investment Properties

With permission from the appropriate Homeownership Center (HOC), private investors, including nonprofit organizations that do *not* meet the criteria described in HUD 4155.1 4.A.6.a, may obtain FHA-insured mortgages when

- purchasing HUD Real Estate Owned (REO) properties, or
- obtaining a streamline refinance without an appraisal.

Note: In HUD REO transactions, owner occupancy is not required when the jurisdictional HOC sells the property and permits the purchaser to obtain FHA-insured financing on the investment property.

Reference: For additional qualifying information on streamline refinances without an appraisal, see HUD 4155.1.3.C.2.

Continued on next page

4. Investment Property Eligibility and Underwriting Requirements, Continued

4155.1 4.B.4.c Underwriting Considerations on Investment Properties

Underwriting considerations on investment properties are listed below.

- Individual investors who credit qualify may assume mortgages made on investment properties. This applies to the transactions described in HUD 4155.1 4.B.4.b, as well as to investment properties that were purchased before the 1989 ban on investors, which have subsequently been streamline refinanced.
- Underwriting considerations regarding qualifying ratios and the treatment of projected rental income are described in HUD 4155.1.4.E.4.
- Adjustable rate mortgages (ARMs) and graduated payment mortgages (GPMs) are *not* permitted on investment properties.
- For investment properties, FHA will not insure loans made solely in the name of a business entity (such as a corporation, partnership, or sole proprietorship), *except* for streamline refinances where the mortgage was originally insured in the name of a business. Additionally, FHA requires that
  - one or more individuals, along with the business entity or trust, must be analyzed for creditworthiness
  - the individual(s) and the business entity or trust must appear on the mortgage note, and
  - if all parties appear on the property deed or title, they must also appear on the security instrument.
- For purchases of HUD REO properties, owner occupancy is *not* required when the jurisdictional HOC sells the property and permits the purchaser to obtain FHA-insured financing on the investment property.
- Streamline refinancing without an appraisal is permitted on investment properties.
- Base mortgage calculation is 75% LTV, based on the lesser of the appraised value or the sales price.

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4. Investment Property Eligibility and Underwriting Requirements, Continued

4155.1 4.B.4.d Dwelling Unit Limitation for Investors

Qualified investor entities are limited to a financial interest (that is, any type of ownership, regardless of the 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.

The units that count toward this limitation include

- *each* dwelling unit in a two, three, and four family property, and
- the rental units in an owner-occupied two, three, or four unit property.

Notes:
- The lender is responsible for ensuring compliance with this regulation.
- Waivers to the seven unit limitation can only be initiated by the jurisdictional HOC for good cause.

4155.1 4.B.4.e Restriction on Investment Properties for Hotel and Transient Use

Investors must assure FHA that investment properties they purchase will not be used for hotel or transient purposes, or otherwise rented for periods of less than 30 days, by completing Form HUD-92561, *Hotel and Transient Use Certification.*

This form is required on every application for a

- two, three, or four family dwelling, or
- single family dwelling that is one of a group of five or more dwellings owned by the same borrower.

Section C. Borrower Credit Analysis

Overview

In This Section

This section contains the topics listed in the table below.

1. General Guidelines for Analyzing Borrower Credit

Introduction

This topic contains information on the general guidelines for analyzing borrower credit, including

- past credit performance
- analyzing credit history
- documenting analysis of delinquent accounts
- lack of established credit history
- verifying and documenting non-traditional credit providers, and
- non-traditional mortgage credit report (NTMCR).

Change Date

March 1, 2011

4155.1 4.C.1.a Past Credit Performance

Past credit performance is the most useful guide to

- determining a borrower's attitude toward credit obligations, and
- predicting a borrower's future actions.

Borrowers who have made payments on previous and current obligations in a timely manner represent a reduced risk. Conversely, if a borrower's credit history, despite adequate income to support obligations, reflects continuous slow payments, judgments, and delinquent accounts, significant compensating factors will be necessary to approve the loan.

4155.1 4.C.1.b Analyzing Credit History

When analyzing a borrower's credit history, the underwriter must examine the overall pattern of credit behavior, not just isolated occurrences of unsatisfactory or slow payments.

A period of past financial difficulty does not necessarily make the risk unacceptable, if the borrower has maintained a good payment record for a considerable time period since the financial difficulty occurred.

Continued on next page

1. General Guidelines for Analyzing Borrower Credit, Continued

4155.1 4.C.1.c Documenting an Analysis of Delinquent Accounts

The lender *must* document the analysis of delinquent accounts, including whether late payments were based on

- a disregard for financial obligations
- an inability to manage debt, or
- factors beyond the borrower's control, such as
  - delayed mail delivery, or
  - disputes with creditors.

Minor derogatory information occurring two or more years in the past does not require an explanation. Major indications of derogatory credit, such as judgments, collections, and other recent credit problems, require sufficient written explanation from the borrower. The explanation must make sense, and be consistent with other credit information in the file.

TOTAL Scorecard Accept/Approve or Refer Recommendations
If the loan receives an Accept/Approve recommendation from the Technology Open To Approved Lenders (TOTAL) Scorecard, the borrower need not provide an explanation for adverse credit or other derogatory information. There must, however, be evidence of payoffs for any outstanding judgments shown on the credit report.

The TOTAL Scorecard Refer recommendation requires the borrower to provide an explanation for major indications of derogatory credit, such as judgments and collections, and any minor indications within the past two years.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

1. General Guidelines for Analyzing Borrower Credit, Continued

4155.1 4.C.1.d Lack of Established Credit History

The lack of a credit history, or the borrower's decision to not use credit, may *not* be used as the basis for rejecting the loan application.

Some prospective borrowers may not have an established credit history. For these borrowers, including those who do not use traditional credit, the lender must obtain a non-traditional merged credit report (NTMCR) from a credit reporting company, or develop a credit history from

- utility payment records
- rental payments
- automobile insurance payments, and
- other means of direct access from the credit provider, as described in HUD 4155.1 4.C.1.e.

TOTAL Scorecard Accept/Approve Recommendation
If TOTAL Scorecard has issued an Accept/Approve recommendation, additional development of a credit history is *not* required.

References: For more information on
- the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*
- NTMCR requirements, see HUD 4155.1 1.C.5, and
- evaluating non-traditional credit and insufficient credit, see HUD 4155.1 4.C.3.

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1. General Guidelines for Analyzing Borrower Credit, Continued

4155.1 4.C.1.e Verifying and Documenting Non-Traditional Credit Providers

Only if a NTMCR does not exist, or such a service is unavailable, may a lender choose to obtain independent verification of credit references. Lenders must document that the providers of non-traditional credit do exist, and verify the credit information. Documents confirming the existence of a non-traditional credit provider may include

- public records from the state, county, or city, or
- other documents providing a similar level of objective information.

To verify credit information, lenders must use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant.

If a method other than NTMCR is used to verify credit information or rental references, all references obtained from individuals should be backed up with the most recent 12 months of cancelled checks.

A rental reference from a management company with payment history for the most recent 12 months may be used in lieu of 12 months of cancelled checks.

References: For more information on

- NTMCR requirements, see HUD 4155.1 1. C.5, and
- evaluating non-traditional credit and insufficient credit, see HUD 4155.1 4.C.3.

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1. General Guidelines for Analyzing Borrower Credit, Continued

4155.1 4.C.1.f Non-Traditional Mortgage Credit Report (NTMCR)

Lenders may use a NTMCR developed by a credit reporting agency as an alternative method for developing a credit history. Use of this type of report requires that the credit reporting agency has verified

- the existence of the credit providers
- that the credit was actually extended to the borrower, and
- the creditor has a published address or telephone number.

Reference: For more information on NTMCR requirements, see HUD 4155.1 1.C.5.

2. Guidelines for Credit Report Review

Introduction

This topic contains information on the credit report items that lenders must review, including

- hierarchy of credit review
- reviewing previous rental or mortgage payment history
- recent and/or undisclosed debts and inquiries
- collections and judgments
- paying off collections and judgments
- previous mortgage foreclosure
- Chapter 7 bankruptcy
- Chapter 13 bankruptcy
- consumer credit counseling payment plans
- truncated Social Security Numbers on credit reports
- evaluating non-traditional/insufficient credit (reference), and
- short sales.

Change Date

March 1, 2011

4155.1 4.C.2.a Hierarchy of Credit Review

Evaluating credit involves reviewing payment histories in the following order:

- first: previous housing expenses, including utilities,
- second: installment debts,
- third: revolving accounts.

Generally, a borrower is considered to have an acceptable credit history if he/she does not have late housing or installment debt payments, unless there is major derogatory credit on his/her revolving accounts.

Continued on next page

2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.b Reviewing Previous Rental or Mortgage Payment History

The borrower's housing obligation payment history holds significant importance when evaluating credit. The lender must determine the borrower's housing obligation payment history through the

- credit report
- verification of rent received directly from the landlord (for landlords with no identity-of-interest with the borrower)
- verification of mortgage received directly from the mortgage servicer, or
- review of canceled checks that cover the most recent 12-month period.

Note: The lender must verify and document the previous 12 months' housing history even if the borrower states he/she was living rent-free.

TOTAL Scorecard Accept/Approve Recommendation

If the loan receives an Accept/Approve recommendation from the Technology Open To Approved Lenders (TOTAL) Scorecard, the housing/rental history requirement stated above is waived.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.c Recent and/ or Undisclosed Debts and Inquiries

Lenders *must* determine the purpose of any recent debts, as the borrower may have incurred the indebtedness to obtain the required cash investment.

A borrower *must* provide a satisfactory explanation for any significant debt that is shown on the credit report but not listed on the loan application. Written explanation is required for all inquiries shown on the credit report for the last 90 days.

TOTAL Scorecard Accept/Approve Recommendation

- Verify the actual monthly payment amount of any undisclosed indebtedness.
- Include the monthly payment amount and resubmit the loan if the liability is greater than $100 per month.
- Determine that any funds borrowed were not/will not be used for the borrower's cash investment in the transaction.
- Explanation is not required for inquiries.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.d Collections and Judgments

Collections and judgments indicate a borrower's regard for credit obligations, and *must* be considered in the creditworthiness analysis.

The lender must document reasons for approving a mortgage when the borrower has collection accounts or judgments. The borrower *must* explain, in writing, all collections and judgments.

Note: Compliance with the requirements specified in HUD 4155.1 4.C.2.e is applicable to judgments.

TOTAL Scorecard Accept/Approve Recommendation
Collection accounts trigger neither an explanation requirement nor a hypothetical monthly payment to be used in qualifying borrowers.
The presence of collection accounts in the borrower's credit history already result in lowering the credit bureau scores used in TOTAL and, thus, no further information need be provided by the borrower.

References: For information on
- paying off collections and judgments, see HUD 4155.1 4.C.2.e and
- the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

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2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.e Paying off Collections and Judgments

FHA does *not* require that collection accounts be paid off as a condition of mortgage approval. However, court-ordered judgments *must* be paid off before the mortgage loan is eligible for FHA insurance endorsement.

Exception: An exception to the payoff of a court-ordered judgment may be made if the borrower has

- an agreement with the creditor to make regular and timely payments, and
- provided documentation indicating that payments have been made according to the agreement.

TOTAL Scorecard Accept/Approve and Refer Recommendations
TOTAL Scorecard Accept/Approve and Refer recommendations require that the lender obtain evidence of payoffs for any outstanding judgments shown on the credit report.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.f Previous Mortgage Foreclosure

A borrower is generally *not* eligible for a new FHA-insured mortgage if, during the previous three years

- his/her previous principal residence or other real property was foreclosed, or
- he/she gave a deed-in-lieu of foreclosure.

Exception: The lender may grant an exception to the three-year requirement if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner, and the borrower has re-established good credit since the foreclosure.

Divorce is *not* considered an extenuating circumstance. An exception may, however, be granted where a borrower's loan was current at the time of his/her divorce, the ex-spouse received the property, and the loan was later foreclosed.

Note: The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.

4155.1 4.C.2.g Chapter 7 Bankruptcy

A Chapter 7 bankruptcy (liquidation) does not disqualify a borrower from obtaining an FHA-insured mortgage if at least two years have elapsed since the date of the discharge of the bankruptcy. During this time, the borrower must have

- re-established good credit, or
- chosen not to incur new credit obligations.

An elapsed period of less than two years, but not less than 12 months, may be acceptable for an FHA-insured mortgage, if the borrower

- can show that the bankruptcy was caused by extenuating circumstances beyond his/her control, and
- has since exhibited a documented ability to manage his/her financial affairs in a responsible manner.

Note: The lender must document that the borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

Continued on next page

2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.h Chapter 13 Bankruptcy

A Chapter 13 bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage, provided that the lender documents that

- one year of the pay-out period under the bankruptcy has elapsed
- the borrower's payment performance has been satisfactory and all required payments have been made on time, and
- the borrower has received written permission from bankruptcy court to enter into the mortgage transaction.

TOTAL Scorecard Accept/Approve Recommendation
Lender documentation must show two years from the discharge date of a Chapter 13 bankruptcy. If the Chapter 13 bankruptcy has not been discharged for a minimum period of two years, the loan must be downgraded to a Refer and evaluated by a Direct Endorsement (DE) underwriter.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

4155.1 4.C.2.i Consumer Credit Counseling Payment Plans

Participating in a consumer credit counseling program does not disqualify a borrower from obtaining an FHA-insured mortgage, provided the lender documents that

- one year of the pay-out period has elapsed under the plan
- the borrower's payment performance has been satisfactory and all required payments have been made on time, and
- the borrower has received written permission from the counseling agency to enter into the mortgage transaction.

TOTAL Scorecard Accept/Approve Recommendation
The borrower's decision to participate in consumer credit counseling does not trigger a requirement for additional documentation, as the credit scores already reflect the degradation in credit history. No explanation or other documentation is needed.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.j Truncated Social Security Numbers on Credit Reports

In an effort to reduce the risk of identity theft and other forms of financial fraud, some providers of consumer credit reports use a truncated version of an individual's Social Security Number (SSN) on the credit report.

A truncated SSN, which may contain as few as the last four digits of a borrower's full number, is acceptable for FHA mortgage insurance purposes provided that the

- loan application captures the full 9-digit SSN, and
- borrower's name, SSN and date of birth are validated through the FHA Connection (FHAC) or its functional equivalent.

4155.1 4.C.2.k Evaluating Non-Traditional or Insufficient Credit (Reference)

For guidelines on evaluating borrowers with non-traditional or insufficient credit histories, see HUD 4155.1 4.C.3.

Continued on next page

2. Guidelines for Credit Report Review, Continued

4155.1 4.C.2.l Short Sales

A borrower is not eligible for a new FHA-insured mortgage if he/she pursued a short sale agreement on his/her principal residence simply to

- take advantage of declining market conditions, and
- purchase a similar or superior property within a reasonable commuting distance at a reduced price as compared to current market value.

Borrower Current at the time of Short Sale
A borrower is considered eligible for a new FHA-insured mortgage if, from the date of loan application for the new mortgage, all

- mortgage payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale, and
- installment debt payments for the same time period were also made within the month due.

Borrower in Default at the time of Short Sale
A borrower in default on his/her mortgage at the time of the short sale (or pre-foreclosure sale) is not eligible for a new FHA-insured mortgage for three years from the date of the pre-foreclosure sale.

Note: A borrower who sold his/her property under FHA's pre-foreclosure sale program is not eligible for a new FHA-insured mortgage from the date that FHA *paid the claim* associated with the pre-foreclosure sale.

Exception: A lender may make an exception to this rule for a borrower in default on his/her mortgage at the time of the short sale if the

- default was due to circumstances beyond the borrower's control, such as death of primary wage earner or long-term uninsured illness, and
- a review of the credit report indicates satisfactory credit prior to the circumstances beyond the borrower's control that caused the default.

References:
- For detailed information on converting existing principal residences into rental properties, see HUD 4155.1 4.E.4.g.
- For information on short payoffs, see HUD 4155.1 3.B.1.f.

3. Evaluating Non-Traditional Credit and Insufficient Credit

Introduction

This topic contains information on evaluating non-traditional credit and insufficient credit, including

- evaluating borrowers with non-traditional credit
- evaluating borrowers with insufficient credit
- qualifying ratios for borrowers with insufficient credit, and
- cash reserves for borrowers with insufficient credit.

Change Date

March 1, 2011

4155.1 4.C.3.a Evaluating Non-Traditional Credit

When evaluating a borrower with non-traditional credit history, a satisfactory credit history, at least 12 months in duration, must include

- no history of delinquency on rental housing payments
- no more than one 30-day delinquency on payments due to other creditors, and
- no collection accounts/court records reporting (other than medical) filed within the past 12 months.

Important: Borrowers with non-traditional or insufficient credit are eligible for maximum financing, but must meet the all underwriting guidance provided in HUD 4155.1 4.C.3.

4155.1 4.C.3.b Evaluating Borrowers With Insufficient Credit

When evaluating a borrower with no credit references, or only Group II references as outlined in HUD 4155.1 1.C.5.f, a satisfactory credit history, at least 12 months in duration, must include

- no more than one 30-day delinquency on payments due to any Group II reference, and
- no collection accounts/court records reporting (other than medical) filed within the past 12 months.

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3. Evaluating Non-Traditional Credit and Insufficient Credit, Continued

4155.1 4.C.3.c Qualifying Ratios for Borrowers With Insufficient Credit

To enhance the sustainability of homeownership for borrowers with insufficient credit histories, the qualifying ratios

- are computed *only* on those borrowers occupying the property and obligated on the loan. Non-occupant coborrowers may not be included.
- may not exceed 31% for the payment-to-income ratio and 43% for the total debt-to-income (DTI) ratio.

Important: Compensating factors are *not* applicable for borrowers with insufficient credit references.

4155.1 4.C.3.d Cash Reserve Requirement for Borrowers with Insufficient Credit

Borrowers should have two months of cash reserves following mortgage loan settlement from their own funds. No cash gifts from any source should be counted in the cash reserves for borrowers with insufficient credit histories.

4. Borrower Liabilities: Recurring Obligations

Introduction

This topic contains information on the borrower's recurring obligations, including

- types of recurring obligations
- recurring obligations in debt-to-income ratio calculation
- revolving account minimum monthly payment, and
- alimony payments in qualifying ratio calculations.

Change Date

March 1, 2011

4155.1 4.C.4.a Types of Recurring Obligations

Recurring obligations include

- all installment loans
- revolving charge accounts
- real estate loans
- alimony
- child support, and
- other continuing obligations.

Continued on next page

4. Borrower Liabilities: Recurring Obligations, Continued

4155.1 4.C.4.b Recurring Obligations in Debt to Income Ratio Calculation

When computing the debt-to-income (DTI) ratio, the lender must include the following recurring obligations:

- monthly housing expense, and
- additional recurring charges extending ten months or more, such as
  - payments on installment accounts
  - child support or separate maintenance payments
  - revolving accounts, and
  - alimony.

Debts lasting *less* than ten months *must* be included if the amount of the debt will affect the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing.

***Note*:** Monthly payments on revolving or open-ended accounts, regardless of their balances, are counted as liabilities for qualifying purposes even if the accounts appear likely to be paid off within ten months or less.

Reference: For more information on calculating ratios, see HUD 4155.1 4.F.2.a.

Continued on next page

4. Borrower Liabilities: Recurring Obligations, Continued

4155.1 4.C.4.c Revolving Account Minimum Monthly Payment

If the credit report shows a revolving account with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of

- 5% of the outstanding balance, or
- $10.

Note: If the actual monthly payment is documented from the creditor or the lender obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

4155.1 4.C.4.d Alimony Payments in Qualifying Ratio Calculations

Since there are tax consequences of alimony payments, the lender may choose to treat the monthly alimony obligation as a reduction from the borrower's gross income, rather than treating it as a monthly obligation when calculating qualifying ratios.

5. Borrower Liabilities: Contingent Liability

Introduction

This topic contains information on the borrower's contingent liabilities, including

- definition of "contingent liability"
- application of contingent liability policies
- contingent liability on mortgage assumptions
- exemption from contingent liability on mortgage assumptions, and
- contingent liability on cosigned obligations.

Change Date

March 1, 2011

4155.1 4.C.5.a Definition: Contingent Liability

A ***contingent liability*** exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.

4155.1 4.C.5.b Application of Contingent Liability Policies

The contingent liability policies described in this topic apply *unless* the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.

4155.1 4.C.5.c Contingent Liability on Mortgage Assumptions

The underwriter must consider a contingent liability when the borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that he/she

- has sold or traded within the last 12 months without a release of liability, or
- is about to sell on assumption without a release of liability being obtained.

Reference: For exceptions to this policy, see HUD 4155.1 4.C.5.d.

Continued on next page

5. Borrower Liabilities: Contingent Liability, Continued

4155.1 4.C.5.d Exemption From Contingent Liability on Mortgage Assumptions

When a mortgage is assumed, contingent liabilities need *not* be considered if

- the originating lender of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months, or
- the value of the property, as established by an appraisal or the sales price on the HUD-1, *Settlement Statement* from the sale of the property, minus the upfront mortgage insurance premium (UFMIP), results in an loan-to-value (LTV) ratio of 75% or less.

TOTAL Scorecard Accept/Approve Recommendation
If the loan receives an Accept/Approve recommendation from the Technology Open To Approved Lenders (TOTAL) Scorecard, the lender must obtain either

- a copy of the divorce decree ordering the spouse to make payments, or
- the assumption agreement and deed showing transfer of title out of the borrower's name. (***Note***: A 12 month history is *not* required.)

References: For more information on
- the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*, and
- UFMIP amounts, see HUD 4155.2 7.2.a.

4155.1 4.C.5.e Contingent Liability on Cosigned Obligations

Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for an FHA-insured mortgage is a cosigner/co-obligor on a

- car loan
- student loan
- mortgage, or
- any other obligation.

If the lender obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

6. Borrower Liabilities: Projected Obligations and Obligations Not Considered Debt

Introduction

This topic contains information on borrower

- projected obligations, and
- obligations not considered debt.

Change Date

March 1, 2011

4155.1 4.C.6.a Projected Obligations

Debt payments such as a student loan or balloon note scheduled to begin or come due within 12 months of the mortgage loan closing must be included by the lender as anticipated monthly obligations during the underwriting analysis.

Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.

4155.1 4.C.6.b Obligations Not Considered Debts

Obligations not considered debt, and therefore not subtracted from gross income, include

- Federal, state, and local taxes
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds)
- commuting costs
- union dues
- open accounts with zero balances
- automatic deductions to savings accounts
- child care, and
- voluntary deductions.

Section D. Borrower Employment and Employment Related Income

Overview

In This Section This section contains the topics listed in the table below.

1. Stability of Income

Introduction

This topic contains information on determining a borrower's income stability, including

- effective income
- verifying employment history
- analyzing a borrower's employment record, and
- borrowers returning to work after extended absences.

Change Date

March 1, 2011

4155.1 4.D.1.a Effective Income

Income may not be used in calculating the borrower's income ratios if it comes from any source that

- cannot be verified
- is not stable, or
- will not continue.

Continued on next page

1. Stability of Income, Continued

4155.1 4.D.1.b Verifying Employment History

To be eligible for a mortgage, FHA does not require a minimum length of time that a borrower must have held a position of employment. However, the lender must verify the borrower's employment for the most recent two full years, and the borrower must

- explain any gaps in employment that span one or more months, and
- indicate if he/she was in school or the military during the most recent two full years, providing evidence supporting this claim, such as
  - college transcripts, or
  - discharge papers.

Allowances can be made for seasonal employment, typical for the building trades and agriculture, if documented by the lender.

TOTAL Scorecard Accept/Approved Recommendation
If the Technology Open To Approved Lenders (TOTAL) Scorecard returns an Accept/Approve recommendation, the borrower is not required to provide an explanation for gaps in employment of six months or less, during the most recent two years.

Note: A borrower with a 25% or greater ownership interest in a business is considered self employed and will be evaluated as a self employed borrower for underwriting purposes.

References: For more information on
- seasonal employment, see HUD 4155.1 4.D.2.d and HUD 4155.1 4.D.2.e
- self employed borrowers and income analysis, see HUD 4155.1 4.D.4, and
- the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

Continued on next page

1. Stability of Income, Continued

4155.1 4.D.1.c Analyzing a Borrower's Employment Record

When analyzing the probability of continued employment, the lender must examine

- the borrower's past employment record
- qualifications for the position
- previous training and education, and
- the employer's confirmation of continued employment.

The underwriter should favorably consider a borrower for a mortgage if he/she changes jobs frequently within the same line of work, but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

4155.1 4.D.1.d Borrowers Returning to Work After Extended Absences

A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she

- is employed in the current job for six months or longer, and
- can document a two year work history prior to an absence from employment using
  – traditional employment verifications, and/or
  – copies of W-2 forms or pay stubs.

Note: An acceptable employment situation includes an individual who took several years off from employment to raise children, then returned to the workforce.

Important: Employment situations not meeting the criteria listed above may *only* be considered as compensating factors. Extended absence is defined as six months.

2. Salary, Wage and Other Forms of Income

Introduction

This topic contains information on qualifying a borrower using salary, wage, and other forms of income, including

- general policy on borrower income analysis
- overtime and bonus income
- overtime and bonus income earning trend
- qualifying part-time income
- income from seasonal employment
- primary employment less than 40 hour work week
- commission income
- commission income earned for less than one year
- employer differential payments
- retirement income
- Social Security income, and
- automobile allowances and expense account payments.

Change Date

March 1, 2011

4155.1 4.D.2.a General Policy on Borrower Income Analysis

The lender *must* analyze the income of each borrower who will be obligated for the mortgage debt to determine whether the borrower's income level can be reasonably expected to continue through at least the first three years of the mortgage loan.

In most cases, a borrower's income is limited to salaries or wages. Income from other sources can be considered as effective, if properly verified and documented by the lender.

Notes:

- Effective income for a borrower planning to retire during the first three-year period *must* include the amount of
  – documented retirement benefits
  – Social Security payments, or
  – other payments expected to be received in retirement.
- Lenders *must not* ask the borrower about possible future maternity leave.

Continued on next page

2. Salary, Wage and Other Forms of Income, Continued

4155.1 4.D.2.b Overtime and Bonus Income

Overtime and bonus income can be used to qualify the borrower if he/she has received this income for the past two years, and it will likely continue. If the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying.

The lender must develop an average of bonus or overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable, provided the lender can justify and document in writing the reason for using the income for qualifying purposes.

Reference: For more information on earning trends for overtime and bonus income, see HUD 4155.1 4.D.2.c.

4155.1 4.D.2.c Overtime and Bonus Income Earning Trend

The lender *must* establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, the lender *must* document in writing a sound rationalization for including the income when qualifying the borrower.

A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

Continued on next page

2. Salary, Wage and Other Forms of Income, Continued

4155.1 4.D.2.d Qualifying Part-Time Income

Part-time and seasonal income can be used to qualify the borrower if the lender documents that the borrower has worked the part-time job uninterrupted for the past two years, and plans to continue. Many low and moderate income families rely on part-time and seasonal income for day to day needs, and lenders should not restrict consideration of such income when qualifying these borrowers.

Part-time income received for less than two years may be included as effective income, provided that the lender justifies and documents that the income is likely to continue.

Part-time income not meeting the qualifying requirements may be considered as a compensating factor only.

Note: For qualifying purposes, “part-time” income refers to employment taken to supplement the borrower’s income from regular employment; part-time employment is not a primary job and it is worked less than 40 hours.

Reference: For more information on seasonal income, see HUD 4155.1 4.D.2.e.

4155.1 4.D.2.e Income From Seasonal Employment

Seasonal income is considered uninterrupted, and may be used to qualify the borrower, if the lender documents that the borrower

- has worked the same job for the past two years, and
- expects to be rehired the next season.

Seasonal employment includes
- umpiring baseball games in the summer, or
- working at a department store during the holiday shopping season.

Continued on next page

2. Salary, Wage and Other Forms of Income, Continued

4155.1 4.D.2.f Primary Employment Less Than 40 Hour Work Week

When a borrower's primary employment is less than a typical 40-hour work week, the lender should evaluate the stability of that income as regular, on-going primary employment.

Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the borrower's primary employment, and should be considered effective income.

4155.1 4.D.2.g Commission Income

Commission income *must* be averaged over the previous two years. To qualify with commission income, the borrower must provide

- copies of signed tax returns for the last two years, and
- the most recent pay stub.

Commission income showing a decrease from one year to the next requires significant compensating factors before a borrower can be approved for the loan.

A borrower whose commission income was received for more than one year, but less than two years may be considered favorably if the underwriter can

- document the likelihood that the income will continue, and
- soundly rationalize accepting the commission income.

Notes:
- Unreimbursed business expenses must be subtracted from gross income.
- A commissioned borrower is one who receives more than 25% of his/her annual income from commissions.
- A tax transcript obtained directly from the Internal Revenue Service (IRS) may be used in lieu of signed tax returns, and the cost of the transcript may be charged to the borrower.

Reference: For information on commission income received less than one year, see HUD 4155.1 4.D.2.h.

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2. Salary, Wage and Other Forms of Income, Continued

4155.1 4.D.2.h Commission Income Earned for Less Than One Year

Commission income earned for less than one year is *not* considered effective income. Exceptions may be made for situations in which the borrower's compensation was changed from salary to commission within a similar position with the same employer.

A borrower may also qualify when the portion of earnings *not* attributed to commissions would be sufficient to qualify the borrower for the mortgage.

4155.1 4.D.2.i Employer Differential Payments

If the employer subsidizes a borrower's mortgage payment through direct payments, the amount

- is considered gross income, and
- cannot be used to offset the mortgage payment directly, even if the employer pays the servicing lender directly.

4155.1 4.D.2.j Retirement Income

Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income, such as employer pensions or 401(k) distributions, will cease within the first full three years of the mortgage loan, the income may *only* be considered as a compensating factor.

4155.1 4.D.2.k Social Security Income

Social Security income must be verified by the Social Security Administration (SSA) or from Federal tax returns. If any benefits expire within the first full three years of the loan, the income may *only* be considered as a compensating factor.

Notes:
- The lender must obtain a complete copy of the current awards letter.
- Not all Social Security income is for retirement-aged recipients; therefore, documented continuation is required.
- Some portion of Social Security income may be "grossed-up" if deemed nontaxable by the IRS.

Reference: For information on grossing-up income, see HUD 4155.1.4.E.5.b.

Continued on next page

2. Salary, Wage and Other Forms of Income, Continued

4155.1 4.D.2.l Automobile Allowances and Expense Account Payments

Only the amount by which the borrower's automobile allowance or expense account payments *exceed* actual expenditures may be considered income.

To establish the amount to add to gross income, the borrower must provide

- IRS Form 2106, *Employee Business Expenses*, for the previous two years, and
- employer verification that the payments will continue.

If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income.

Expenses that must be treated as recurring debt include

- the borrower's monthly car payment, and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

3. Borrowers Employed by a Family Owned Business

Change Date

March 1, 2011

4155.1 4.D.3.a Income Documentation for Borrower Employed by Family-Owned Business

In addition to normal employment verification, a borrower employed by a family-owned business is required to provide evidence that he/she is not an owner of the business, which may include

- copies of signed personal tax returns, or
- a signed copy of the corporate tax return showing ownership percentage.

Note: A tax transcript obtained directly from the Internal Revenue Service (IRS) may be used in lieu of signed tax returns, and the cost of the transcript may be charged to the borrower.

4. General Information on Self Employed Borrowers and Income Analysis

Introduction

This topic contains general information on self employed borrowers and analysis of the self-employed borrower's income, including

- a definition of ***self employed***
- types of business structures
- minimum length of self employment
- general documentation requirements for self-employed borrowers
- establishing a self employed borrower's earnings trend
- TOTAL Scorecard Accept/Refer requirements for self employed borrowers, and
- analyzing the business's financial strength.

Change Date

March 1, 2011

4155.1 4.D.4.a Definition: Self Employed Borrower

A borrower with a 25% or greater ownership interest in a business is considered ***self employed*** for FHA loan underwriting purposes.

4155.1 4.D.4.b Types of Business Structures

There are four basic types of business structures. They include

- sole proprietorships
- corporations
- limited liability or "S" corporations, and
- partnerships.

References: For more information on analyzing income for
- sole proprietorships, see HUD 4155.1 4.D.5
- corporations, see HUD 4155.1 4.D.6
- "S" corporations, see HUD 4155.1 4..D.7, and
- partnerships, see HUD 4155.1 4.D.8.

Continued on next page

4. General Information on Self Employed Borrowers and Income Analysis, Continued

4155.1 4.D.4.c Minimum Length of Self Employment

Income from self employment is considered stable and effective, if the borrower has been self employed for two or more years.

Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for borrowers who have been self employed for less than two years.

If the period of self employment is ...	Then ...
between one and two years	to be eligible for a mortgage loan, the individual must have at least two years of documented previous successful employment in the line of work in which he/she is self employed, or in a related occupation. ***Note***: A combination of one year of employment and formal education or training in the line of work in which the individual is self employed or in a related occupation is also acceptable.
less than one year	the income from the borrower may not be considered effective income.

Continued on next page

4. General Information on Self Employed Borrowers and Income Analysis, Continued

4155.1 4.D.4.d General Documentation Requirements for Self Employed Borrowers

Self employed borrowers must provide

- signed, dated individual tax returns, with all applicable tax schedules for the most recent two years
- for a corporation, "S" corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules
- a year-to-date profit and loss (P&L) statement and balance sheet, and
- a business credit report for corporations and "S" corporations.

TOTAL Scorecard Accept/Approve Recommendation

If the Technology Open To Approved Lenders (TOTAL) Scorecard returns an Accept/Approve recommendation, the borrower is not required to provide business tax returns if ***all*** of the following conditions are met:

- individual Federal income tax returns show increasing self employed income over the past two years
- funds to close are not coming from business accounts, and
- the proposed FHA-insured mortgage is not a cash out refinance.

Note: A business credit report for a corporation or "S" corporation is *not* required if the loan receives a TOTAL Scorecard Accept/Approve recommendation.

References: For additional information on

- TOTAL Scorecard recommendations for corporations or "S" corporations, see the *TOTAL Mortgage Scorecard User Guide*, and
- TOTAL Scorecard requirements for P&L and balance sheet, see HUD 4155.1 4.D.4.f.

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4. General Information on Self Employed Borrowers and Income Analysis, Continued

4155.1 4.D.4.e Establishing a Self Employed Borrower's Earnings Trend

When qualifying a self employed borrower for a mortgage loan, the lender must establish the borrower's earnings trend from the previous two years using the borrower's tax returns.

If a borrower

- provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
- is *not* subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings.

If the P&L statements submitted for the current year show an income stream considerably *greater* than what is supported by the previous year's tax returns, the lender must base the income analysis solely on the income verified through the tax returns.

If the borrower's earnings trend for the previous two years is *downward* and the most recent tax return or P&L is *less than the prior year's tax return*, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.

Reference: For additional information on the TOTAL Scorecard requirements for P&L and balance sheet, see HUD 4155.1 4.D.4.f.

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4. General Information on Self Employed Borrowers and Income Analysis, Continued

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4155.1 4.D.4.f TOTAL Scorecard Accept/Refer Requirements for Self Employed Borrowers

For the self employed borrower, the TOTAL Scorecard Accept/Approve recommendation does not require a P&L and balance sheet be provided, unless the income used to qualify the borrower exceeds that of the two-year average, based on tax returns. In such a case, either an audited P&L statement, or signed quarterly tax return is used to support the greater income stream.

The TOTAL Scorecard Refer recommendation requires a P&L and balance sheet, or income information directly from the IRS if both of the following conditions exist:

- more than seven months have elapsed since the business tax year's ending date, and
- income to the self-employed borrower from each individual business is greater than 5% of his/her stable monthly income.

References: For additional information on
- TOTAL Scorecard recommendations, see Page 13 of the *TOTAL Mortgage Scorecard User Guide*, and
- TOTAL Scorecard requirements for tax returns of self employed borrowers, see HUD 4155.1 4.D.4.d.

4155.1 4.D.4.g Analyzing the Business's Financial Strength

To determine if the borrower's business is expected to generate sufficient income for his/her needs, the lender must carefully analyze the business's financial strength, including the

- source of the business's income
- general economic outlook for similar businesses in the area.

Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable, even if the current income and debt ratios meet FHA guidelines.

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5. Income Analysis: Individual Tax Returns (IRS Form 1040)

Introduction

This topic contains information on analyzing income for self employed borrowers through the review of IRS Form 1040, including

- adjusting income based on a review of IRS Form 1040, and
- analyzing IRS Form 1040.

Change Date

March 1, 2011

4155.1 4.D.5.a Adjusting Income Based on Review of IRS Form 1040

The amount shown on a borrower's Internal Revenue Service (IRS) Form 1040 as *adjusted gross income* (line 37) must either be increased or decreased based on the lender's analysis of the individual tax return and any related tax schedules.

Reference: For particular items to analyze on IRS Form 1040, see HUD 4155.1 4.D.5.b.

4155.1 4.D.5.b Analyzing IRS Form 1040

The table below contains guidelines for analyzing IRS Form 1040.

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	An amount shown under this heading may indicate that the individual • is a salaried employee of a corporation, or • has other sources of income. This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's adjusted gross income.

Continued on next page

5. Income Analysis: Individual Tax Returns (IRS Form 1040), Continued

4155.1 4.D.5.b Analyzing IRS Form 1040 (continued)

IRS Form 1040 Heading	Description
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to the adjusted gross income.
Rents, Royalties, Partnerships (from Schedule E)	Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.
Capital Gain and Losses (from Schedule D)	Capital gains or losses generally occur only one time, and should not be considered when determining effective income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earning trend. If the trend • results in a gain, it may be added as effective income, or • consistently shows a loss, it must be deducted from the total income. The lender must document anticipated continuation of income through verified assets. ***Example***: A lender can consider the capital gains as income for an individual who purchases old houses, remodels them, and sells them for profit.

Continued on next page

5. Income Analysis: Individual Tax Returns (IRS Form 1040), Continued

4155.1 4.D.5.b Analyzing IRS Form 1040 (continued)

IRS Form 1040 Heading	Description
Interest and Dividend Income (from Schedule B)	This taxable/tax-exempt income may be added back to the adjusted gross income only if it • has been received for the past two years, and • is expected to continue. If the interest-bearing asset will be liquidated as a source of the cash investment, the lender must appropriately adjust the amount.
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the adjusted gross income.
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage.
Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are • IRA and Keogh retirement deductions • penalties on early withdrawal of savings • health insurance deductions, and • alimony payments.
Employee Business Expenses	Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.

6. Income Analysis: Corporate Tax Returns (IRS Form 1120)

Introduction

This topic contains information on analyzing corporate tax returns submitted on IRS Form 1120, including

- definition of ***corporation***
- obtaining borrower percentage of corporate ownership, and
- analyzing corporate tax returns.

Change Date

March 1, 2011

4155.1 4.D.6.a Definition: Corporation

A ***corporation*** is a state-chartered business owned by its stockholders.

4155.1 4.D.6.b Obtaining Borrower Percentage of Corporate Ownership

Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the

- corporate tax return (Internal Revenue Service (IRS) Form 1120), and
- individual tax returns.

When a borrower's percentage of ownership does not appear on the tax returns, the lender *must* obtain the information from the corporation's accountant, along with evidence that the borrower has the right to any compensation.

Continued on next page

6. Income Analysis: Corporate Tax Returns (IRS Form 1120), Continued

4155.1 4.D.6.c Analyzing Corporate Tax Returns

In order to determine a self employed borrower's income from a corporation, the adjusted business income must

- be determined, and
- multiplied by the borrower's percentage of ownership in the business.

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

Adjustment Item	Description of Adjustment
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income.
Taxable Income	Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability.
Fiscal Year vs. Calendar Year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

7. Income Analysis: "S" Corporation Tax Returns (IRS Form 1120S)

Introduction

This topic contains information on analyzing a self employed borrower's income from an "S" corporation, including

- definition of ***"S" corporation***, and
- analyzing "S" corporation tax returns.

Change Date

March 1, 2011

4155.1 4.D.7.a Definition: "S" Corporation

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

Income for owners of "S" corporations comes from W-2 wages, and is taxed at the individual rate. The Internal Revenue Service (IRS) Form 1120S, *Compensation of Officers* line item is transferred to the borrower's individual IRS Form 1040.

Reference: For information on reviewing and analyzing IRS Form 1040, see HUD 4155.1 4.D.5.

4155.1 4.D.7.b Analyzing "S" Corporation Tax Returns

"S" corporation depreciation and depletion may be added back to income in proportion to the borrower's share of ownership in the corporation.

In addition, the income must also be reduced proportionately by the total obligations payable by the corporation in less than one year.

Important: The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.

8. Income Analysis: Partnership Tax Returns (IRS Form 1065)

Introduction

This topic contains information on analyzing a self employed borrower's income from a partnership through the analysis of IRS Form 1065, including

- definition of partnership, and
- analyzing partnership tax returns.

Change Date

March 1, 2011

4155.1 4.D.8.a Definition: Partnership

A ***Partnership*** is formed when two or more individuals form a business, and share in profits, losses, and responsibility for running the company.

Each partner pays taxes on his/her proportionate share of the partnership's net income.

4155.1 4.D.8.b Analyzing Partnership Tax Returns

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

The lender must review IRS Form 1065 to assess the viability of the business. Both depreciation and depletion may be added back to the income in proportion to the borrower's share of income.

Income must also be reduced proportionately by the total obligations payable by the partnership in less than one year.

Important: Cash withdrawals from the partnership may have a severe negative impact on the partnership's ability to continue operating, and must be considered in the income analysis.

Reference: For information on reviewing IRS Form 1040, see HUD 4155.1 4.D.5.

Section E. Non-Employment Related Borrower Income

Overview

In This Section

This section contains the topics listed in the table below.

1. Alimony, Child Support, and Maintenance Income

Introduction

This topic contains information on alimony, child support, and maintenance income requirements, including

- alimony, child support, and maintenance income criteria, and
- TOTAL Scorecard Accept/Refer requirements for alimony, child support and maintenance income.

Change Date

March 1, 2011

4155.1 4.E.1.a Alimony, Child Support and Maintenance Income Criteria

Alimony, child support, or maintenance income may be considered effective, if

- payments are likely to be received consistently for the first three years of the mortgage
- the borrower provides the required documentation, which includes a copy of the
  - final divorce decree
  - legal separation agreement,
  - court order, or
  - voluntary payment agreement, and
- the borrower can provide acceptable evidence that payments have been received during the last 12 months, such as
  - cancelled checks
  - deposit slips
  - tax returns, or
  - court records.

Notes:
- Periods less than 12 months may be acceptable, provided the lender can adequately document the payer's ability and willingness to make timely payments.
- Child support may be "grossed-up" under the same provisions as non-taxable income sources.

Reference: For more information on grossing-up, see HUD 4155.1 4.E.5.a.

Continued on next page

1. Alimony, Child Support, and Maintenance Income, Continued

4155.1 4.E.1.b TOTAL Scorecard Accept/Refer Requirements for Alimony, Child Support and Maintenance Income

The Technology Open To Approved Lenders (TOTAL) Scorecard Accept/Approve and Refer recommendations for alimony, child support, and maintenance income require evidence

- of receipt, using deposits on bank statements or cancelled checks for the most recent three months that support the amount used when qualifying, and
- that the claimed income will continue for at least three years.

For the financial details, the underwriter should use the front and pertinent pages of the divorce decree, settlement agreement and/or court order.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

2. Investment and Trust Income

Introduction

This topic contains information on analyzing investment and trust income, including

- analyzing interest and dividends
- trust income
- notes receivable income, and
- calculating qualifying ratios for investment properties.

Change Date

March 1, 2011

4155.1 4.E.2.a Analyzing Interest and Dividends

Interest and dividend income may be used for qualifying as long as tax returns or account statements support a two-year receipt history. This income must be averaged over two years.

The underwriter should subtract any funds derived from these sources that are required for the cash investment, before calculating the projected interest or dividend income.

4155.1 4.E.2.b Trust Income

Income from trusts may be used for qualifying if guaranteed, constant payments will continue for at least the first three years of the mortgage term.

Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the

- amount of the trust
- frequency of distribution, and
- duration of payments.

The borrower may withdraw funds from the trust account to use for the required cash investment if he/she provides adequate documentation that this withdrawal will not negatively affect the amount of trust income the underwriter used to determine repayment ability.

Continued on next page

2. Investment and Trust Income, Continued

4155.1 4.E.2.c Notes Receivable Income

In order to include notes receivable income to qualify a borrower, he/she must provide

- a copy of the note, to establish the amount and length of payment, and
- evidence that these payments have been consistently received for the last 12 months, in the form of
  - deposit slips
  - cancelled checks, or
  - tax returns.

If the borrower is not the original payee on the note, the lender must establish that the borrower is now a holder in due course, and able to enforce the note.

4155.1 4.E.2.d Calculating Qualifying Ratios for Eligible Investment Properties

The underwriter should follow the steps in the table below to calculate an investment property's income or loss, whether the property to be insured is an eligible investment property, or sold through FHA's Real Estate Owned (REO) program.

Step	Action
1	Subtract the total monthly housing payment of principal, interest, taxes and insurance (PITI) from the monthly net rental income of the subject property. ***Note***: Calculate the monthly net rental by taking the gross rent~~s~~, and subtracting the 25% reduction, or the applicable Homeownership Center's (HOC) percentage reduction for vacancies and repairs.
2	Does the calculation in Step 1 yield a positive number? • If *yes*, add the number to the borrower's monthly gross income. • If *no*, include the number as a recurring monthly obligation.

Continued on next page

2. Investment and Trust Income, Continued

4155.1 4.E.2.d Calculating Qualifying Ratios for Eligible Investment Properties (continued)

Step	Action
3	Calculate the mortgage payment-to-income ratio (top or front-end ratio) by dividing the borrower's current housing expense on his/her principal residence by the monthly gross income. ***Note***: The monthly gross income includes any positive cash flow from the subject investment property.
4	Calculate the total fixed payment-to-income ratio (bottom or back-end ratio) by dividing the borrower's total monthly obligations, including any net loss from the subject investment property, by the borrower's total monthly gross income.

3. Military, Government Agency, and Assistance Program Income

Introduction

This topic contains information on analyzing military, government agency, and assistance program income, including

- military income
- VA benefits
- government assistance programs
- mortgage credit certificates, and
- Section 8 home ownership vouchers.

Change Date

March 1, 2011

4155.1 4.E.3.a Military Income

Military personnel receive base pay, and are often entitled to additional forms of pay, such as

- variable housing allowances
- clothing allowances
- flight or hazard pay
- rations, and
- proficiency pay.

These types of additional pay are acceptable when analyzing a borrower's income as long as the probability of such pay to continue is verified in writing.

Note: The tax-exempt nature of some of the above payments should also be considered.

Reference: For information about non-taxable income, see HUD 4155.1 4.E.5.

Continued on next page

3. Military, Government Agency, and Assistance Program Income, Continued

4155.1 4.E.3.b VA Benefits

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable income for qualifying, provided the lender receives documentation from the VA.

Education benefits used to offset education expenses are *not* acceptable.

4155.1 4.E.3.c Government Assistance Programs

Income received from government assistance programs is acceptable for qualifying, as long as the paying agency provides documentation indicating that the income is expected to continue for at least three years.

If the income will not be received for at least three years, it may be considered as a compensating factor.

Unemployment income *must* be documented for two years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment.

Reference: For information on analyzing income from seasonal employment, see HUD 4155.1.4.D.2.e.

4155.1 4.E.3.d Mortgage Credit Certificates

If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, these payments may be considered as acceptable income.

Either type of subsidy may be added to gross income, or used directly to offset the mortgage payment, before calculating the qualifying ratios.

Continued on next page

3. Military, Government Agency, and Assistance Program Income, Continued

4155.1 4.E.3.e Section 8 Home Ownership Vouchers

A monthly subsidy may be treated as income if a borrower is receiving subsidies under the housing choice voucher home ownership option from a Public Housing Agency. Continuation of the home ownership voucher subsidy beyond the first year is subject to Congressional appropriation, however, FHA has agreed that it will assume, for the purposes of underwriting, that the subsidy will continue for at least three years.

If the borrower is receiving the subsidy directly, the amount received is treated as income. The amount received may also be treated as non-taxable income and “grossed up” by 25%, which means that the amount of the subsidy, plus 25% of that subsidy may be added to the borrower’s income from employment and/or other sources.

Lenders may treat this subsidy as an offset to the monthly mortgage payment (i.e. reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios).

As the subsidy payment must not pass through the borrower’s hands, the assistance payment must be

- paid directly to the servicing lender, or
- placed in an account that only the servicing lender may access.

Note: Assistance payments made directly to the borrower *must* be treated as income.

4. Rental Income

Introduction

This topic contains information on analyzing rental income, including

- analyzing the stability of rental income
- rental income from borrower-occupied property
- income from roommates
- documentation required to verify rental income
- analyzing IRS Form 1040 Schedule E
- using current leases to analyze rental income
- the exclusion of rental income from a property being vacated by the borrower, and
- exceptions to the exclusion of rental income from a principal residence being vacated by a borrower.

Change Date

March 1, 2011

4155.1 4.E.4.a Analyzing the Stability of Rental Income

Rent received for properties owned by the borrower is acceptable income for qualifying as long as the lender can document the stability of the rental income through a(n)

- current lease
- agreement to lease, or
- rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal or military renters, or property rehabilitation).

A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application (URLA).

Note: The underwriting analysis may *not* consider rental income from any property being vacated by the borrower, except under the circumstances described in HUD 4155.1 4.E.4.h.

Continued on next page

4. Rental Income, Continued

4155.1 4.E.4.b Rental Income From Borrower Occupied Property

The rent for multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes.

Projected rent for the tenant-occupied units may

- *only* be considered gross income, after deducting the Homeownership Center's (HOC) vacancy and maintenance factor, and
- *not* be used as a direct offset to the mortgage payment.

Reference: For information about the HOCs' vacancy and maintenance factors, see the *HOC Reference Guide* at www.hud.gov/offices/hsg/sfh/ref/hsgrcont.cfm.

4155.1 4.E.4.c Income from Roommates in a Single Family Property

Income from roommates in a single family property occupied as the borrower's primary residence is *not* acceptable for qualifying. Rental income from boarders, however, *is* acceptable, if the boarders are related by blood, marriage or law.

The rental income may be considered effective if shown on the borrower's tax return. If not on the tax return, rental income paid by the boarder

- may be considered as a compensating factor, and
- must be adequately documented by the lender.

4155.1 4.E.4.d Documentation Required to Verify Rental Income

Analysis of the following required documentation is necessary to verify all borrower rental income:

- IRS Form 1040 Schedule E, as described in HUD 4155.1 4.D.5.b, and
- current leases/rental agreements, as described in HUD 4155.1 4.E.4.f.

Continued on next page

4. Rental Income, Continued

4155.1 4.E.4.e Analyzing IRS Form 1040 Schedule E

Schedule E to the Internal Revenue Service (IRS) Form 1040 is required to verify all rental income. Depreciation shown on Schedule E may be added back to the net income or loss.

Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring monthly liability.

The lender *must* confirm that the borrower still owns each property listed, by comparing Schedule E with the Real Estate Owned section of the URLA. If the borrower owns six or more units in the same general area, a map must be provided disclosing the locations of the units, as evidence of compliance with FHA's seven-unit limitation.

Reference: For information about the FHA seven rental unit limitation, see HUD 4155.1 4.B.4.d.

4155.1 4.E.4.f Using Current Leases to Analyze Rental Income

The borrower can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, which is not shown on Schedule E.

In order to calculate the rental income

- reduce the gross rental amount by 25% (or the percentage developed by the jurisdictional HOC) for vacancies and maintenance
- subtract PITI, and any homeowners' association (HOA) dues, and
- apply the resulting amount to
  - – income, if positive, or
  - – recurring debts, if negative.

Continued on next page

4. Rental Income, Continued

4155.1 4.E.4.g Exclusion of Rental Income From Property Being Vacated by the Borrower

Underwriters may *not* consider any rental income from a borrower's principal residence that is being vacated in favor of another principal residence, except under the conditions described in HUD 4155.1 4.E.4.h

Notes:

- This policy assures that a borrower either has sufficient income to make both mortgage payments without any rental income, or has an equity position which makes it unlikely that he/she will default on the mortgage on the property being vacated.
- This applies *solely* to a principal residence being vacated in favor of another principal residence. It does *not* apply to existing rental properties disclosed on the loan application and confirmed by Schedule E of IRS Form 1040.

Continued on next page

4. Rental Income, Continued

4155.1 4.E.4.h Exceptions to the Exclusion of Rental Income From a Principal Residence Being Vacated by a Borrower

When a borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA HOC, *may* be considered in the underwriting analysis, under the circumstances listed in the table below.

Reference: For information on jurisdictional HOC vacancy factors, see http://www.hud.gov/offices/hsg/sfh/ref/sfh2-21u.cfm.

Exception	Description
Relocations	The borrower is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally-recognized commuting distance. A properly executed lease agreement (that is, a lease signed by the borrower and the lessee) of at least one year's duration after the loan is closed is required. ***Note***: FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence that the first month's rent was paid to the lessee.
Sufficient Equity in Vacated Property	The borrower has a loan-to-value (LTV) ratio of 75% or less, as determined by • a residential appraisal no more than six months old, or • comparing the unpaid principal balance to the original sales price of the property. ***Note***: The appraisal may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, *Exterior-Only Inspection Residential Appraisal Report* or, for condominium units, form Fannie Mae 1075/Freddie Mac 466, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*.

5. Non-Taxable and Projected Income

Introduction

This topic contains information on analyzing non-taxable and projected income, including

- types of non-taxable income
- grossing-up non-taxable income
- analyzing projected income, and
- projected income for a new job.

Change Date

March 1, 2011

4155.1 4.E.5.a Types of Non-Taxable Income

Certain types of regular income may not be subject to Federal tax, such as

- some portion of Social Security,
- some Federal government employee retirement income
- Railroad Retirement benefits
- some state government retirement income
- certain types of disability and public assistance payments
- child support
- military allowances, and
- other income that is documented as being exempt from Federal income taxes.

4155.1 4.E.5.b Grossing-Up Non-Taxable Income

The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income.

The percentage of non-taxable income that may be added *cannot* exceed the appropriate tax rate for the income amount. Additional allowances for dependents are *not* acceptable.

The lender

- must document and support the amount of income *grossed- up* for any non-taxable income source, and
- should use the same tax rate the borrower used to calculate his/her income tax from the previous year.

Note: If the borrower is not required to file a Federal tax return, the tax rate to use is 25%.

Continued on next page

5. Non-Taxable and Projected Income, Continued

4155.1 4.E.5.c Analyzing Projected Income

Projected or hypothetical income is *not* acceptable for qualifying purposes. However, exceptions are permitted for income from

- cost-of-living adjustments
- performance raises, and
- bonuses.

For the above exceptions to apply, the income must be

- verified in writing by the employer, and
- scheduled to begin within 60 days of loan closing.

4155.1 4.E.5.d Projected Income for a New Job

Projected income is acceptable for qualifying purposes for a borrower scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.

The lender *must* verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment.

The loan is *not* eligible for endorsement if the loan closes more than 60 days before the borrower starts the new job. To be eligible for endorsement, the lender must obtain from the borrower a pay stub or other acceptable evidence indicating that he/she has started the new job.

Examples: A teacher whose contract begins with the new school year, or a physician beginning his/her residency fall into this category.

Section F. Borrower Qualifying Ratios

Overview

In This Section

This section contains the topics listed in the table below.

1. General Information on Borrower Qualifying

Introduction

This topic contains general information on qualifying a borrower, including

- lender responsibility when qualifying a borrower, and
- the importance of careful underwriting analysis.

Change Date

March 1, 2011

4155.1 4.F.1.a Lender Responsibility When Qualifying a Borrower

The lender is responsible for adequately analyzing the probability that a borrower will be able to repay the mortgage obligation according to the terms of the loan.

This responsibility includes using qualifying ratios and compensating factors when qualifying a borrower. Qualifying ratios can be exceeded when significant compensating factors exist.

4155.1 4.F.1.b Importance of Careful Underwriting Analysis

Underwriting requires a careful analysis of many aspects of the mortgage.

Each loan is a separate and unique transaction, and there may be multiple factors that demonstrate a borrower's ability and willingness to make timely mortgage payments.

Simply establishing that a loan transaction meets minimal standards does not necessarily constitute prudent underwriting. When qualifying a borrower, it is important to avoid the danger of "layering flexibilities" when assessing the mortgage insurance risk.

2. Qualifying Ratios

Introduction

This topic contains information on determining ratios to qualify a borrower, including

- general information about qualifying ratios
- mortgage payment expense to effective income ratio
- total fixed payments to effective income ratio, and
- estimating real estate taxes when determining qualifying ratios.

Change Date

March 1, 2011

4155.1 4.F.2.a General Information About Qualifying Ratios

Qualifying ratios are used to determine if the borrower can reasonably be expected to meet the expenses involved in home ownership, and provide for his/her family. In order to make this determination, the lender must calculate

- the Mortgage Payment Expense to Effective Income ratio, as described in HUD 4155.1 4.F.2.b, and
- the Total Fixed Payment to Effective Income ratio, as described in HUD 4155.1 4.F.2.c.

Note: The underwriter must calculate the qualifying ratios for entry into the Automated Underwriting System (AUS) in order to be evaluated by the Technology Open To Approved Lenders (TOTAL) Scorecard.

Continued on next page

2. Qualifying Ratios, Continued

4155.1 4.F.2.b Mortgage Payment Expense to Effective Income Ratio

The relationship of the mortgage payment to income is considered acceptable if the total mortgage payment does not exceed 31% of the gross effective income.

A ratio exceeding 31% may be acceptable only if significant compensating factors, as discussed in HUD 4155.1 4.F.3, are documented and recorded on Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

For those borrowers who qualify under FHA's Energy Efficient Homes (EEH), the ratio is set at 33%.

Note: The total mortgage payment includes
- principal and interest
- escrow deposits for real estate taxes
- hazard insurance
- mortgage insurance premium
- homeowners' association dues
- ground rent
- special assessments, and
- payments for any acceptable secondary financing.

4155.1 4.F.2.c Total Fixed Payments to Effective Income Ratio

The relationship of total obligations to income is considered acceptable if the total mortgage payment and all recurring monthly obligations do not exceed 43% of the gross effective income.

A ratio exceeding 43% may be acceptable only if significant compensating factors, as discussed in HUD 4155.1 4.F.3, are documented and recorded on Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*. For those borrowers who qualify under FHA's EEH, the ratio is set at 45%.

Continued on next page

2. Qualifying Ratios, Continued

4155.1 4.F.2.d Estimating Real Estate Taxes When Determining Qualifying Ratios

For real estate taxes, lenders must use accurate estimates of monthly property tax escrows when qualifying borrowers. In new construction cases, property tax estimates must be based on the land and completed improvements, not just on the land value.

Reference: For information on projecting and collecting real estate tax payments, see HUD 4155.2 6.A.1.i.

3. Compensating Factors

Introduction

This topic contains information on using compensating factors to qualify a borrower, including

- documenting compensating factors, and
- compensating factors benchmark guidelines.

Change Date

March 1, 2011

4155.1 4.F.3.a Documenting Compensating Factors

Compensating factors used to justify approval of mortgage loans with ratios that exceed benchmark guidelines must be recorded on the Underwriter Comments section of Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary. Any compensating factor used to justify mortgage approval must also be supported by documentation.

TOTAL Scorecard Accept Recommendation
The Technology Open To Approved Lenders (TOTAL) Scorecard Accept recommendation does not require documented compensating factors, even if qualifying ratios have exceeded FHA benchmark guidelines.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

4155.1 4.F.3.b Compensating Factors Benchmark Guidelines

The table below describes the compensating factors that may be used to justify approval of mortgage loans with ratios that exceed FHA benchmark guidelines.

Compensating Factor	Guideline Description
Housing Expense Payments	The borrower has successfully demonstrated the ability to pay housing expenses greater than or equal to the proposed monthly housing expenses for the new mortgage over the past 12-24 months.

Continued on next page

3. Compensating Factors, Continued

4155.1 4.F.3.b Compensating Factors Benchmark Guidelines (continued)

Compensating Factor	Guideline Description
Down Payment	The borrower makes a large down payment of 10% or higher toward the purchase of the property.
Accumulated Savings	The borrower has demonstrated • an ability to accumulate savings, and • a conservative attitude toward using credit.
Previous Credit History	A borrower's previous credit history shows that he/she has the ability to devote a greater portion of income to housing expenses.
Compensation or Income Not Reflected in Effective Income	The borrower receives documented compensation or income that is not reflected in effective income, but directly affects his/her ability to pay the mortgage. This type of income includes food stamps and similar public benefits.
Minimal Housing Expense Increase	There is only a minimal increase in the borrower's housing expense.

Continued on next page

3. Compensating Factors, Continued

4155.1 4.F.3.b Compensating Factors Benchmark Guidelines (continued)

Compensating Factor	Guideline Description
Substantial Cash Reserves	The borrower has substantial documented cash reserves (at least three months worth) after closing. The lender must judge if the substantial cash reserve asset is liquid or readily convertible to cash, and can be done so absent retirement or job termination, when determining if the asset can be included as cash reserves, or cash to close. Funds and/or "assets" that are *not* to be considered as cash reserves include • equity in other properties, and • proceeds from a cash-out refinance. The lender may use a portion of a borrower's retirement account, subject to the following conditions. To account for withdrawal penalties and taxes, only 60% of the vested amount of the account may be used. The lender must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower's employment termination, retirement, or death. If withdrawals can only be made under these circumstances, the retirement account may not be included as cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves. Similarly, any gift funds that remain in the borrower's account following loan closing, subject to proper documentation, may be considered as cash. ***Note***: Reserves from retirement accounts and gifts as described above may be considered as cash reserves when scoring the mortgage application through TOTAL. ***Reference***: For information on acceptable sources of cash reserve funding, see HUD 4155.1 5.B.

Continued on next page

3. Compensating Factors, Continued

4155.1 4.F.3.b Compensating Factors Benchmark Guidelines (continued)

Compensating Factor	Guideline Description
Substantial Non-Taxable Income	The borrower has substantial non-taxable income. ***Note***: This applies if no adjustment was previously made when computing ratios.
Potential for Increased Earnings	The borrower has a potential for increased earnings, as indicated by job training or education in his/her profession.
Primary Wage-Earner Relocation	The home is being purchased because the primary wage-earner is relocating, and the secondary wage-earner • has an established employment history • is expected to return to work, and • has reasonable prospects for securing employment in a similar occupation in the new area. ***Note***: The underwriter must document the availability of the potential employment.

Section A. Settlement Requirements

Overview

In This Section This section contains the topics listed in the table below.

1. General Information on Settlement Requirements

Introduction

This topic contains general information on settlement requirements, including

- lender responsibility for estimating settlement requirements
- disclosure of origination charges on the Good Faith Estimate (GFE), and
- determining the amount needed for closing.

Change Date

March 24, 2011

4155.1 5.A.1.a Lender Responsibility for Estimating Settlement Requirements

For each transaction, the lender must provide the initial Good Faith Estimate (GFE), all revised Good Faith Estimates and a final HUD-1 *Settlement Statement*, consistent with the Real Estate Settlement Procedures Act (RESPA), to determine the cash required to close the mortgage transaction.

In addition to the minimum downpayment requirement described in HUD 4155.1 5.B.1.a, additional borrower expenses must be included in the total amount of cash that the borrower must provide at mortgage settlement. Such additional expenses include, but are not limited to

- closing costs, such as those customary and reasonable costs necessary to close the mortgage loan
- prepaid items
- discount points
- non-realty or personal property
- upfront mortgage insurance premium (UFMIP) amounts
- repairs and improvements
- real estate broker fees
- mortgage broker fees
- premium pricing on FHA-insured mortgages, and
- yield spread premiums.

References: For more information on

- closing-related expenses, see HUD 4155.1 5.A.2
- UFMIP amounts, see HUD 4155.2 7.2.a, and
- RESPA rules, see http://www.hud.gov/respa.

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1. General Information on Settlement Requirements, Continued

4155.1 5.A.1.b Disclosure of Origination Charges on the Good Faith Estimate

Lenders must include the sum of ***all*** fees and charges from origination-related charges in Box 1 on page 2 of the Good Faith Estimate (GFE).
The figure in Box 1

- represents all compensation to the lender and/or broker for originating the loan, and
- will most often *exceed* the specific origination fee caps set for government programs.

The GFE requires that lenders provide an aggregated cost for origination services. Lenders may, however, itemize specific distinct origination fees and charges in the empty 800 lines of the HUD-1 *Settlement Statement*, to the left of the column, if required by a government program or state law to provide more detailed information on those fees and charges.

Reference: For more information on charges, fees, and discounts, see 24 CFR 203.27.

4155.1 5.A.1.c Determining the Amount Needed for Closing

The amount of cash needed by the borrower to close an FHA-insured mortgage is the *difference* between the

- total cost to acquire the property, including the expenses listed in HUD 4155.1 5.A.1.a , and
- amount of the mortgage, excluding any UFMIP.

2. Settlement Requirements Needed to Close

Introduction

This topic contains information on settlement requirements needed to close, including

- origination fee, unallowable fees, and other closing costs
- types of prepaid items, including per diem interest
- discount points
- non-realty (chattel) or personal property
- upfront mortgage insurance premium (UFMIP) amounts
- repairs and improvements
- real estate broker fees
- mortgage broker fees
- premium pricing on FHA-insured mortgages
- yield spread premiums, and
- seller credits.

Change Date

January 31, 2011

Continued on next page

2. Settlement Requirements Needed to Close, Continued

4155.1 5.A.2.a Origination Fee, Unallowable Fees, and Other Closing Costs

Lenders may charge and collect from borrowers those customary and reasonable costs necessary to close the mortgage loan.

Borrowers may not pay a tax service fee.

FHA no longer limits the origination fee to one percent of the mortgage amount for its standard mortgage insurance programs. However, both the Home Equity Conversion Mortgage (HECM) and Section 203(k) Rehabilitation Mortgage Insurance programs retain their statutory origination fee caps.

Lenders may charge and collect

- a supplemental origination fee on Section 203(k) rehabilitation mortgages, or
- *two percent* on HECMs.

References: For more information on
- collecting customary and reasonable fees, see HUD 4155.2 6.A.3.a, and
- the supplemental origination fee for 203(k) mortgages, see HUD 4155.2 1.C.5.f
- the HECM origination fee, see HUD 4235.1, *Home Equity Conversion Mortgages*.

Continued on next page

2. Settlement Requirements Needed to Close, Continued

4155.1 5.A.2.b Types of Prepaid Items (Including Per Diem Interest)

Prepaid items are collected at closing to cover

- accrued and unaccrued hazard insurance premiums
- mortgage insurance premiums
- taxes
- per diem interest, and
- other similar fees and charges.

Per Diem Interest
The lender must use a minimum of 15 days of per diem interest when estimating prepaid items on the Good Faith Estimate (GFE). To reduce the burden on borrowers whose loans were scheduled to close at the end of the month, but did not due to unforeseen circumstances, lenders and borrowers may agree to credit the per diem interest to the borrower and have the mortgage payments begin the first of the succeeding month. The dollar amount of the per diem interest credit may *not* be used to reduce the borrower's required cash investment.

4155.1 5.A.2.c Discount Points

Discount points paid by the borrower

- become part of the total cash required to close
- are *not* eligible for meeting the minimum down payment requirement, and
- must appear on Line 10 of Page 3 of form HUD 92900-A, *HUD/VA Addendum to Uniform Residential Loan Application.*.

4155.1 5.A.2.d Non Realty or Personal Property

Non-realty (chattel) or personal property items that the borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum mortgage, are included in the total cash requirements for the loan.

4155.1 5.A.2.e UFMIP Amounts

Any upfront mortgage insurance premium (UFMIP) amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be

- entirely financed into the mortgage, except any amount less than $1.00, or
- paid entirely in cash and all mortgage amounts rounded down to a multiple of $1.00.

Reference: For information on UFMIP amounts, see HUD 4155.2 7.2.a.

Continued on next page

2. Settlement Requirements Needed to Close, Continued

4155.1 5.A.2.f Repairs and Improvements

Repairs and improvements, or any portion paid by the borrower that cannot be financed into the mortgage, are part of the borrower's total cash requirements.

4155.1 5.A.2.g Real Estate Broker Fees

If a borrower is represented by a real estate broker and must pay any fee directly to the broker, that expense must

- be included in the total of the borrower's settlement requirements, and
- appear on the HUD-1 *Settlement Statement*.

If the seller pays the broker fee as part of the sales commission, it is not considered an inducement to purchase, or part of the seller contributions limitation, as long as the seller is paying only the normal sales commission for that market.

Any additional seller-paid commission to the broker is considered an inducement to purchase.

To determine if the seller paid a buyer-broker fee in addition to the normal sales commission for the market, the lender must obtain a copy of the original listing agreement, and compare it with the HUD-1 *Settlement Statement*.

References: For more information on
- seller contribution limitations, see HUD 4155.1 2.A.3, and
- inducements to purchase, see HUD 4155.1 2.A.4.

4155.1 5.A.2.h Mortgage Broker Fees

The lender should include mortgage broker fees in the total of the borrower's cash settlement requirements and on the HUD-1 *Settlement Statement*, if he/she pays a fee directly to a mortgage broker.

This requirement applies only when the borrower independently engages a mortgage broker exclusively to seek financing, and pays the broker directly. The mortgage broker cannot be the same as the originating lender.

Note: The payment may *not* come from the lending institution, per 24 CFR 203.27.

Continued on next page

2. Settlement Requirements Needed to Close, Continued

4155.1 5.A.2.i Premium Pricing on FHA-Insured Mortgages

Lenders may pay a borrower's closing costs, and/or prepaid items by "premium pricing." Closing costs paid in this manner do not need to be included as part of the seller contribution limitation. The funds derived from a premium priced mortgage

- may *never* be used to pay any portion of the borrower's downpayment
- *must* be disclosed on the GFE and the HUD-1 *Settlement Statement*
- *must* be used to reduce the principal balance if the premium pricing agreement establishes a specific dollar amount for closing costs and prepaid expenses, with any remaining funds in excess of actual costs reverting to the borrower, and
- may not be used for payment of
  - debts
  - collection accounts
  - escrow shortages or missed mortgage payments, or
  - judgments.

Reference: For more information on seller contribution limitations, see HUD 4155.1 2.A.3.

4155.1 5.A.2.j Yield Spread Premium

Yield spread premiums (YSP) are not part of the cash required to close, but *must* be disclosed to borrowers on the GFE and HUD-1 *Settlement Statement*, in accordance with the Real Estate Settlement Procedures Act (RESPA).

Continued on next page

2. Settlement Requirements Needed to Close, Continued

4155.1 5.A.2.k Seller Credits on the HUD-1 Settlement Statement

RESPA regulations do not require or permit the inclusion or disclosure of seller-paid credits on the GFE. On the HUD-1 *Settlement Statement*,

- charges must be displayed in the borrower's column, and
- a credit to offset charges must be listed in Section J, *Summary of Borrower's Transaction* on lines 204-209, with a corresponding reduction to the seller's proceeds in Section K, *Summary of Seller's Transaction* on lines 506-509.

When the seller contributes to more than one expense, the seller credit shown on the HUD-1 must reflect the lump sum payment.

Reference: For more information on RESPA rules, see http://www.hud.gov/respa.

Section B. Acceptable Sources of Borrower Funds

Overview

In This Section This section contains the topics listed in the table below.

1. General Information on Acceptable Sources of Borrower Funds

Introduction

This topic contains general information on acceptable sources of borrower funds, including

- closing cost and minimum cash investment requirements, and
- types of acceptable sources of borrower funds.

Change Date

March 24, 2011

4155.1 5.B.1.a Closing Cost and Minimum Cash Investment Requirements

Under most FHA programs, the borrower is required to make a minimum downpayment into the transaction of at least 3.5% of the *lesser* of the appraised value of the property or the sales price.

Additionally, the borrower must have sufficient funds to cover borrower-paid closing costs and fees at the time of settlement. Funds used to cover the required minimum downpayment, as well as closing costs and fees, must come from acceptable sources and must be verified and properly documented.

References: For more information on
- settlement requirements, see HUD 4155.1 5.A, and
- acceptable sources of borrower funds, see HUD 4155.1 5.B.1.b.

Continued on next page

1. General Information on Acceptable Sources of Borrower Funds, Continued

4155.1 5.B.1.b Acceptable Sources of Borrower Funds

The table below lists the acceptable sources of borrower funds and a reference for locating additional information on each source.

Acceptable Source of Funds	Reference
• Earnest money deposit • Savings and checking accounts • Cash saved at home • Cash accumulated with private savings club	See HUD 4155.1 5.B.2
• Savings bonds • IRAs • 401(k) and Keogh accounts • Stocks and Bonds • Thrift Savings Plans	See HUD 4155.1 5.B.3
Gift Funds	See HUD 4155.1 5.B.4 and HUD 4155.1 5.B.5
• Sales proceeds • Sale of personal property • Commissions from sale • Trade Equity • Rent Credit • Sweat Equity	See HUD 4155.1 5.B.6
• Collateralized loans • Grants and loans	See HUD 4155.1 5.B.7
• Employer's Guarantee Plans • Employer Assistance Plans	See HUD 4155.1 5.B.8

2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds

Introduction

This topic contains information on cash and savings/checking account funds as acceptable sources of borrower funds, including

- earnest money deposits
- savings and checking accounts
- cash saved at home
- verifying cash saved at home
- cash accumulated with private savings clubs, and
- requirements for private savings clubs.

Change Date

January 31, 2011

4155.1 5.B.2.a Earnest Money Deposit

The lender must verify and document the deposit amount and source of funds, if the amount of the earnest money deposit

- exceeds 2% of the sales price, or
- appears excessive based on the borrower's history of accumulating savings.

Satisfactory documentation includes

- a copy of the borrower's cancelled check
- certification from the deposit-holder acknowledging receipt of funds, or
- separate evidence of the source of funds.

Separate evidence includes a verification of deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

Continued on next page

2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds, Continued

4155.1 5.B.2.b Savings and Checking Accounts

A VOD, along with the most recent bank statement, may be used to verify savings and checking accounts.

If there is a large increase in an account, or the account was recently opened, the lender must obtain from the borrower a credible explanation and documentation of the source of the funds.

TOTAL Scorecard Accept/Approve or Refer Recommendation
If the loan receives an Accept/Approve or Refer recommendation from the Technology Open To Approved Lenders (TOTAL) Scorecard, the lender must

- obtain an explanation and documentation for recent large deposits in excess of 2% of the property sales price, and
- verify that any recent debts were not incurred to obtain part, or all, of the required cash investment on the property being purchased.

Reference: For additional information on the TOTAL Scorecard, see HUD 4155.1 6.A.1 and the *TOTAL Mortgage Scorecard User Guide*.

4155.1 5.B.2.c Cash Saved at Home

Borrowers who have saved cash at home, and are able to adequately demonstrate the ability to do so, are permitted to have this money included as an acceptable source of funds to close the mortgage.

To include cash saved at home when assessing the borrower's cash assets, the

- money must be verified, whether deposited in a financial institution, or held by the escrow/title company, and
- borrower must provide satisfactory evidence of the ability to accumulate such savings.

Reference: For information on verifying cash saved at home, see HUD 4155.1 5.B.2.d.

Continued on next page

2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds, Continued

4155.1 5.B.2.d Verifying Cash Saved at Home

To verify cash saved at home, the borrower must explain in writing

- how the funds were accumulated, and
- the amount of time it took to accumulate the funds.

The lender must determine the reasonableness of the accumulation, based on the

- time period during which the funds were saved, and
- borrower's
  - income stream
  - spending habits
  - documented expenses, and
  - history of using financial institutions.

Note: Borrowers with checking and/or savings accounts are less likely to save money at home than individuals with no history of such accounts.

4155.1 5.B.2.e Cash Accumulated With Private Savings Clubs

Some borrowers may choose to use non-traditional methods to save money by making deposits into private/community savings clubs. Often, these clubs pool resources for use among the membership.

If a borrower claims that the cash to close an FHA-insured mortgage is from savings held with a private/community savings club, he/she *must* be able to adequately document the accumulation of the funds with the club.

Reference: For information on the requirements for private savings clubs, see HUD 4155.1 5.B.2.f.

Continued on next page

2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds, Continued

4155.1 5.B.2.f Requirements for Private Savings Clubs

While private savings clubs are not supervised banking institutions, the clubs must, at a minimum

- have account ledgers
- provide
  - – receipts from the club
  - – verification from the club treasurer, and
  - – identification of the club.

The lender must reverify the information, and the underwriter must be able to determine that

- it was reasonable for the borrower to have saved the money claimed, and
- there is no evidence that the funds were borrowed with an expectation of repayment.

Note: If the borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation should be counted in the borrowers' total debt when calculating the qualifying ratios.

3. Investments as an Acceptable Source of Funds

Introduction

This topic includes information on investments as an acceptable source of funds, including

- IRAs, thrift savings plans, 401(k) and Keogh accounts
- stocks and bonds, and
- savings bonds.

Change Date

January 31, 2011

4155.1 5.B.3.a IRAs, Thrift Savings Plans, 401(k) and Keogh Accounts

Up to 60% of the value of assets such as Individual Retirement Accounts (IRA), thrift savings plans, 401(k) and Keogh accounts may be included in the underwriting analysis, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn, after subtracting any

- Federal income tax, and
- withdrawal penalties.

Notes:
- Redemption evidence is required.
- Evidence of liquidation is not required, *unless* more than 60% of the amount in the account is used.
- The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as reserves.

TOTAL Scorecard Accept/Approve or Refer Recommendation
If the loan receives an Accept/Approve or Refer recommendation the lender must document the terms and conditions for withdrawal and/or borrowing, and that the borrower is eligible for these withdrawals.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide.*

Continued on next page

3. Investments as an Acceptable Source of Funds, Continued

4155.1 5.B.3.b Stocks and Bonds

The lender may use the most recent monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio to verify the value of stocks and bonds. The borrower's actual receipt of funds must be verified and documented.

TOTAL Scorecard Accept/Approve Recommendation
If the loan receives an Accept/Approve recommendation, the lender is not required to provide evidence of liquidation.

Reference: For more information on the TOTAL Scorecard recommendations, see the *TOTAL Mortgage Scorecard User Guide*.

4155.1 5.B.3.c Savings Bonds

Government-issued bonds are counted at the original purchase price, unless eligibility for redemption and the redemption value are confirmed.

Note: The actual receipt of funds at redemption must be verified.

4. Gifts as an Acceptable Source of Funds

Introduction

This topic contains information on using gift funds as acceptable sources of borrower funds, including

- a description of gift funds
- who may provide a gift
- who may not provide a gift
- lender responsibility for verifying the acceptability of gift fund sources
- gift donor's source of funds
- equity credit
- paying off borrower's consumer debt
- downpayment assistance programs
- gifts from charitable organizations when the organization loses or gives up its Federal tax-exempt status, and
- lender responsibility for ensuring that downpayment assistance provider is a charitable organization.

Change Date

January 31, 2011

4155.1 5.B.4.a Description of Gift Funds

In order for funds to be considered a gift, there must be no expected or implied repayment of the funds to the donor by the borrower.

Note: The portion of the gift not used to meet closing requirements may be counted as reserves.

4155.1 5.B.4.b Who May Provide a Gift

An outright gift of the cash investment is acceptable if the donor is

- the borrower's relative
- the borrower's employer or labor union
- a close friend with a clearly defined and documented interest in the borrower
- a charitable organization
- a governmental agency or public entity that has a program providing home ownership assistance to
  - low- and moderate-income families, or
  - first-time homebuyers.

Continued on next page

4. Gifts as an Acceptable Source of Funds, Continued

4155.1 5.B.4.c Who May Not Provide a Gift

The gift donor may *not* be a person or entity with an interest in the sale of the property, such as

- the seller
- the real estate agent or broker
- the builder, or
- an associated entity.

Gifts from these sources are considered inducements to purchase, and *must* be subtracted from the sales price.

Note: This applies to properties where the seller is a government agency selling foreclosed properties, such as the U.S. Department of Veterans Affairs (VA) or Rural Housing Services.

Reference: For more information on inducements to purchase, see HUD 4155.1 2.A.4.

4155.1 5.B.4.d Lender Responsibility for Verifying the Acceptability of Gift Fund Sources

Regardless of when gift funds are made available to a borrower, the lender *must* be able to determine that the gift funds were *not* provided by an unacceptable source, and were the donor's own funds.

When the transfer occurs at closing, the lender is responsible for verifying that the closing agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.

Reference: For information on documenting the transfer of gift funds at closing, see HUD 4155.1 5.B.5.b.

4155.1 5.B.4.e Gift Donor's Source of Funds

As a general rule, FHA is not concerned with how a donor obtains gift funds, provided that the funds are not derived in any manner from a party to the sales transaction.

Donors may borrow gift funds from any other acceptable source, provided the mortgage borrowers are not obligors to any note to secure money borrowed to give the gift.

Continued on next page

4. Gifts as an Acceptable Source of Funds, Continued

4155.1 5.B.4.f Equity Credit

Only family members may provide equity credit as a gift on property being sold to other family members.

The restrictions on gifts previously discussed in this topic and the restriction on equity credit may be waived by the jurisdictional Homeownership Center (HOC), provided that the seller is contributing to or operating an acceptable affordable housing program.

4155.1 5.B.4.g Paying Off Borrower's Consumer Debt

FHA regards the payment of consumer debt by third parties as an inducement to purchase.

When someone other than a family member has paid off debts or other expenses on behalf of the borrower

- the funds must be treated as an inducement to purchase, and
- there *must* be a dollar for dollar reduction to the sales price when calculating the maximum insurable mortgage.

Note: The dollar for dollar reduction to the sales price also applies to gift funds not meeting the requirements that the gift be

- for downpayment assistance, and
- provided by an acceptable source.

Reference: For more information on inducements to purchase, see HUD 4155.1 2.A.4.

Continued on next page

4. Gifts as an Acceptable Source of Funds, Continued

4155.1 5.B.4.h Downpayment Assistance Programs

FHA does not "approve" downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does *not* allow nonprofit entities to provide gifts to pay off

- installment loans
- credit cards
- collections
- judgments
- liens, and
- similar debts.

Lenders *must* ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

4155.1 5.B.4.i Gifts from Charitable Organizations That Lose or Give Up Their Federal Tax-Exempt Status

If a charitable organization makes a gift that is to be used for all, or part, of a borrower's downpayment, and the organization providing the gift loses or gives up its Federal tax-exempt status, FHA will recognize the gift as an acceptable source of the downpayment provided that the

- gift is made to the borrower
- gift is properly documented, and
- borrower has entered into a contract of sale (including any amendments to purchase price) *on or before* the date the Internal Revenue Service (IRS) officially announces that the charitable organization's tax-exempt status is terminated.

Continued on next page

4. Gifts as an Acceptable Source of Funds, Continued

4155.1 5.B.4.j Lender Responsibility for Ensuring That Downpayment Assistance Provider Is a Charitable Organization

The lender is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is IRS Publication 78, *Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986*, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

The IRS has an online version of this list which can be found at http://apps.irs.gov/app/pub78. Use the following instructions to obtain the latest update:

- enter search data and click "Search"
- click "Charities & Non-Profits" button in the header row
- click "Search for Charities" under "Charities & Non-Profits Topics" on the left-hand side of the page
- click "Recent Revocations and Deletions from Cumulative List" under the "Additional Information" heading in the middle of the page, and
- click the name of the organization if the name appears on the list displayed.

In addition, FHA has developed a webpage that provides a listing of downpayment assistance providers whose nonprofit status has been revoked. This page can be found at http://www.hud.gov/offices/hsg/sfh/np/irstatus.cfm.

5. Gift Fund Required Documentation

Introduction

This topic contains information on the required documentation for gift funds, including

- gift letter requirement, and
- documenting the transfer of gift funds.

Change Date

January 31, 2011

4155.1 5.B.5.a Gift Letter Requirement

The lender must document any gift funds through a gift letter, signed by the donor and borrower. The gift letter must

- show the donor's name, address, telephone number
- specify the dollar amount of the gift, and
- state
  - the nature of the donor's relationship to the borrower, and
  - that no repayment is required.

TOTAL Scorecard Accept/Approve or Refer Recommendation
If the loan receives an Accept/Approve or Refer recommendation, the borrower must list on the loan application or in a gift letter, for each cash gift received, the

- donor's name, address, telephone number
- donor's relationship to the borrower, and
- dollar amount of the gift.

If sufficient funds required for closing are not already verified in the borrower's account(s), the lender must document the transfer of the gift funds to the borrower's account(s), in accordance with the instructions provided in HUD 4155.1 5.B.5.b.

Reference: For additional information on the TOTAL Scorecard, see HUD 4155.1 6.A.1 and the *TOTAL Mortgage Scorecard User Guide*.

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5. Gift Fund Required Documentation, Continued

4155.1 5.B.5.b Documenting the Transfer of Gift Funds

The lender must document the transfer of gift funds from the donor to the borrower.

The table below describes the requirements for the transfer of gift funds.

If the gift funds ...	Then the lender must ...
are in the borrower's account	obtain • a copy of the withdrawal document showing that the withdrawal was from the donor's account, and • the borrower's deposit slip and bank statement showing the deposit.
• are to be provided at closing, and • are in the form of a certified check from the donor's account	obtain a • bank statement showing the withdrawal from the donor's account, and • copy of the certified check.
• are to be provided at closing, and • are in the form of a cashier's check, money order, official check, or other type of bank check	have the donor provide a withdrawal document or cancelled check for the amount of the gift, showing that the funds came from the donor's personal account.
• are to be provided at closing, and • are in the form of an electronic wire transfer to the closing agent	have the donor provide documentation of the wire transfer. ***Note***: The lender must obtain and keep the documentation of the wire transfer in its mortgage loan application binder. While the document does not need to be provided in the insurance binder, it must be available for inspection by FHA's Quality Assurance Division (QAD) when that office conducts its onsite review.

Continued on next page

5. Gift Fund Required Documentation, Continued

4155.1 5.B.5.b Documenting the Transfer of Gift Funds (continued)

If the gift funds ...	Then the lender must ...
• are being borrowed by the donor, and • documentation from the bank or other savings account is *not* available	have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the lender. ***Important***: *Cash on hand* is *not* an acceptable source of donor gift funds.

6. Property-Related Acceptable Sources of Funds

Introduction

This topic contains information on personal property or real property as acceptable sources of borrower funds, including

- sale of personal property
- documenting sales of personal property
- net sales proceeds from real property
- real estate commission from sale of the subject property
- trade equity
- rent credit
- sweat equity
- additional sweat equity requirements, and
- trade-ins of manufactured homes.

Change Date

January 31, 2011

4155.1 5.B.6.a Sale of Personal Property

In order to obtain cash for closing, a borrower may sell various items of personal property, such as

- cars
- recreational vehicles
- stamps
- coins, or
- baseball card collections.

Reference: For information on the documentation required on sales of personal property, see HUD 4155.1 5.B.6.b.

Continued on next page

6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.b Documenting Sales of Personal Property

If a borrower plans to sell personal property items to obtain funds for closing, he/she must provide

- a satisfactory estimate of the value of those items, and
- evidence that the items were sold.

The estimated value of the items being sold may be in the form of

- published value estimates issued by organizations, such as
  - automobile dealers, or
  - philatelic or numismatic associations, or
- a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction.

Only the *lesser* of the estimated value or actual sales price will be considered as assets to close.

4155.1 5.B.6.c Net Sales Proceeds From Real Property

The net proceeds from an arms-length sale of a currently owned property may be used for the cash investment on a new house. The borrower must provide a fully executed HUD-1 *Settlement Statement* as satisfactory evidence of the accrued cash sales proceeds.

If the property has not sold by the time of underwriting, the underwriter must condition the loan approval on verification of the actual proceeds received by the borrower. The lender must document the

- actual sale, and
- sufficiency of the net proceeds required for settlement.

Note: If the property has not sold by the time of the subject settlement, the existing mortgage must be included as a liability for qualifying purposes.

Continued on next page

6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.d Real Estate Commission From Sale of the Subject Property

If the borrower is a licensed real estate agent entitled to a real estate commission from the sale of the property being purchased, then he/she may use that amount for the cash investment, with no adjustment to the maximum mortgage required.

A family member entitled to the commission may also provide it as gift funds to the borrower.

Reference: For information on gift fund requirements, see HUD 4155.1 5.B.4.

4155.1 5.B.6.e Trade Equity

The borrower may agree to trade his/her real property to the seller as part of the cash investment. The amount of the borrower's equity contribution is determined by

- using the *lesser* of the property's appraised value or sales price, and
- subtracting all liens against the property being traded, along with any real estate commission.

In order to establish the property value, the borrower must provide

- a residential appraisal no more than six months old to determine the property's value, and
- evidence of ownership.

Note: If the property being traded has an FHA-insured mortgage, assumption processing requirements and restrictions apply.

Reference: For more information on assumptions, see HUD 4155.1 7.

Continued on next page

6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.f Rent Credit

The cumulative amount of rental payments that exceed the appraiser's estimate of fair market rent may be considered accumulation of the borrower's cash investment.

The endorsement package *must* include the

- rent with option to purchase agreement, and
- appraiser's estimate of market rent.

Conversely, the underwriter must treat the rent as an inducement to purchase, with an appropriate reduction to the mortgage, *if* the sales agreement reveals that the borrower

- has been living in the property rent-free, or
- has an agreement to occupy the property at a rental amount considerably below fair market value, in anticipation of eventual purchase.

Exception: An exception may be granted when a builder
- fails to deliver a property at an agreed-to time, and
- permits the borrower to occupy an existing or other unit for less than market rent until construction is complete.

4155.1 5.B.6.g Sweat Equity

Labor performed, or materials furnished by the borrower before closing on the property being purchased (known as "sweat equity"), may be considered the equivalent of a cash investment, to the amount of the estimated cost of the work or materials.

Note: Sweat equity may also be "gifted," subject to the
- additional requirements in HUD 4155.1 5.B.6.h, and
- gift fund requirements described in HUD 4155.1 5.B.4.

Continued on next page

6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.h Additional Sweat Equity Requirements

The table below describes additional requirements for applying sweat equity as a cash equivalent and an acceptable source of borrower funds.

Sweat Equity Category	Requirement
Existing Construction	Only repairs or improvements listed on the appraisal are eligible for sweat equity. Any work completed or materials provided before the appraisal are *not* eligible.
Proposed Construction	The sales contract must indicate the tasks to be performed by the borrower during construction.
Borrower's Labor	The borrower must demonstrate his/her ability to complete the work in a satisfactory manner. The lender must document the contributory value of the labor either through • the appraiser's estimate, or • a cost-estimating service.
Delayed Work	The following *cannot* be included as sweat equity: • delayed work (on-site escrow) • clean up • debris removal, and • other general maintenance.

Continued on next page

6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.h Additional Sweat Equity Requirements (continued)

Sweat Equity Category	Requirement
Cash Back	Cash back to the borrower is *not* permitted in sweat equity transactions.
Sweat Equity on Other Properties	Sweat equity is *not* acceptable on properties other than the subject property being purchased. Compensation for work performed on other properties must be • in cash, and • properly documented.
Source of Funds Evidence	If the borrower furnishes funds and materials, he/she must provide evidence of the • source of the funds, and • market value of the materials.

4155.1 5.B.6.i Trade-In of Manufactured Home

An acceptable source of borrower cash investment commonly associated with manufactured homes is the sale or trade-in of another manufactured home that is not considered real estate. Trade-ins for cash funds are considered a seller inducement and are not permitted.

7. Loans and Grants as Acceptable Sources of Funds

Introduction

This topic contains information on loans and grants as acceptable sources of funds, including

- collateralized loans
- who may provide collateralized loans
- disaster relief grants and loans, and
- FHLB – Homeownership Set-Aside Grant Program.

Change Date

January 31, 2011

4155.1 5.B.7.a Collateralized Loans

The borrower may obtain a loan for the total required investment, as long as satisfactory evidence is provided that the loan is fully secured by assets such as investment accounts or real property. These assets may include stocks, bonds, and real estate other than the property being purchased.

Certain types of loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The asset securing the loan may *not* be included as assets to close, or otherwise considered available to the borrower. The deposited funds can be used for

- signature loans on certificates of deposit
- loans on the cash value of life insurance policies, or
- loans secured by 401(k) accounts.

Reference: For more information on collateralized loans, see HUD 4155.1 5.B.7.b.

Continued on next page

7. Loans and Grants as Acceptable Sources of Funds, Continued

4155.1 5.B.7.b Who May Provide Collateralized Loans

An independent third party must provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other interested party *may not* provide such funds.

Unacceptable borrowed funds include

- unsecured signature loans
- cash advances on credit cards
- borrowing against household goods and furniture, and
- other similar unsecured financing.

4155.1 5.B.7.c Disaster Relief Grants and Loans

Grants or loans from state or Federal agencies, such as the Federal Emergency Management Agency (FEMA), that provide immediate housing assistance to individuals displaced due to a natural disaster, may be used for the borrower's cash investment.

Secured or unsecured disaster relief loans administered by the Small Business Association (SBA) may also be used. If the SBA loan will be secured by the property being purchased, it must be clearly subordinate to the FHA-insured mortgage.

Note: Any monthly payment arising from this type of loan *must* be included in the qualifying ratios.

Continued on next page

7. Loans and Grants as Acceptable Sources of Funds, Continued

4155.1 5.B.7.d FHLB – Home-ownership Set-Aside Grant Program

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of downpayment assistance, and may be used in conjunction with FHA-insured financing. AHP Set-Aside funds can be used to satisfy the borrower's 3.5% minimum cash investment requirement.

The Retention Agreement required by the FHLB must be recorded against the property and results in a deed restriction, not a second lien. The Set-Aside Grant Program should *not* be considered secondary financing.

The Agreement must

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaired by the borrower
- include language terminating the legal restrictions on conveyance if title to the property is transferred by foreclosure or deed-in-lieu, or assigned to the Secretary of HUD, and
- comply with all other FHA regulations.

Reference: For more information on the FHLB AHP, see http://www.fhlb-of.com/ofweb_userWeb/pageBuilder/affordable-housing-programs-33.

8. Employer Programs as Acceptable Sources of Funds

Introduction

This topic contains information on employer programs as acceptable sources of borrower funds, including

- relocation guaranteed purchase, and
- employer assistance plans.

Change Date

January 31, 2011

4155.1 5.B.8.a Relocation Guaranteed Purchase

If the borrower's employer guarantees to purchase the borrower's previous residence as a result of relocation, he/she must submit evidence of the agreement.

The net proceeds must also be guaranteed.

4155.1 5.B.8.b Employer Assistance Plans

If the employer pays the following to attract or retain valuable employees, the payment is considered employee compensation:

- employee's closing costs
- mortgage insurance premiums, or
- any portion of the cash investment.

An adjustment to the maximum mortgage amount is *not* required.

If the employer provides this benefit after loan settlement, the borrower must provide evidence of sufficient cash for closing.

Note: A salary advance *cannot* be considered as assets to close, since it represents an unsecured loan.

Section C. Borrower Secondary Financing

Overview

In This Section

This section contains the topics listed in the table below.

1. General Information on Secondary Financing

Introduction

This topic contains general information on secondary financing, including

- a definition of secondary financing
- secondary financing documentation requirements, and
- references for permissible sources of secondary financing.

Change Date

November 19, 2010

4155.1 5.C.1.a Definition of Secondary Financing

Any financing other than the first mortgage that creates a lien against the property is considered secondary financing. Such financing is *not* considered a gift, even if it is a "soft" or "silent" second, or has other features forgiving the debt.

Note: A "soft" or "silent" second is secondary financing with no monthly repayment provisions.

4155.1 5.C.1.b Secondary Financing Documentation Requirements

The lender must obtain from the provider of any secondary financing, and include in the endorsement binder

- documentation showing the amount of funds provided to the borrower for each transaction, and
- copies of the loan instruments.

Notes:
- FHA reserves the right to reject any secondary financing
  - that does not serve the needs of the intended borrower, or
  - where the costs to the participant outweigh the benefits derived by the borrower.
- Costs incurred for participating in a downpayment assistance secondary financing program may only be included in the amount of the second lien.

Continued on next page

1. General Information on Secondary Financing, Continued

4155.1 5.C.1.c Permissible Sources of Secondary Financing (Reference)

For more information on

- secondary financing from government agencies, see HUD 4155.1 5.C.2
- secondary financing from nonprofit organizations, see HUD 4155.1 5.C.3
- secondary financing from private individuals or other organizations, see HUD 41551. 5.C.4
- secondary financing from family members, see HUD 4155.1 5.C.5, and
- special arrangements for borrowers 60 years of age or older, see HUD 4155.1 5.C.6.

2. Government Agency Secondary Financing

Introduction

This topic contains information on government agency secondary financing, including

- secondary financing from government agencies
- government agencies that can provide secondary financing
- government agencies holding or servicing second liens, and
- terms of secondary financing provided by government agencies for purchases.

Change Date

November 19, 2010

4155.1 5.C.2.a Secondary Financing From 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 housing expense and other recurring charges, cannot exceed the borrower's ability to repay.

Continued on next page

2. Government Agency Secondary Financing, Continued

4155.1 5.C.2.b Government Agencies That Can Provide Secondary Financing

Federal, state, local government, and nonprofit agencies considered instrumentalities of government may provide secondary financing for the borrower's entire amount of required funds to close on a purchase.

References: For more information on

- acceptable government instrumentalities, see HUD 4155.1 4.A.6
- refinancing loans with outstanding subordinate liens, see HUD 4155.1 3.B.1.c
- cash out refinances with subordinate liens, see HUD 4155.1 3.B.2.e
- streamline refinances with appraisals and subordinate liens, see HUD 4155.1 3.C.3.b, and
- streamline refinances without appraisals and with subordinate liens, see HUD 4155.1 3.C.2.f.

4155.1 5.C.2.c Government Agencies Holding or Servicing Second Liens

When secondary financing is provided by a government agency, the secondary lien must be made or held by the eligible government body or instrumentality. Government units *cannot* use agents, including nonprofit or for-profit enterprises, to make the second lien, regardless of the source of funds. They can, however, be used to service the subordinate lien if regularly scheduled payments are made by the borrower.

Example : Even if funds used for secondary financing are from an acceptable source, such as HUD HOME, a government unit, or an eligible nonprofit instrumentality, the subordinate lien *must* be in the name of the eligible entity, such as the

- state
- county
- city, or
- eligible nonprofit instrumentality.

Continued on next page

2. Government Agency Secondary Financing, Continued

4155.1 5.C.2.d Terms of Secondary Financing Provided by Government Agencies for Purchases

Listed below are the policies for loans secured by secondary liens.

Terms and Conditions

- The FHA-insured first mortgage, when combined with any second mortgage or other junior lien from a government agency or nonprofit agency considered an instrumentality of government, may *not* result in cash back to the borrower.
- The FHA-insured first mortgage *cannot* exceed the FHA statutory limit for the area where the property is located. The combined indebtedness of the mortgages *may*, however, exceed the FHA statutory limit.
- The combined loan-to-value (LTV) ratio of all liens cannot exceed 100% of the cost to acquire the property. (***Note***: The cost to acquire the property is the sales price plus borrower-paid closing costs, discount points, repairs and rehabilitation expenses and prepaid expenses.)
- The cost to acquire may exceed the appraised value of the property under these types of government assistance programs.

Required Monthly Payments

The required monthly payments for both the FHA-insured first mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges, *cannot* exceed the borrower's reasonable ability to repay.

Mortgage Application Disclosures

The source, amount, and repayment terms must be disclosed in the mortgage application, and the borrower must acknowledge that he/she understands and agrees to the terms.

3. Nonprofit Agency Secondary Financing

Introduction

This topic contains information on nonprofit agency secondary financing, including

- secondary financing from nonprofit organizations
- secondary financing by a nonprofit agency considered an instrumentality of the government
- requirement for government unit that established the nonprofit agency
- HOC responsibilities for nonprofit agency approval, and
- secondary financing by an agency not considered an instrumentality of the government.

Change Date

January 31, 2011

4155.1 5.C.3.a Secondary Financing From 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 housing expense and other recurring charges, cannot exceed the borrower's ability to repay.

4155.1 5.C.3.b Secondary Financing by a Nonprofit Agency Considered an Instrumentality of the Government

Nonprofit agencies may provide secondary financing under the terms outlined in HUD 4155.1 5.C.3.a provided that they

- meet the criteria described in HUD 4155.1 4.A.6, and
- are considered instrumentalities of the government.

Note: To be considered an instrumentality of the government, the nonprofit entity must be "established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion)."

Continued on next page

3. Nonprofit Agency Secondary Financing, Continued

4155.1 5.C.3.c Requirement for Government Unit That Established the Nonprofit Agency

FHA requires that the unit of government that established the nonprofit must exercise either organizational control, operational control, or financial control of

- the nonprofit agency in its entirety, or
- at a minimum, the specific borrower assistance program that is using FHA's credit enhancement.

4155.1 5.C.3.d HOC Responsibilities for Nonprofit Agency Approval

The appropriate Homeownership Center (HOC) is responsible, based on information submitted by the nonprofit, for

- approving the nonprofit agency
- determining if the agency can be considered an instrumentality of government, and
- reviewing applications from nonprofits that purport to be instrumentalities of government.

Note: The HOC is also responsible for approving nonprofit agencies that are *not* considered instrumentalities of government.

References: For information on
- approval of nonprofit agencies that are *not* instrumentalities of government, see HUD 4155.1 5.C.3.e, and
- acceptable nonprofit government instrumentalities, see HUD 4155.1 4.A.6.

Continued on next page

3. Nonprofit Agency Secondary Financing, Continued

4155.1 5.C.3.e Secondary Financing by a Nonprofit Agency not Considered an Instrumentality of the Government

Nonprofit agencies that are not considered instrumentalities of government may provide secondary financing under the conditions described in HUD 4155.1 5.C.3.a provided that the

- agency meets the conditions described in HUD 4155.1 4.A.6
- borrower makes a downpayment of at least 3.5% of the lesser of the appraised value or the sales price of the property
- amount of the insured first mortgage does not exceed the statutory loan limit for the area where the property is located
- the combined loan-to-value (CLTV) ratio of the first and subordinate liens does not exceed the applicable FHA maximum loan-to-value (LTV) limit for the area where the property is located, and
- FHA-insured first mortgage, when combined with any second mortgage or junior lien from the nonprofit agency, may not result in cash back to the borrower.

Note: The jurisdictional HOC is responsible for approving these agencies.

4. Organizations and Private Individuals Providing Secondary Financing

Introduction

This topic contains information on organizations and private individuals providing secondary financing, including

- secondary financing from private individuals or other organizations
- repayment terms for secondary mortgages from other organizations or private individuals, and
- repayment terms for secondary financing from other organizations or private individuals.

Change Date

November 19, 2010

4155.1 5.C.4.a Secondary Financing From 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 a company, provided that

- the secondary financing is disclosed at the time of application
- the required minimum cash investment is *not* financed
- the insured first mortgage does *not* exceed FHA mortgage limits
- the combined loan-to-value (CLTV) ratio of the first and subordinate liens does not exceed the applicable FHA loan-to-value (LTV) limit
- the borrower can afford the total amount of the payments
- any periodic payments are level and monthly
- there is no balloon payment during the first ten years, and
- there is no prepayment penalty.

Continued on next page

4. Organizations and Private Individuals Providing Secondary Financing, Continued

4155.1 5.C.4.b Repayment Terms for Secondary Financing From Other Organizations or Private Individuals

Repayment terms for a second mortgage from an organization or a private individual must

- *not* include a balloon payment before ten years (or other such term acceptable to FHA), unless the property is sold or refinanced, and
- permit repayment by the borrower, without penalty, after giving the lender 30 days advance notice.

4155.1 5.C.4.c Required Monthly Payment for Secondary Loans

The required monthly payment on both the FHA-insured first mortgage and the second mortgage or lien plus other housing expenses and all recurring charges *cannot* exceed the borrower's reasonable ability to repay.

Any periodic payments due on the second mortgage must be calculated as an equal monthly payment.

5. Family Member Secondary Financing

Introduction

This topic contains information on secondary financing provided by a family member, including

- secondary financing from family members for purchase transactions
- assistance from family members on a property purchase
- borrower as co-obligor on a note securing a borrowed downpayment, and
- terms and conditions for secondary financing provided by family members.

Change Date

November 19, 2010

4155.1 5.C.5.a Secondary Financing From Family Members for Purchase Transactions

FHA permits lending from family members on a secured or unsecured basis, up to 100% of the borrower's required funds to close. This may include the downpayment, closing costs, prepaid expenses, and discount points.

If the loan from the family member, whether borrowed from an acceptable source or the family member's own savings, is secured by the subject property, only the family member provider may be the noteholder.

FHA will *not* approve any form of securitization of the note that results in any entity *other* than the family member being the noteholder, whether at loan settlement or at any time during the mortgage life cycle.

Reference: For a definition of the term ***family member***, see HUD 4155.1 9.2.f.

Continued on next page

5. Family Member Secondary Financing, Continued

4155.1 5.C.5.b Assistance From Family Members on a Property Purchase

Family members may assist with the costs of acquiring a new home by providing the borrower with a loan.

Only the family member provider(s) may be the noteholder if the money lent is secured against the subject property.

FHA will *not* approve any form of securitization of a note that results in an entity other than the family member being the noteholder, whether at settlement, or any time during the mortgage life cycle.

4155.1 5.C.5.c Borrower as Co-Obligor on a Note Securing a Borrowed Downpayment

When the funds loaned by the family member are borrowed from an acceptable source, the borrower may *not* be a co-obligor on the note.

Example: A son may not be the co-obligor on the note used to secure the money borrowed by his parents which, in turn, was loaned to the son for the downpayment on the property.

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5. Family Member Secondary Financing, Continued

4155.1 5.C.5.d Terms and Conditions for Secondary Financing Provided by Family Members for Purchases

The table below describes additional policies regarding the terms and conditions for FHA-insured loans with secondary financing provided by family members.

Category	Policy Description
Maximum insurable mortgage	The maximum insurable mortgage amount is *not* affected by loans from family members.
Combined loan-to-value (CLTV) limit on financing	The combined loan-to-value (CLTV) limit on financing may not exceed 100% of the • *lesser* of the property's – appraised value, or – sales price, plus • normal closing costs, prepaid expenses, and discount points.
Borrower cash back	A family member may lend 100% of the borrower's required funds to close, but cash back to the borrower at closing (beyond the refund of any earnest money deposit) is *not* permitted.
Secondary financing payments	If periodic payments of the secondary financing are required, the combined payments may not exceed the borrower's reasonable ability to repay. ***Note***: The secondary financing payments must be included in the total debt to income ratio (i.e. the "back end" ratio) for qualifying purposes.
Second lien balloon payments	The second lien may *not* provide for a balloon payment within five years from the date of execution.

Continued on next page

5. Family Member Secondary Financing, Continued

4155.1 5.C. 5.d Terms and Conditions for Secondary Financing Provided by Family Members for Purchases (continued)

Category	Policy Description
Family member supplying borrowed funds	If the family member providing the secondary financing borrows the funds, the lending source may *not* be an entity with an identity-of-interest in the sale of the property, such as the • seller • builder • loan officer, or • real estate agent. Mortgage companies with retail banking affiliates may have the affiliate loan the funds to the family member. However, the terms and conditions of the loan to the family member cannot be more favorable than they would be for any other borrowers. ***Example***: There may *not* be any special consideration given between the • making of the mortgage, and • lending of funds to family members to be used for secondary financing for the purchase of the home.
Secondary financing documentation	An executed copy of the document(s) describing the terms of the secondary financing must be maintained in the lender's file, and another executed copy provided in the endorsement binder.

6. Secondary Financing for Borrowers 60 Years of Age or Older

Change Date

November 19, 2010

4155.1 5.C.6.a Borrowers 60 Years or Older Obtaining Secondary Financing for Purchases

With advance approval, a borrower 60 years of age or older may borrow the required funds to close for the purchase of a principal residence, under the following circumstances:

- the provider of secondary financing is
  - a relative
  - a close friend with a clearly defined interest in the borrower
  - the borrower's employer, or
  - an institution established for humanitarian or welfare purposes
- the provider of the secondary financing does not have an identity-of-interest in the sale of the property, such as with
  - a builder or seller, or
  - any person/organization associated with the builder or seller
- the principal amount of the insured mortgage loan, plus the note or other evidence of indebtedness in connection with the property, does *not* exceed 100% of the value, plus prepaid expenses, and
- the note or other evidence of indebtedness for the secondary financing does not bear an interest rate exceeding the interest rate of the insured mortgage.

Section A. Special Underwriting Instructions

Overview

In This Section This section contains the topics listed in the table below.

1. FHA's TOTAL Mortgage Scorecard

Introduction

This topic contains information on the TOTAL Mortgage Scorecard, including

- a description of TOTAL and the TOTAL Scorecard
- a comparison of TOTAL to an Automated Underwriting System (AUS)
- TOTAL risk assessments
- TOTAL rescoring and tolerance levels
- TOTAL Mortgage Scorecard User Guide, and
- TOTAL Scorecard for sponsored third-party originations.

Change Date

March 24, 2011

4155.1 6.A.1.a Description of TOTAL

The acronym "TOTAL" stands for "Technology Open To Approved Lenders."

FHA's TOTAL Mortgage Scorecard evaluates the overall creditworthiness of the borrower, based on a number of credit variables and, when combined with the functionalities of the Automated Underwriting System (AUS), indicates a recommended level of underwriting and documentation to determine a loan's eligibility for insurance by the FHA.

Continued on next page

1. FHA's TOTAL Mortgage Scorecard, Continued

4155.1 6.A.1.b Comparison of TOTAL to AUS

TOTAL is not an AUS; it is a scorecard used *within* an AUS.

To underwrite a loan electronically, a lender must process the request through an AUS that can communicate with TOTAL. TOTAL operates as a system-to-system connection to an AUS.

Together, TOTAL and the AUS either conclude that the borrower's credit and capacity for repayment of the mortgage are acceptable or will refer the loan application to a Direct Endorsement (DE) underwriter for further consideration and review.

Regardless of the risk assessment provided by TOTAL, the lender remains accountable for compliance with FHA's eligibility requirements, as well as for any credit, capacity, and documentation requirements not covered in the FHA TOTAL Mortgage Scorecard User Guide.

Example: FHA will not be responsible for checking, through TOTAL, lender compliance with maximum mortgage amounts, computing debt-to-income ratios or other functions typically performed by an AUS. TOTAL provides only an assessment of the borrower's credit and capacity to repay.

Continued on next page

1. FHA's TOTAL Mortgage Scorecard, Continued

4155.1 6.A.1.c TOTAL Risk Assessments

TOTAL will return a risk assessment of

- "Accept" or "Approve" (different AUSs use different wording), or
- "Refer."

The table below describes the lender's actions required for each TOTAL recommendation.

TOTAL Assessment	Lender Requirements
Accept/Approve	This recommendation means that, based on the analysis of the borrower's credit and capacity to repay, the loan is eligible for FHA insurance, provided that data entered into the AUS is true, complete, properly documented and accurate; and the documentation and other eligibility requirements are met.
Refer	This recommendation means that the lender must conduct a manual underwriting review, according to FHA requirements. The lender's DE underwriter *must* determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements.

Note: Per FHA policy, a borrower *will not be* denied an FHA mortgage solely on the basis of a risk assessment generated by TOTAL.

Continued on next page

1. FHA's TOTAL Mortgage Scorecard, Continued

4155.1 6.A.1.d TOTAL Rescoring and Tolerance Levels

TOTAL provides a risk assessment based on the specific data entered by the lender, such as terms and conditions of the loan, income and assets. Changes in those variables can result in a different risk assessment, and FHA requires that the loan be rescored using the new information.

However, where the differences are minor, rescoring is unlikely to trigger a different risk assessment. FHA therefore, provides a degree of tolerance before requiring rescoring.

The table below describes the tolerance levels for rescoring when assessing income, assets and qualifying ratios.

When assessing ...	**There is no need to rescore *if* the...**
cash reserves	cash reserves verified are not more than 10% less than what the borrower reported on the loan application.
income	verified income is not more than 5% less than what the borrower reported on the loan application.
qualifying ratios	tax and insurance escrows used at scoring do not result in more than a 2% increase in the payment and debt-to-income ratios.

4155.1 6.A.1.e TOTAL Mortgage Scorecard User Guide

FHA has developed the TOTAL Mortgage Scorecard User Guide, which is a compilation of the specific credit policies and documentation requirements lenders must follow when using TOTAL.

The instructions in the Guide pertain *only* to those mortgage applications that had a TOTAL risk assessment, including those loan applications referred to an underwriter for manual underwriting.

Continued on next page

1. FHA's TOTAL Mortgage Scorecard, Continued

4155.1 6.A.1.f TOTAL Scorecard for Sponsored Third-Party Originations

Loan origination companies acting as sponsored third-party originators (TPO) can access TOTAL through any AUS that is integrated with TOTAL.

The AUS should transmit the TPO's Employer Identification Number (EIN) in the *Sponsored Originator EIN* field. If the AUS is unable to transmit the EIN, the number "6999609996" should be transmitted in the *Lender ID* field.

Either the Lender ID or the TPO EIN must be sent in the request to TOTAL. If neither or both is submitted, TOTAL will return an error code.

Reference: For more information, see the TOTAL Mortgage Scorecard Developer's Guide at http://www.hud.gov/pub/chums/aus-developers-guide.pdf.

2. Temporary Interest Rate Buydowns

Introduction

This topic contains information on temporary interest buydowns, including

- purpose of a temporary interest rate buydown
- transactions eligible for buydowns
- source of buydown funds
- underwriting requirements for temporary buydowns
- lender funded buydowns
- lender responsibilities for temporary interest rate buydowns, and
- escrow agreement requirements for temporary interest rate buydowns.

Change Date

March 24, 2011

4155.1 6.A.2.a Purpose of a Temporary Interest Rate Buydown

Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage.

At settlement, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

4155.1 6.A.2.b Transactions Eligible for Buydowns

Temporary interest rate buydowns are permitted *only* on

- purchase transactions, and
- fixed-rate mortgages.

4155.1 6.A.2.c Source of Buydown Funds

Buydown funds may come from

- the seller
- the lender
- the borrower, or
- any other interested party.

Funds from the seller or any other interested third party are considered seller contributions, and *must* be included when considering the limit on seller contributions described in HUD 4155.1 2.A.3.

Continued on next page

2. Temporary Interest Rate Buydowns, Continued

4155.1 6.A.2.d Underwriting Requirements for Temporary Buydowns

While interest rate buydowns are permitted, the loan must be underwritten at the Note rate. Lenders may *not* underwrite at the buydown rate.

Buydowns may be treated *only* as a compensating factor.

4155.1 6.A.2.e Lender Funded Buydowns

Lender-funded buydowns financed through premium pricing are acceptable, provided the loan complies with all the requirements stated in this section.

Reference: For more information on lender responsibilities for temporary interest rate buydowns, see HUD 4155.1 6.A.2.f.

4155.1 6.A.2.f Lender Responsibilities for Temporary Interest Rate Buydowns

Lenders are responsible for ensuring that

- the buydown must not result in a reduction of more than two percentage points below the interest rate on the Note
- the bought-down rate may increase by no more than one percentage point per year
- the borrower's payment may change only once a year

the escrow agreement meets the requirements described in HUD 4155.1 6.A.2.g

- the funds described in the escrow agreement are placed in escrow before or at closing, and
- a copy of the fully-executed escrow agreement, signed by the borrower and provider of funds, is provided in the case binder.

Note: The underwriter may condition the loan approval for an executed buydown agreement at closing.

Continued on next page

2. Temporary Interest Rate Buydowns, Continued

4155.1 6.A.2.g Escrow Agreement Requirements for Temporary Interest Rate Buydowns

The escrow agreement requirements with which all buydowns must comply are listed below.

- Any remaining escrow funds not distributed at the time the mortgage loan is prepaid must be applied to the outstanding balance due on the mortgage.
- In the event of foreclosure, the claim for mortgage insurance benefits must be reduced by the amount remaining in the buydown escrow account, if any.
- The escrow agreement
  - *may* provide that assistance payments continue to borrowers who assume the mortgage
  - must *not* permit reversion of undistributed escrow funds to the provider if the property is sold or the mortgage is prepaid in full, and
  - must *not* allow unexpended escrow funds to be provided to the borrower in cash, unless the borrower established the escrow account.
- Escrow funds must be held in an escrow account by a financial institution supervised by a Federal or state agency.
- Payments must be made by the escrow agent to the lender or servicing agent. If escrow payments are *not* received for any reason, the borrower is responsible for making the total payment as described in the mortgage note.
- FHA does *not* object to having the lender hold and administer the escrow funds for up to 60 days, when there is an outstanding forward commitment to sell the mortgage.

Note: The escrow agreement text can also apply to repair escrows.

Reference: For additional information on repair escrows, see HUD 4155.2 4.6.d.

3. Construction Permanent Mortgage Program Eligibility

Introduction

This topic contains information on the eligibility criteria for a loan to be considered a construction permanent mortgage loan, including

- construction permanent mortgage features
- closing and insuring a CP loan, and
- construction permanent mortgage documentation requirements.

Change Date

March 24, 2011

4155.1 6.A.3.a Construction Permanent Mortgage Features

A construction permanent (CP) mortgage loan

- combines the features of
  - a construction loan
  - a short-term interim loan for financing the cost of construction, and
  - the traditional long-term permanent residential mortgage
- involves only one closing
- is considered a purchase transaction, for mortgage insurance and loan-to-value (LTV) purposes, and
- is made directly to an approved borrower by a lender.

4155.1 6.A.3.b Closing and Insuring a CP Loan

On a CP mortgage loan, there is only one closing, which occurs prior to the start of construction. At closing, funds are disbursed to cover the purchase of the land, and the balance of the mortgage proceeds are placed in an escrow account to be disbursed as construction progresses.

Important: The loan is *not* insured until *after* construction is completed.

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3. Construction Permanent Mortgage Program Eligibility, Continued

4155.1 6.A.3.c Construction Permanent Mortgage Documentation Requirements

The table below describes various elements of an eligible CP loan and documentation requirements necessary for FHA mortgage insurance.

Reference: For more information on CP requirements, see HUD 4155.1 6.A.4 and HUD 4155.1 6.A.5.

Criteria	Description
Contract with the Builder	The borrower has contracted with a builder to construct the improvements, and must provide a copy of the fully-executed contract agreement, including the contractor's price to build. ***Note***: This program is *not* available to a borrower acting as his/her own general contractor, *unless* the borrower is a licensed builder by profession. In this case, the acquisition cost must be determined by the actual documented cost to construct the improvements.
Lot Ownership	The borrower must own or be purchasing the lot at the closing of the construction permanent mortgage. ***Note***: If the contractor owns the lot, the lot must be included in the total contract price.
Lot Acquisition	If the borrower purchased the lot within the past six months, he/she *must* provide a copy of the HUD-1 *Settlement Statement*, or other settlement statement showing the acquisition cost. If the borrower owns the lot free-and-clear, the lender must document the date of ownership and omission or any liens from title work and settlement statements.
Draw on Loan to Pay Off Lot Purchase	If the initial draw on the loan was for the purpose of paying off the lot, the borrower must provide a statement verifying the amount.

Continued on next page

3. Construction Permanent Mortgage Program Eligibility, Continued

4155.1 6.A.3.c Construction Permanent Mortgage Documentation Requirements Documentation Requirements (continued)

Criteria	Description
Verification of Loan Balance/Escrow Account	The balance on the loan, when it is fully drawn, must be verified. The construction escrow account, if established, must be fully extinguished. Any remaining funds must be applied to the outstanding balance of the permanent loan.
Extras/Out-of-Pocket Costs	If the borrower is including extras over and above the contract specifications, and/or is paying out-of-pocket expenses over and above the interim loan, then he/she must provide • a breakdown of the extras and/or expenses • the cost of each • canceled checks, and • paid receipts.

4. Construction Permanent Mortgage Program Requirements

Introduction

This topic contains closing and post-closing information on the construction permanent mortgage program, including

- maximum mortgage amount
- establishing land value and borrower's equity
- permanent loan interest rate
- disclosure to the borrower on eligibility for insurance
- remitting UFMIP
- builder's responsibility for construction period fees
- borrower's approval of CP draws, and
- request for endorsement and start of amortization.

Change Date

March 24, 2011

4155.1 6.A.4.a Maximum Mortgage Amount for Construction Permanent (CP) Loan

The maximum mortgage amount for a construction permanent (CP) loan is determined by applying the loan-to-value (LTV) limits to the *lesser* of the appraised value or the acquisition cost.

The acquisition cost includes

- the builder's price to build
- borrower-paid extras over and above the contract specifications and/or out-of-pocket expenses over and above the interim loan
- cost of the land, and
- closing costs.

References: For more information

- on establishing the value of the land, see HUD 4155.1 6.A.4.b, and
- documentation required on borrower-paid extras and expenses and the builder's price, see HUD 4155.1 6.A.3.c.

Continued on next page

4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.b Establishing Land Value and Borrower's Equity on a CP Loan

Equity in the land may be used for the borrower's downpayment. However, if the advancement of the permanent loan results in the borrower receiving cash out in excess of $500, the maximum LTV is limited to 85%.

If the land has been owned more than six months, or was received as an acceptable gift, the *value* of the land may be used instead of its cost.

Note: If the value of the land is lower than acquisition cost, the value must be used in calculating the maximum mortgage amount.

Important: If the contractor for the improvements is also the seller of the land, the total acquisition cost for maximum mortgage purposes is the borrower's purchase price.

4155.1 6.A.4.c Permanent Loan Interest Rate on CP Loan

The permanent mortgage loan interest rate is established at closing. However, a lender may offer a "ceiling/floor" where the borrower may "float" the interest rate during construction.

The agreement between the lender and the borrower must provide that, at the point of interest rate lock-in, the permanent mortgage

- will *not* exceed a specific maximum interest rate, based on market fluctuations, and
- will permit the borrower to lock-in at a lower rate depending on the market.

The borrower must qualify for the mortgage at the maximum rate at which the permanent mortgage may be set.

4155.1 6.A.4.d Disclosure to the Borrower on CP Loan

The lender must provide a disclosure to the borrower explaining that

- the loan is *not* eligible for FHA mortgage insurance until after
  - a final inspection, or
  - issuance of a certificate of occupancy by the local governmental jurisdiction, whichever is later, and
- FHA has no obligation until the mortgage is endorsed for insurance.

Continued on next page

4. Construction Permanent Mortgage Program Requirements, Continued

4155.1 6.A.4.e CP Loan Eligibility and Documentation (Reference)

For more information on CP eligibility and other documentation requirements, see HUD 4155.1 6.A.3 and HUD 4155.1 6.A.5.

4155.1 6.A.4.f Remitting UFMIP on a CP Loan

FHA must receive the upfront mortgage insurance premium (UFMIP) within 10 calendar days of closing, or other time period as may be prescribed by FHA.

4155.1 6.A.4.g Builder's Responsibility for Construction Period Fees

Unless a separate agreement is made specifying responsibility, the following are paid by the builder during the construction period:

- construction loan interest
- commitment fees
- inspection fees
- title update charges
- real estate taxes
- hazard insurance, and
- other financing charges incurred.

4155.1 6.A.4.h Borrower Approval of CP Draws

On a CP loan, the lender must obtain written approval from the borrower before each draw payment is provided to the builder.

4155.1 6.A.4.i Request for Endorsement and Start of Amortization on CP Loan

Within 60 days of the final inspection or issuance of the certificate of occupancy, whichever is later, the lender must submit a request for endorsement.

Amortization must begin no later than the first of the month following 60 days from the date of the final inspection or issuance of certificate of occupancy.

Note: During construction, the loan is *not* FHA-insured.

5. Construction Permanent Mortgage Documentation Requirements for Closing and Endorsement

Introduction

This topic contains information on the documentation requirements for closing and endorsing a construction permanent mortgage loan, including

- documentation requirements for closing a CP loan, and
- documentation required prior to endorsement of a CP loan.

Change Date

March 24, 2011

4155.1 6.A.5.a Documentation Requirements for Closing a CP Loan

Standard FHA documents are used when closing a construction permanent (CP) mortgage loan, with the addition of a

- Construction Rider to the Note, and
- Construction Loan Agreement.

These construction documents may be in any form acceptable to the lender, but they must provide that all special construction terms end when the construction loan converts to a permanent loan.

After conversion, only the permanent loan terms (using standard documents) continue to be effective, making the permanent loan eligible for FHA mortgage insurance.

4155.1 6.A.5.b Documentation Required for Endorsement of a CP Loan

Prior to endorsement, the lender must obtain

- a certification that the mortgaged property is free and clear of all liens other than the mortgage, signed by the borrower after conversion to the permanent loan
- verification that the construction loan has been fully drawn down
- copies of canceled checks and paid receipts for all the borrower’s out-of-pocket construction costs, and
- all property-related requirements for new construction.

6. Mortgage Insurance for Disaster Victims – Section 203(h)

Introduction

This topic contains information on mortgage insurance for disaster victims, including

- description of the Section 203(h) program
- required evidence of destruction of residence for 203(h)
- eligible properties for 203(h)
- maximum financing for eligible borrowers under 203(h)
- Section 203(h) maximum mortgage amounts
- 203(h) application deadline
- using Section 203(k) with 203(h) for rehabilitation
- maximum financing for 203(k) with 203(h)
- Section 203(h) underwriting guidance, and
- Section 203(h) scenarios and general underwriting guidance.

Change Date

March 24, 2011

4155.1 6.A.6.a Description of the Section 203(h) Program

Under the Section 203(h), *Mortgage Insurance for Disaster Victims* program, FHA provides mortgage insurance to assist victims of presidentially-declared disasters. This program goes into effect when the president declares the disaster, and remains in effect for one year from the date of declaration.

The Federal Emergency Management Agency (FEMA) provides listings of the

- specific affected counties and cities, and
- corresponding disaster declaration dates.

Note: The FEMA information can be found at http://www.fema.gov/disasters.

Reference: For more information on the Section 203(h) program, see HUD 4155.2 1.C.3.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.b Required Evidence of Destruction of Residence for 203(h)

Under Section 203(h), the borrower's previous residence must have been in the disaster area, and must have been destroyed or damaged to such an extent that reconstruction or replacement is necessary. Borrowers must provide conclusive evidence of these facts, as outlined in the table below.

Note: The borrower may have been the owner or a renter of the affected property.

Conclusive evidence of …	Includes …
a permanent residence in the affected area	• a valid driver's license • a voter registration card, or • utility bills.
destruction of the residence	• an insurance report • an inspection report by an independent fee inspector or government agency, or • conclusive photographic evidence showing the destruction or damage.

4155.1 6.A.6.c Eligible Properties for 203(h)

The following properties are eligible under the Section 203(h) program:

- one-unit detached homes, or
- units in FHA-approved condominium projects.

Two, three, and four unit properties *may not* be purchased under the program.

Reference: For more information on eligibility for the Section 203(h) program, see HUD 4155.2 1.C.3.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.d Maximum Financing and Minimum Credit Score for 203(h) Borrowers

Under the 203(h) program, an eligible borrower may receive financing of 100% of the sales price, and no downpayment is required, provided that the borrower has a minimum credit score of 500. Borrowers with decision credit scores below 500 are *not* eligible for FHA financing.

Closing costs and prepaid expenses *not* paid by the seller must be paid

- by the borrower in cash, or
- through premium pricing.

Note: Adjustable Rate Mortgages (ARMs) may be used with the Section 203(h) program.

4155.1 6.A.6.e Section 203(h) Maximum Mortgage Amounts

Maximum mortgage amounts for the Section 203(h) program are the same as for the Section 203(b) program.

The list can be accessed

- from the lender's page on HUD's website at www.hud.gov, or
- on the FHA Connection (FHAC) at https://entp.hud.gov/clas/.

Reference: For information on the Section 203(b) program and maximum mortgage amounts, see HUD 4155.2 1.C.2.

4155.1 6.A.6.f 203(h) Application Deadline

The borrower's mortgage loan application must be submitted to the lender within one year of the president's declaration of the disaster.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.g Using Section 203(k) With 203(h) for Rehabilitation

The requirement to complete a dwelling more than one year preceding the date of the mortgage insurance application under the Section 203(k), *Rehabilitation Home Mortgage Insurance* program, does *not* apply to properties in a disaster area.

Damaged residences are eligible for Section 203(k) mortgage insurance, regardless of the age of the property. The residence only needs to have been completed and ready for occupancy for eligibility under Section 203(k).

Homes that have been demolished, or will be razed as part of the rehabilitation work, are eligible provided the existing foundation system is not affected, and will remain in place and be used. The complete foundation system must remain in place.

Reference: For more information on the Section 203(k) program, see HUD 4155.2 1.C.5.

4155.1 6.A.6.h Maximum Financing for 203(k) with 203(h)

The type of mortgage being made determines the percentage of financing available, when using Section 203(k) with 203(h). In other words, normal loan-to-value (LTV) ratios apply to Section 203(k) mortgages made in disaster areas.

Reference: For more information on the Section 203(k) program, see HUD 4155.2 1.C.5.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.i Section 203(h) Underwriting Guidance

Since many borrowers affected by a major disaster will experience difficulties providing traditional documentation regarding employment and funds for closing, lenders should be as flexible as prudent decision-making permits, when applying FHA's underwriting criteria and documentation requirements.

To the extent possible, lenders should be accommodating towards borrowers

- eligible for Section 203(h) mortgages, whether or not they opt for another FHA program, such as 203(k), regarding gaps in
  - employment
  - documentation for employment
  - available funds, and
  - qualifying ratios, and
- when evaluating the following that were the direct result of a disaster, as reported into the Credit Alert Interactive Voice Response System (CAIVRS):
  - recent derogatory credit
  - bankruptcy
  - foreclosure
  - deed-in-lieu of foreclosure, and
  - delinquent federal obligations.

The guiding principle is to provide FHA financing to disaster victims who can make mortgage payments, but may not be able to provide the traditional documentation to support their ability to repay the loan.

Reference: For more information on documentation requirements for disaster victims, see HUD 4155.1 6.A.6.j.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h),
Continued

4155.1 6.A.6.j Section 203(h) Scenarios and General Underwriting Guidance

The table below contains

- scenarios involving disaster victims, and
- guidelines for using alternative documentation when traditional documentation is unavailable.

Note: The guidelines below are meant to provide general guidance *only* and do not address *all* of the circumstances in which alternative documentation can be used. Each case is different, and ultimately needs to be evaluated on its own merits.

Underwriting Category	Guideline
Credit	Lenders should be able to determine if derogatory credit occurred subsequent to a disaster. If the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster can be related to the effects of the disaster, FHA will consider that the borrower is a satisfactory credit risk.
CAIVRS	FHA determines that a borrower is not eligible for FHA insurance 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 HUD on his/her behalf. To the list of *exceptions* to this rule, FHA is adding situations involving presidentially-declared disasters. If the borrower is reported in CAIVRS, but the credit report indicates the loan was current prior to the disaster, and any delinquency or claim paid can be related to the effects of the disaster, the borrower may be considered eligible. As with any CAIVRS authorization, lenders may contact the appropriate Homeownership Center (HOC) for additional Section 203(h) underwriting information and guidance. ***References***: For more information on • eligibility for Federally-related credit, see HUD 4155.1 4.A.6, and • the requirement to screen borrowers using CAIVRS, see HUD 4155.1 4.A.8.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.j Section 203(h) Scenarios and General Underwriting Guidance (continued)

Underwriting Category	Guideline
Income	Borrowers affected by a disaster may not be able to document past or present employment. If prior employment cannot be verified because records are destroyed, and he/she has a current position in the same or similar field, it may still be possible to consider the income. W-2s and tax returns may be obtained from the Internal Revenue Service (IRS) to confirm prior employment and income. If this information cannot be obtained on a timely basis, the credit report may indicate the borrower's prior employment. Lenders can consider short-term employment, due to the disaster. It is anticipated that lenders will make every effort to obtain documentation about prior employment, and FHA will be flexible on the documentation requirements. ***Note***: Lenders should document their efforts to obtain traditional employment and income documentation.
Qualifying Ratios	When a borrower is purchasing a new home, yet still has an outstanding mortgage on a property located in a FEMA Disaster Area, the lender may exclude the mortgage payment on the previous residence from the qualifying ratio calculations, *if* the borrower provides the lender with information indicating that • he/she is working with the servicing lender to appropriately address his/her mortgage obligation, and • any property insurance proceeds will be applied to the mortgage on the damaged home.
Assets	If hard copy bank records are unavailable, the lender should encourage the borrower to access his/her financial institution's website to download statements confirming the assets needed to close the loan. Lenders should document their attempts to verify assets, and make every effort to ensure that borrowers will have sufficient funds to complete the transaction.

Continued on next page

6. Mortgage Insurance for Disaster Victims – Section 203(h), Continued

4155.1 6.A.6.j Section 203(h) Scenarios and General Underwriting Guidance (continued)

Underwriting Category	Guideline
Liabilities	When a borrower has a continued mortgage obligation on a prior loan securing a property that has been destroyed or damaged, FHA understands that the record may show late payments as a result of a disaster. The lender should not consider the outstanding mortgage obligation on a destroyed or seriously damaged property when determining a borrower's ability to make payments on a new loan, provided the requirements under Qualifying Ratios in this table have been met. FHA takes the position that insurance settlements are likely to pay off remaining obligations. However, if a borrower was three or more months delinquent on his/her loan *prior* to the disaster, and the property is destroyed, it would not be prudent for the lender to make a new loan unless it can show and document extenuating circumstances.

7. Energy Efficient Homes

Introduction

This topic contains information on energy efficient homes (EEH), including

- EEH qualifying ratios
- EEH eligible properties
- EEH general underwriting policy
- EEH general underwriting procedures
- EEH underwriting procedures for new construction mortgages, and
- EEH policy guidance for streamline refinances.

Change Date

March 24, 2011

4155.1 6.A.7.a EEH Qualifying Ratios

When the borrower is purchasing or refinancing an energy efficient home (EEH), the two benchmark qualifying ratios may be exceeded by up to two percentage points. The higher housing expense-to-income ratio (33%) and obligations-to-income ratio (45%) are justified by the anticipated energy costs savings.

Reference: For more information on borrower qualifying ratios, see HUD 4155.1 4.F.

4155.1 6.A.7.b Eligible EEH Properties

All properties meeting the 2000 International Energy Conservation Code (IECC), formerly known as the Model Energy code (MEC) are considered

- energy efficient, and
- eligible for the two percentage point increase in the EEH qualifying ratios.

Note: Both new and existing one to four unit properties are eligible, including condominiums units and manufactured housing.

Continued on next page

7. Energy Efficient Homes, Continued

4155.1 6.A.7.c EEH General Underwriting Policies

An EEH mortgage is initially underwritten as if the energy package did not exist; that is, by using standard FHA underwriting guidelines, qualifying ratios, and maximum mortgage/minimum downpayment requirements, without regard to the energy package.

The borrower can obtain "stretch ratios" of 33% and 45%, in addition to the cost of the improvements, for an EEH mortgage on

- new construction, or
- homes that
  - were built to the 2000 IECC, or
  - are being retrofitted to that standard.

4155.1 6.A.7.d EEH General Underwriting Procedures

Once it is determined that both the borrower and the property qualify for an FHA-insured mortgage, the lender must determine the dollar amount of the cost-effective energy package that may be added to the loan amount, using the energy rating report and EEM Worksheet.

This dollar amount cannot exceed 5% of the property's value (not to exceed $8,000), or $4,000, whichever is *greater*. Regardless of the property's value, every borrower who otherwise qualifies can finance at least $4,000 of the costs of the Energy Package, if the cost exceeds $4,000.

The calculated amount must be added to the approved base loan amount to total the final FHA-insured loan amount, before adding any upfront mortgage insurance premium (UFMIP).

The FHA maximum loan limit for the area may be exceeded by the cost of the energy efficient improvements.

4155.1 6.A.7.e EEH Underwriting Procedures for New Construction

When qualifying the borrower, the cost of the energy package must be subtracted from the sales price, since the builder has included the improvements in the sales price.

The underwriter must calculate the qualifying ratios on the lower amount.

Continued on next page

7. Energy Efficient Homes, Continued

4155.1 6.A.7.f EEH Policy Guidance for Streamline Refinances

For a streamline refinance, the borrower's principal and interest (P&I) payment on the new loan, including the energy package, may be greater than the P&I payment on the current loan, provided that the estimated monthly energy savings shown on the Home Energy Rating Systems (HERS) report exceeds the increase in the P&I.

8. Restrictions on Advanced Mortgage Payments

Change Date

March 24, 2011

4155.1 6.A.8.a Advance Mortgage Payment Prohibition

FHA does not permit a lender to collect advance payment(s) on the loan from the borrower as a condition for making a FHA-insured mortgage.

The lender is *not* permitted to require a borrower to make payments to the lender in advance of the borrower's payment requirements under the security instruments, either through the use of

- post-dated checks
- cash, or
- any other form of payment.

9. Condominium HOA Fee Utility Expense Component

Change Date	March 24, 2011
4155.1 6.A.9.a Condominium Utility Expenses	The portion of a condominium fee that is clearly attributable to utilities may be subtracted from the Homeowners' Association (HOA) dues before computing qualifying ratios, provided the borrower provides proper documentation, such as statements from the utility company.

10. HUD Real Estate Owned (REO) Acquisitions

Introduction

This topic includes information on HUD Real Estate Owned (REO) properties, including

- maximum financing on HUD REO properties with required repairs, and
- a reference for information on HUD REO appraisal requirements.

Change Date

March 24, 2011

4155.1 6.A.10.a Maximum Financing on HUD REO Properties With Required Repairs

On a HUD Real Estate Owned (REO) property that requires no more than $5,000 for repairs to meet FHA's property requirements, 110% of the estimated cost of the repairs may be included in the mortgage amount.

Reference: For more information on adding required repair costs on HUD REO properties, see ML 2000-27.

4155.1 6.A.10.b HUD REO Appraisal Requirements (Reference)

For information on HUD REO properties and the

- appraisal validity period and second appraisals, see HUD 4155.2 4.4.d, and
- requirements for reporting lead-based paint, see ML 10-17.

Section B. ARMS

Overview

In This Section This section contains the topics listed in the table below.

1. Terms and Definitions for Adjustable Rate Mortgages (ARMs)

Change Date

March 24, 2011

4155.1 6.B.1.a Locating Terms and Definitions Related to ARMs

See HUD 4155.1 9.1 for definitions of the following terms related to Adjustable Rate Mortgages (ARMs):

- adjusted interest rate
- calculated interest rate
- change date
- current index
- existing interest rate
- initial interest rate
- index, and
- margin.

2. General Information on ARMs

Introduction

This topic contains general information on ARMs, including

- ARM interest rate adjustments and caps
- hybrid ARM program eligibility
- the maximum number of ARM units insured by FHA, and
- ARM loan features.

Change Date

March 24, 2011

4155.1 6.B.2.a ARM Interest Rate Adjustments and Caps

The table below describes the annual interest rate adjustment and interest rate cap over the life of the five types of Adjustable Rate Mortgage (ARM) loans.

Reference: For more information on the frequency of interest rate changes, see HUD 4155.1 6.B.4.e.

When the ARM is initially at a fixed interest rate for ...	Then the annual interest rate adjustment, after the initial fixed interest rate period, is ...	And the interest rate cap over the life of the loan is ...
• 1 year • 3 years, or • 5 years	one percentage point	five percentage points.
• 5 years • 7 years, or • 10 years	two percentage points	six percentage points.

Note: FHA added the two options for the five-year ARM in order to meet the needs of borrowers, lenders and the secondary mortgage market.

Continued on next page

2. General Information on ARMs, Continued

4155.1 6.B.2.b Hybrid ARM Program Eligibility

Owner-occupied principal residences being insured under the following programs are eligible for hybrid ARMs:

- Section 203(b), *Home Mortgage Insurance Program*
- Section 203(h), *Home Mortgage Insurance for Disaster Victims Program*
- 203(k), *Rehabilitation Home Mortgage Insurance Program*, and
- 234(c), *Mortgage Insurance for Condominium Units*.

Nonprofits, including organizations normally eligible as borrowers, and government agencies are not permitted to apply for the hybrid ARM products.

References: For information on Section 203 mortgage insurance programs, see

- HUD 4155.1 6.A.6 , and
- HUD 4155.2 1.C.

4155.1 6.B.2.c Maximum Number of ARM Units Insured

The aggregate number of all ARMs insured by FHA in any fiscal year may not exceed 30% of the aggregate number of mortgages insured during the preceding fiscal year.

FHA will notify lenders when the maximum percentage is close to being reached during any fiscal year.

4155.1 6.B.2.d ARM Loan Features

The lender and borrower negotiate the initial interest rate and margin. The margin *must* be constant for the entire term of the mortgage.

The interest rate remains constant for the initial period (either a 1, 3, 5, 7, or 10 year period, depending on the ARM) and then may change annually for the remainder of the loan term.

3. ARM Underwriting Requirements

Introduction

This topic contains information on underwriting ARMs, including

- ARM underwriting requirements
- ARM application disclosure
- annual MIP on an ARM
- ARM mortgage document requirements
- borrower qualifying on the 1-year ARM
- borrower qualifying on the 3, 5, 7, or 10 year ARM
- temporary interest rate buydowns on ARMs
- ARM loan maturity
- model ARM Note, and
- ARM amortization provisions.

Change Date

March 24, 2011

4155.1 6.B.3.a ARM Underwriting Requirements

Adjustable Rate Mortgage (ARM) loans must be processed and underwritten using the initial interest rate negotiated between the lender and borrower as stated on Form HUD 92900-A, *Addendum to Uniform Residential Loan Application*.

Mortgage credit processing must be in accordance with existing FHA instructions, except as modified subsequently in this topic.

References: For more information on calculating qualifying ratios on a
- 1 year ARM, see HUD 4155.1 6.B.3.e, and
- 3, 5, 7 or 10 year ARM, see HUD 4155.1 6.B.3.f.

Continued on next page

3. ARM Underwriting Requirements, Continued

4155.1 6.B.3.b ARM Application Disclosure

When the borrower applies for an ARM loan, the lender *must* provide him/her with a written explanation of the

- nature of the proposed obligation, and
- features of an ARM, consistent with the disclosure requirements applicable to variable-rate mortgages secured by a principal dwelling under the Truth-in-Lending Act (TILA), "Regulation Z" at
  - 15 United States Code (USC) 1601, and
  - 12 Code of Federal Regulations (CFR) 226.18**.**

Additionally, the lender *must* provide the borrower with a hypothetical monthly payment schedule that displays the maximum potential increases in monthly payments for the term of the ARM. The hypothetical payment schedule should illustrate the maximum increases over the shortest possible time frame.

Example: A 7 year ARM payment schedule should show the maximum potential increases over the three years following the initial fixed interest rate period of seven years.

Notes:
- FHA relies on lenders to comply with TILA, and does not provide disclosures for the ARM products.
- The ARM disclosure statement, signed by all borrowers, must accompany the loan application and applicable FHA addenda.

4155.1 6.B.3.c Annual MIP on an ARM

The annual mortgage insurance premium (MIP) amount and any termination provisions must be based on the initial interest rate throughout the term of the loan, regardless of the interest rate adjustments to the loan.

4155.1 6.B.3.d ARM Mortgage Document Requirements

The mortgage documents for an ARM must specify the

- initial interest rate
- margin
- date of the first adjustment to the interest rate, and
- frequency of adjustments.

Continued on next page

3. ARM Underwriting Requirements, Continued

4155.1 6.B.3.e Borrower Qualifying on the 1 Year ARM

Borrowers choosing the 1 year ARM where the loan-to-value (LTV) is 95% percent or greater, must qualify for payments based on the contract or initial rate plus 1.0%.

For this purpose, the LTV is defined as the *lesser* of the

- base loan amount divided by the appraiser's estimate of value, or
- percentage shown on the "LTV" line under the *Qualifying Ratios* section on the HUD-92900-LT.

4155.1 6.B.3.f Borrower Qualifying on the 3, 5, 7, or 10 Year ARM

Borrowers choosing the 3, 5, 7, or 10 year ARMs must qualify for payments based on the entry level or Note rate. These ARMs do not require underwriting at one percentage point above the note rate.

4155.1 6.B.3.g Temporary Interest Rate Buydowns on ARMs

Any form of temporary interest rate buydown is prohibited for all ARMs, regardless of LTV. If there is a permanent buydown, underwriting must be based on the rate in the application.

4155.1 6.B.3.h ARM Loan Maturity

ARM loan maturities shall not exceed 30 years.

Continued on next page

3. ARM Underwriting Requirements, Continued

4155.1 6.B.3.i Model ARM Note

Lenders must modify the model ARM Note form found in HUD 4155.2 12.A.4.a to accommodate the type of ARM being offered, including the

- Change Date
- limits on the interest rate changes associated with the initial fixed rate period of the ARM, and
- lifetime caps.

Note: Existing model notes and security instruments currently reflect only the 1 Year CMT Index. Therefore, when LIBOR rates are chosen, the Adjustable Rate notes and other related documents must reflect the applicable LIBOR index.

Reference: For information on the model ARM Note, see HUD 4155.2 6.B.

4155.1 6.B.3.j ARM Amortization Provisions

The ARM *must*

- be fully-amortizing, and
- contain amortization provisions that allow for periodic adjustments in the rate of interest charged.

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4. Interest Rate Index

Introduction

This topic contains information on the ARM interest rate index, including

- acceptable ARM indices
- ARM index information
- adjusting the interest rate on an ARM
- use of margin to adjust interest rate on ARM, and
- frequency of interest rate changes on ARMs.

Change Date

March 24, 2011

4155.1 6.B.4.a Acceptable ARM Indices

FHA will insure forward Adjustable Rate Mortgage (ARM) loan products using either the

- 1 Year London Interbank Offered Rate (LIBOR), or
- 1 Year Constant Maturity Treasury (CMT) index.

Notes:
- The two index types *cannot* be commingled.
- Either index may be used for 1, 3, 5, 7, or 10 year ARMs.

Reference: For more information on the indices, see HUD 4155.1 6.B.4.b.

Continued on next page

4. Interest Rate Index, Continued

4155.1 6.B.4.b ARM Index Information

Upward or downward changes in the interest rate charged on an ARM, except as otherwise provided in this section, must correspond to changes in the index, either the

- 1 Year CMT, defined as the weekly average yield on United States (U.S.) Treasury securities adjusted to a constant maturity of one year, or equivalent, as
  - provided by the Department of the Treasury, and
  - found on the Federal Reserve Statistical Release H.15, Selected Interest Rates website at www.federalreserve.gov/releases, or
- 1 Year LIBOR index as published in the *Wall Street Journal*.

Notes:
- The Federal Reserve Statistical Release is published weekly on Monday, or on Tuesday if Monday is a Federal holiday.
- The LIBOR indices are published in the *Wall Street Journal* on the first business day of each week, typically a Monday, or Tuesday if Monday is a non-publishing day.
- Should the Federal Reserve begin publishing the LIBOR indices in H.15, then lenders must use the H.15 as the source for LIBOR rates.
- The LIBOR indices are effective from the day they are published, until the day they are published the following week.
- The published LIBOR index must be rounded to three digits to the right of the decimal point.

Continued on next page

4. Interest Rate Index, Continued

4155.1 6.B.4.c Establishing the Adjusted Interest Rate on an ARM

When establishing the adjusted interest rate on an ARM, the servicer must compare the initial contract interest rate to the sum of the current index figure and the mortgage margin (calculated interest rate).

The adjusted interest rate will be the interest rate charged to the borrower, subject to the limitations of the annual and lifetime caps for the respective ARM type.

The current index figure must be the most recent index figure available 30 calendar days before the Change Date (the effective date of an adjustment to the interest rate, as shown in Paragraph 5(a) of the model Adjustable Rate Note form.)

4155.1 6.B.4.d Use of Margin to Adjust Interest Rate on ARM

Section 203.49 (c) of the regulations provides an alternative method to using the margin to set the new interest rate on an ARM, stating that to set the new interest rate, the lender will

- determine the change between the initial or base index figure, and the current index figure, or
- add a specified margin to the current index figure.

Ginnie Mae will *only* purchase ARMs that use the margin method for establishing the new interest rate. HUD requests that the lender contact the FHA Single Family Program Development Office for guidance if it wishes to use the other method for establishing the new interest rate.

Continued on next page

4. Interest Rate Index, Continued

4155.1 6.B.4.e Frequency of Interest Rate Adjustments on ARMs

Interest rate adjustments must occur on an annual basis, after the first adjustment.

The table below describes exceptions for the first adjustment rate change date.

If the ARM is initially at a fixed interest rate for ...	Then the first adjustment rate change may occur no sooner than ...	And no later than ...
1 year	12 months	18 months.
3 years	36 months	42 months.
5 years	60 months	66 months.
7 years	84 months	90 months.
10 years	120 months	126 months.

5. Calculating Interest Rate Adjustments on ARMs

Introduction

This topic contains information on how to calculate interest rate adjustments on ARMs, including

- calculating annual adjustments
- current basis for the index
- determining the current index figures
- determining the calculated interest rate
- determining the new adjusted interest rate
- interest rate adjustments over the term of the mortgage, and
- effective date for the adjusted interest rate.

Change Date

March 24, 2011

4155.1 6.B.5.a Calculating Annual Adjustments on ARMs

To calculate the annual adjustments to the initial interest rate on an adjustable rate mortgage (ARM), the lender must

- determine the current index(London Interbank Offered Rate (LIBOR), or Constant Maturity Treasury (CMT))
- determine the calculated interest rate, and
- compare the calculated interest rate to the existing interest rate to determine the new adjusted interest rate subject to the annual and lifetime caps.

Note: Once the new adjusted interest rate is calculated, notice of the change must be provided to the borrower.

References: For information on

- determining the current index, see HUD 4155.1 6.B.5.c
- determining the calculated interest rate, see HUD 4155.1 6.B.5.d
- comparing the calculated interest rate to the existing interest rate to determine the new adjusted interest rate, see HUD 4155.1 6.B.5.e, and
- providing notice to the borrower of the interest rate change, see HUD 4155.1 6.B.7.

Continued on next page

5. Calculating Interest Rate Adjustments on ARMs, Continued

4155.1 6.B.5.b Basis for the ARM Index

The ARM index used is based on either the

- weekly LIBOR rate, or
- weekly average yield on U.S. Treasury securities, adjusted to a constant maturity of one year (CMT).

The index used must be

- the one effective on the date 30 calendar days before the Change Date, and
- either the
  - CMT, shown on the Federal Reserve Board Statistical Release H.15 (effective the day it is issued, until a new H.15 index is published), or
  - LIBOR, shown in the *Wall Street Journal* (effective the day it is issued, until a new weekly *Wall Street Journal* is published).

4155.1 6.B.5.c Determining the Current Index Figure on an ARM

The table below describes the current index figure to use based upon the particular day of the week on which the 30th calendar day falls. See HUD 4155.1 6.B.5.b for a description of the two indices and where they are published.

When the 30th calendar day falls on a ...	Then use the index figure issued on ...	If the 30th calendar day prior to a Change Date…
Monday that is a business day	that Monday	and the issue date of an H.15 release both occur on the same day (that is, they both occur on a Monday).
Monday that is a Federal holiday	the prior week	falls on a Monday that is a Federal holiday.

Continued on next page

5. Calculating Interest Rate Adjustments on ARMs, Continued

4155.1 6.B.5.c Determining the Current Index Figure on an ARM (continued)

When the 30th calendar day falls on a ...	Then use the index figure issued on ...	If …
day of the week other than Monday	on the Monday of that week (or issued on Tuesday if that Monday is a Federal holiday.) ***Example***: Assuming a Change Date of December 1, 2005, 30 calendar days before December 1 is Tuesday, November 1. Use the correct index figure issued on Monday, October 31.	---

4155.1 6.B.5.d Determining the Calculated Interest Rate on an ARM

The calculated interest rate is the current index, plus the margin (the number of basis points identified as "margin" in Paragraph 5(C) of the model Adjustable Rate Note), rounded to the nearest 1/8th of one percentage point (0.125 percent).

This complies with Ginnie Mae's requirement that mortgages placed into Ginnie Mae pools must be rounded to the nearest 1/8th of one percentage point at each Change Date.

Continued on next page

5. Calculating Interest Rate Adjustments on ARMs, Continued

4155.1 6.B.5.e Determining the New Adjusted Interest Rate on an ARM

Compare the calculated interest rate to the existing interest rate in effect for the preceding 12 months, to determine the new adjusted interest rate.

The table below provides instructions on determining the new adjusted interest rate, based upon the results of the comparison between the

- calculated interest rate, and
- existing interest rate.

If the calculated interest rate is ...	Then the new adjusted rate will be ...
equal to the existing interest rate	the same as the existing interest rate.
less than the existing interest rate	• the calculated interest rate, for one-three- and five-year ARMs if the calculated interest rate is *less* than *one* percentage point higher or lower than the existing interest rate, and • the calculated interest rate for five, seven- and ten-year ARMs if the calculated interest rate is *less* than *two* percentage points higher or lower than the existing interest rate.
more than the existing interest rate	• limited to one percentage point higher or lower than the existing interest rate for one, three, and five year ARMs, *if* the new calculated interest rate is more than one percentage point (100 basis points) higher or lower than the existing interest rate. (***Note***: Index changes in excess of one percentage point may not be carried over for inclusion in an adjustment in a subsequent year.), and • the calculated interest rate for five, seven and ten year ARMs, *if* the calculated interest rate is more than two percentage points (200 basis points) higher or lower than the existing interest rate. (***Note***: Index changes in excess of two percentage points may not be carried over for inclusion in an adjustment in a subsequent year.)

Continued on next page

5. Calculating Interest Rate Adjustments on ARMs, Continued

4155.1 6.B.5.f Interest Rate Adjustments Over the Term of the ARM

Adjustments to the interest rate over the entire term of the mortgage may not result in a change in either direction of more than

- five percentage points (500 basis points) from the initial contract interest rate for one, three, and five year ARMs, or
- six percentage points (600 basis points) for five, seven and ten year ARMs.

4155.1 6.B.5.g Effective Date of the ARM Interest Rate Adjustment

An adjusted interest rate is effective on the Change Date, and thereafter is deemed to be the existing interest rate. The new rate remains in effect until the next Change Date.

During the term of the mortgage, each adjustment is effective on the same date of each succeeding year.

6. Computing the Monthly Installment Payment on an ARM

Introduction

This topic contains information on the monthly installment payment after an ARM adjustment, including

- determining the new monthly payment, and
- the timing of the new monthly payment.

Change Date

March 24, 2011

4155.1 6.B.6.a Determining New Monthly Payment After ARM Adjustment

Interest rate changes may only be implemented through adjustments to the borrower's monthly payments. The lender must determine a new monthly payment each time there is an interest rate adjustment, as described in HUD 4155.1 6.B.5.

The portion of the monthly payment attributable to principal and interest is calculated by

- determining the amount necessary to fully amortize the unpaid principal balance for the remaining term of the mortgage
- crediting all eligible prepayments, and
- not debiting any delinquency.

Notes:

- The unpaid principal balance for to calculate the monthly installment is the balance that would be due on the Change Date if there had been no default in any payment, but reduced by the amount of any prepayments made to the principal.
- All ARM adjustments affect interest rates only. Negative amortization is not permitted.

Continued on next page

6. Computing the Monthly Installment Payment on an ARM, Continued

4155.1 6.B.6.b Timing of the New Monthly Payment on an ARM

Since interest is payable on the first day of the month following the month in which the interest accrued, the borrower will begin to pay the new monthly payment 30 days after the Change Date, provided the lender gives the borrower proper notice.

Reference: For information on the requirements for Annual ARM Adjustment Notices to the borrower, see HUD 4155.1 6.B.7 and HUD 4155.1 6.B.8.

7. Annual ARM Adjustment Notice Requirements

Introduction

This topic contains information regarding the Annual Adjustment Notice, including

- annual ARM Adjustment Notice policy
- required ARM Notice content
- sending the ARM Adjustment Notice
- lender ARM notification obligation during foreclosure and delinquency
- annual ARM Adjustment Notice record retention, and
- collection action after ARM adjustment.

Change Date

March 24, 2011

4155.1 6.B.7.a Annual ARM Adjustment Notice Policy

At least 25 days before any adjustment to a borrower's monthly payment may occur, the lender must provide written notification regarding

- the new mortgage interest rate
- the amount of the new monthly payment
- the current index, and
- how the payment adjustment was calculated.

Prior to issuance of the notice, the lender must calculate the new adjusted interest rate, as instructed in HUD 4155.1 6.B.5.

The first adjustment to the interest rate becomes effective on the date specified in Paragraph 5A (*Change Date*) of the *Adjustable Rate Mortgage Model Note* and thereafter, each adjustment becomes effective on the same date of each succeeding year during the term of the mortgage.

Note: Lenders must notify borrowers

- 30 days before any adjustments, *if this provision is stated* in the mortgage agreement, and
- annually, even if the existing interest rate does not change.

Continued on next page

7. Annual ARM Adjustment Notice Requirements, Continued

4155.1 6.B.7.b Required ARM Notice Content

The content of the Adjustment Notice must meet the criteria of 24 CFR 203.49(h), *Eligibility of Adjustable Rate Mortgages*, and include the

- date the Adjustment Notice is mailed
- change date
- existing interest rate
- adjusted interest rate
- current Index and publishing date
- method of calculating the adjustment to monthly payments
- amount of the adjusted monthly payments, and
- any other information that may be required by law, such as an explanation of why the adjusted interest rate is less than the calculated interest rate when the cap is reached.

4155.1 6.B.7.c Sending the ARM Adjustment Notice

The lender should send the Adjustment Notice to the borrower by Certified Mail, Return Receipt Requested.

The lender can also send the Notice by first class mail to all property owners identified on its records, unless the borrower's whereabouts are known to be elsewhere.

4155.1 6.B.7.d Lender ARM Notification Obligation During Foreclosure or Delinquency

The lender's obligation to compute and adjust the interest rate and provide notice to the borrower is *not* affected by delinquencies or foreclosures, so long as the mortgage debt exists.

It is the lender's responsibility to see that its collection actions continually update the mortgage debt.

Continued on next page

7. Annual ARM Adjustment Notice Requirements, Continued

4155.1 6.B.7.e Annual ARM Adjustment Notice Record Retention

For HUD review purposes, lenders must

- keep evidence that timely notice was sent to the borrower, and
- retain annual adjustment computations for the mortgage term.

A file copy of the suggested HUD Annual Adjustment Notice is sufficient to satisfy this requirement.

Should disputes arise, the HUD suggested method for evidence may not be sufficient. Lenders should instead be guided by the advice of counsel about the type and duration of record retention.

4155.1 6.B.7.f Collection Action after ARM Adjustment

The lender should notify its collections personnel of the possibility that the Annual Adjustment Notice was not received by a borrower, and of the need to take remedial action, when necessary. Collection personnel should

- make a follow up call to determine if the notice was received by the borrower, if his/her payments do not reflect the increase/decrease described in the Notice, and
- immediately mail a duplicate Notice if not received.

8. Failure to Provide a Timely/Accurate Annual ARM Adjustment Notice

Introduction

This topic contains information on the lender's failure to provide timely or accurate Annual ARM Adjustment Notices, including

- notice failure for more than one year
- restriction on collecting payment increases
- decline of new interest rate, and
- inaccurate Annual ARM Adjustment Notice.

Change Date

March 24, 2011

4155.1 6.B.8.a ARM Notice Failure for More Than One Year

If the lender fails to provide notice to the borrower for more than one year, then it must determine an adjusted interest rate for each omitted year, because the calculations for each year affect the rate for subsequent years.

The one and two percentage point limitations and five and six percentage point caps apply to each year, and must be considered when determining the new interest rate.

Penalties will be imposed on the lender if it fails to provide borrower notification in advance of each Change Date.

4155.1 6.B.8.b Restriction on Collecting Payment Increases on ARMs

Although the new interest rate may increase, the lender is prevented from collecting any increase in payments until the notice has met the required 25-day advance notice requirement.

If timely notice is not provided, the

- lender forfeits its right to collect the increased amount, and
- borrower is relieved from the obligation to pay the increased payment amount.

Continued on next page

8. Failure to Provide a Timely/Accurate Annual ARM Adjustment Notice, Continued

4155.1 6.B.8.c Decline of New Interest Rate on ARMs

If the new interest rate declines, the failure of the lender to provide proper notice would result in overpayments, until the mortgage rate is properly adjusted.

In this case, the lender must refund the excess, with interest at a rate equal to the sum of the Margin and Index in effect on the Change Date, from the date of the excess payment to the date of repayment.

After the lender applies the refund to any existing delinquency, the borrower has the option of

- a cash refund, or
- applying the excess to the unpaid principal balance of the mortgage.

4155.1 6.B.8.d Inaccurate Annual ARM Adjustment Notice

HUD requires that errors be corrected if the

- lender miscalculates the interest rate and/or the monthly payment, and
- errors are reflected in the notice.

HUD does not take a position on whether an erroneous notice constitutes a failure to provide notice under the terms of the mortgage contract. This is a legal matter that is subject to local law and court interpretation.

9. ARM Assumptions and Transfers of Servicing

Introduction

This topic contains information on ARM assumptions and transfers of servicing, including

- transfers of ARMs between servicers
- disclosing ARM terms on an assumption, and
- credit review on an assumption.

Change Date

March 24, 2011

4155.1 6.B.9.a Transfers of ARMs Between Servicers

The seller is responsible for providing the transferee with complete servicing records reflecting total compliance with Adjustable Rate Mortgage (ARM) disclosure and reporting requirements.

HUD regulations require that the transferee/assignee assume all servicing obligations. However, negligent ARM lenders/transferors are not permitted to avoid disclosure obligations.

If a failure of Notice or other error is discovered, the lender/transferor holding the loan when the failure occurred is responsible for reimbursing the lender currently holding the loan, if any burden or refund to the borrower is required.

Continued on next page

9. ARM Assumptions and Transfers of Servicing, Continued

4155.1 6.B.9.b Disclosing ARM Terms on an Assumption

Lenders should encourage sellers to disclose the terms of an existing ARM in any sales transaction. However, when an assumption takes place, both the seller and lender should assume responsibility for notifying the assumptor about the terms and conditions of the ARM.

When the lender becomes aware of an assumption, and has the name of the assumptor, it should provide the assumptor with

- a copy of the original Disclosure Statement, and
- an explanatory letter addressing the ARM obligations.

The lender should document an acknowledgement of the assumptor's receipt of the disclosure information.

4155.1 6.B.9.c Credit-Review on an Assumption

The lender must prepare a new Disclosure Statement to ensure that the assumptor is aware of the ARM obligation, when

- the assumption transaction requires a creditworthiness review, or
- a release from personal liability is requested and approved.

Processing of the following forms must be based on the interest rate in effect at the time that the complete credit review package is submitted to the Direct Endorsement (DE) Underwriter:

- Form HUD 92210, *Request for Credit Approval of Substitute Mortgagor*, and/or
- Form HUD 92210.1, *Approval of Purchaser and Release of Seller*.

10. Tracking ARMs

Introduction

This topic contains information on tracking ARMs, including

- ARM suffix codes
- DE suffix codes, and
- hybrid ARM type indicator.

Change Date

March 24, 2011

4155.1 6.B.10.a ARM Suffix Codes

In order to track Adjustable Rate Mortgage (ARM) activity, case number suffix codes (Section of the Act Automatic Data Processing (ADP) Codes) are

- indicated on all Form HUD-92900 application addendums, and
- printed on Form HUD- 59100, *Mortgage Insurance Certificate*.

4155.1 6.B.10.b DE Suffix Codes for ARMS (Reference)

For a complete list of the Section of the Act ADP suffix codes for ARMs and other Direct Endorsement (DE) cases, see HUD 4155.2 12.B.1.a.

Continued on next page

10. Tracking ARMs, Continued

4155.1 6.B.10.c Hybrid ARM Type Indicator

In addition to the ADP suffix codes assigned to ARMs, a hybrid ARM type indicator has been added to the FHA's Computerized Home Underwriting Management System (CHUMS).

When submitting loan data to FHA via the FHA Connection, or its functional equivalent, the lender must identify the type of ARM, if the ARM is indicated by an ADP code, by selecting the one, three, five, seven, or ten year ARM type indicator.

Section C. Streamline Refinances

Overview

In This Section

This section contains the topics listed in the table below.

1. Requirements for Streamline Refinances

Introduction

This topic contains information on requirements for streamline refinances, including

- a description of a streamline refinance
- permissible geographic areas
- use of appraisals
- ignoring or setting aside an appraisal
- reviewing CAIVRS, LDP and GSA exclusion lists
- credit report and credit score requirements for streamline refinances
- use of TOTAL Scorecard on streamline refinances
- payoff statement requirement on streamline refinances, and
- loan application on streamline refinance.

Change Date

March 24, 2011

4155.1 6.C.1.a Description of a Streamline Refinance

Streamline refinances

- are designed to lower the monthly principal and interest payments on a current FHA-insured mortgage, and
- must involve no cash back to the borrower, except for minor adjustments at closing that are not to exceed $500.

4155.1 6.C.1.b Permissible Geographic Areas for Streamline Refinances

Lenders may solicit and process streamline refinance applications from any area of the country, provided the lender is approved for Direct Endorsement (DE) by at least one Homeownership Center (HOC), and, where necessary, licensed to do business in the state in which the property is located.

References: For information on

- DE Lender Program application and approval, see
  - HUD 4155.2 2.A, and
  - HUD 4155.2 2.B, and
- HOC jurisdictions, see HUD 4155.2 12.E.1.

Continued on next page

1. Requirements for Streamline Refinances, Continued

4155.1 6.C.1.c Appraisals on Streamline Refinances

FHA does not *require* an appraisal on a streamline refinance. These transactions can be made with or without an appraisal.

FHA does *not* require repairs to be completed on streamline refinances with appraisals, with the exception of lead-based paint repairs. However, the lender may require completion of repairs as a condition of the loan.

References: For information on streamline refinances

- with an appraisal (non-credit qualifying), see HUD 4155.1 3.C.3 , and
- without an appraisal, see HUD 4155.1 3.C.2 .

4155.1 6.C.1.d Ignoring or Setting Aside an Appraisal on a Streamline Refinance

If an appraisal has been performed on a property, and the appraised value is such that the borrower would be better advised to proceed as if no appraisal had been made, then the

- appraisal may be ignored and not used, and
- lender must notate this decision on the HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

4155.1 6.C.1.e Reviewing CAIVRS, LDP and GSA Exclusion Lists on Streamline Refinances

The Credit Alert Interactive Voice Response System (CAIVRS) does not need to be checked for streamline refinances, but the lender must review, for all borrowers, the

- HUD Limited Denial of Participation (LDP) List, and
- General Services Administration (GSA) *List of Parties Excluded from Federal Procurement or Non-procurement Programs*.

References: For more information on HUD's LDP List, GSA exclusion lists, and using CAIVRS to check borrower eligibility for Federally-related credit, see

- HUD 4155.1 4.A.6, and
- HUD 4155.1 4.A.7.

Continued on next page

1. Requirements for Streamline Refinances, Continued

4155.1 6.C.1.f Credit Report and Credit Score Requirements for Streamline Refinances

Except for credit qualifying streamline refinances, FHA does *not* require a credit report. The lender, however, may require this as part of its credit policy.

If a credit score is available, the lender must enter it into FHA Connection (FHAC). If more than one credit score is available, the lender must enter *all* available credit scores into FHAC.

4155.1 6.C.1.g Use of TOTAL Scorecard on Streamline Refinances

Effective with case numbers assigned on or after April 18, 2011, FHA no longer requires lenders to certify employment and income on streamline refinance transactions. As a result, lenders will not have sufficient data to score streamline refinances through the Technology Open to Approved Lenders (TOTAL) Scorecard. The TOTAL Scorecard was never intended to be used for streamlines and the results are not considered valid.

A lender who inadvertently uses TOTAL must not enter "*ZFHA*" as the underwriter in FHA Connection (FHAC) but must instead use its Direct Endorsement (DE) underwriter designation, and the DE underwriter must sign and use his/her Computerized Home Underwriting Management System (CHUMS) identification number on

- page 3 of the HUD 92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*, and
- page 1 of the HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

Continued on next page

1. Requirements for Streamline Refinances, Continued

4155.1 6.C.1.h Payoff Statement Requirement on Streamline Refinances

The lender must obtain payoff statements for all liens to be satisfied from the proceeds of the streamline refinance transaction, and include copies in the case binder submitted for endorsement.

Reference: For more information on obtaining payoff statements for refinances, see HUD 4155.1 3.A.1.j.

4155.1 6.C.1.i Loan Application on Streamline Refinances

Effective with case numbers assigned on or after April 18, 2011, lenders may use an abbreviated Uniform Residential Loan Application (URLA) on non-credit qualifying streamline refinances ***only***.

Lenders are not required to complete sections IV, V, VI, and VIII (k) on an abbreviated URLA, provided all other required information is captured.

Due to various disclosure requirements, the application for mortgage insurance must be signed and dated by the borrower(s) before the loan is underwritten. Lenders are permitted to process and underwrite the loan after the borrower(s) and interviewer complete the initial URLA and initial form HUD 92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*.

The lender must continue to ensure compliance with the Equal Credit Opportunity Act (ECOA) and all other regulatory requirements.

Reference: For information on ECOA and other regulations, see HUD 4155.2 1.B.5.

2. Credit Qualifying Streamline Refinances

Introduction

This topic contains information on credit qualifying streamline refinances, including

- features of a credit qualifying streamline refinance
- the maximum mortgage amount
- required documentation on a credit qualifying streamline refinance, and
- required usage of a credit qualifying streamline refinance.

Change Date

March 24, 2011

4155.1 6.C.2.a Features of a Credit Qualifying Streamline Refinance

Credit qualifying streamline refinances contain all the normal features of a streamline refinance, but provide a level of assurance for continued performance on the mortgage.

The lender must provide evidence that the remaining borrowers have an acceptable credit history and ability to make payments.

4155.1 6.C.2.b Maximum Mortgage Amount on Credit Qualifying Streamline Refinance (Reference)

References to the guidelines for calculating the maximum mortgage amount on credit qualifying streamline refinances are found in the table below.

If the credit qualifying streamline refinance is made …	Then the maximum mortgage amount is calculated as described in …
with an appraisal	HUD 4155.1 3.C.3.
without an appraisal	HUD 4155.1 3.C.2.

Continued on next page

2. Credit Qualifying Streamline Refinances, Continued

4155.1 6.C.2.c Required Documentation on Credit Qualifying Streamline Refinance

For credit qualifying streamline refinances, the lender must

- verify the borrower's income and credit report
- compute the debt-to-income ratios, and
- determine that the borrower will continue to make mortgage payments.

4155.1 6.C.2.d Required Usage of a Credit Qualifying Streamline Refinance

A credit qualifying streamline refinance must be considered

- when a change in the mortgage term will result in an increase in the mortgage payment of more than 20%
- when deletion of a borrower or borrowers will trigger the due-on-sale clause
- following the assumption of a mortgage that
  - occurred less than six months previously, and
  - does *not* contain restrictions (i.e. due-on-sale clause) limiting assumption only to a creditworthy borrower, or
- following the assumption of a mortgage that
  - occurred less than six months previously, and
  - did *not* trigger the transferability restriction (that is, the due-on-sale clause), such as in a property transfer resulting from a divorce decree or by devise or descent.

Note: The use of a credit qualifying streamline refinance for situations in which the change in mortgage term will result in an increase in the mortgage payment is *only* permissible for

- owner-occupied principal residences
- secondary residences meeting the requirements of HUD 4155.1 4.B.3, and
- investment properties owned by governmental agencies and eligible nonprofit organizations as described in HUD 4155.1 4.A.6.

3. Streamline Refinance Borrower and Property Related Requirements

Introduction

This topic contains information on borrower and property related requirements for streamline refinances, including

- borrower cash to close
- assuming borrower eligibility for streamline refinance without credit qualifying
- borrower additions or deletions to title
- withdrawn condominium approvals
- seven unit exemptions for investors
- seasoning requirement for a streamline refinance, and
- mortgage payment history requirement for a streamline refinance.

Change Date

March 24, 2011

4155.1 6.C.3.a Borrower Cash to Close on a Streamline Refinance

If assets are needed to close, the lender must verify, document, and determine the acceptability of the assets to be utilized.

Reference**:** For more information on acceptable sources of funds for closing, see HUD 4155.1 5.B.

4155.1 6.C.3.b Assuming Borrower Eligibility for Streamline Refinance Without Credit Qualifying

A borrower is eligible for a streamline refinance without credit qualifying if

- he/she has owned the property for at least six months, and
- the previous borrower(s) received a release of liability at the time of the assumption.

This rule applies to mortgages that do not contain restrictions limiting assumptions only to creditworthy borrowers. Typically, these types of mortgages were made prior to December 1989.

Continued on next page

3. Streamline Refinance Borrower and Property Related Requirements, Continued

4155.1 6.C.3.c Borrower Additions or Deletions to the Title on a Streamline Refinance

Individuals may be *added* to the title on a streamline refinance without

- a creditworthiness review, and
- triggering the due-on-sale clause.

Individuals may be *deleted* from the title on a streamline refinance *only*

- under the circumstances described in HUD 4155.1 6.C.2.d
- when
  - an assumption of a mortgage *not* containing a due-on-sale clause occurred more than six months previously, and
  - the assumptor can document that he/she has made the mortgage payments during this interim period, or
- following an assumption of a mortgage in which the
  - transferability restriction (due-on-sale clause) was *not* triggered, such as in a property transfer resulting from a divorce decree or by devise or descent
  - assumption or quit-claim of interest occurred more than six months previously, and
  - remaining owner-occupant can demonstrate that he/she has made the mortgage payments during this time.

4155.1 6.C.3.d Withdrawn Condominium Approvals

If approval of a condominium project has been withdrawn, FHA will insure only streamline refinances *without* appraisals for that condominium project.

Reference: For more information on FHA requirements on condominiums, see HUD 4155.1 4.B.1.

4155.1 6.C.3.e Seven Unit Exemptions for Investors

An eligible investor that has a financial interest in more than seven rental units, as described in 24 CFR 203.42, may only refinance *without* appraisals.

Reference: For more information on the seven-unit limitation, see HUD 4155.1 4.B.4.d.

Continued on next page

3. Streamline Refinance Borrower and Property Related Requirements, Continued

4155.1 6.C.3.f Seasoning Requirement for a Streamline Refinance

On the date of FHA case number assignment,

- the borrower must have made at least six payments on the FHA-insured mortgage being refinanced
- at least six full months must have passed since the first payment due date of the refinanced mortgage, and
- at least 210 days must have passed from the closing date of the mortgage being refinanced.

Example: The FHA case number on the mortgage being refinanced was closed on or before December 1st, and the borrower's first payment on that mortgage was due on January 1st. The lender may request assignment of an FHA case number for the refinancing mortgage no earlier than July 1st.

4155.1 6.C.3.g Mortgage Payment History Requirement for a Streamline Refinance

The borrower must exhibit an acceptable payment history as described in the table below.

If the outstanding mortgage has …	Then the borrower must have …
fewer than 12 months payment history	made all mortgage payments within the month due
12 months payment history or more	• experienced no more than *one* 30 day late payment in the preceding 12 months, and • made all mortgage payments within the month due for the three months prior to the date of the loan application.

4. Types of Permissible Streamline Refinances

Introduction

This topic contains information on the types of permissible streamline refinances, including

- no cost refinances
- term reduction ineligible for streamline refinance
- ineligibility of delinquent mortgages for streamline refinances
- ARM to ARM refinancing
- ARM to fixed rate refinancing
- fixed rate to ARM refinancing
- GPM to fixed rate refinancing
- GPM to ARM refinancing
- Section 203(k) to Section 203(b) refinancing
- Section 235 to Section 203(b) refinancing, and
- ineligibility of investment properties and secondary residences.

Change Date

March 24, 2011

4155.1 6.C.4.a No-Cost Refinances

No-cost refinances, in which the lender charges a premium interest rate to defray the borrower’s closing costs and/or prepaid items, are permitted.

The lender may also offer an interest-free advance of amounts equal to the present escrow balance on the existing mortgage, to establish a new escrow account.

Continued on next page

4. Types of Permissible Streamline Refinances, Continued

4155.1 6.C.4.b Term Reduction Ineligible for Streamline Refinance

A transaction for the purpose of reducing the mortgage term must be underwritten and closed as a rate and term (no cash-out) refinance transaction.

Reference: For more information on the types of refinances, see HUD 4155.1 3.A.1.c.

4155.1 6.C.4.c Ineligibility of Delinquent Mortgages for Streamline Refinance

A delinquent mortgage is *not* eligible for streamline refinancing until the loan is brought current.

Reference: For more information on streamline refinances, see HUD 4155.1 6.C.3.f.

4155.1 6.C.4.d ARM to ARM Refinancing

An Adjustable Rate Mortgage (ARM) may be refinanced to another ARM, provided that there is a net tangible benefit to the borrower.

ARM to ARM refinances may be transacted with or without an appraisal.

Important: An ARM may be used *only* to refinance a principal residence.

Reference: For more information on the net tangible benefit of refinances, see HUD 4155.1 6.C.5.

4155.1 6.C.4.e ARM to Fixed Rate Refinancing

For ARM to fixed rate refinances, the interest rate on the new fixed rate mortgage must conform to the requirements stated in HUD 4155.1 6.C.5.c.

Reference: For more information on the net tangible from ARM to fixed rate refinances, see HUD 4155.1 6.C.5.c.

Continued on next page

4. Types of Permissible Streamline Refinances, Continued

4155.1 6.C.4.f Fixed Rate to ARM Refinancing

A fixed rate mortgage may be refinanced to a one year ARM, with or without an appraisal, provided that the interest rate of the new adjustable rate mortgage conforms to the requirements stated in HUD 4155.1 6.C.5.d.

4155.1 6.C.4.g GPM to Fixed Rate Refinancing

A Section 245 Graduated Payment Mortgage (GPM) may be refinanced to a fixed rate mortgage, with or without an appraisal, provided that there is a net tangible benefit to the borrower.

If the streamline refinance is completed without an appraisal, the new mortgage amount may exceed the statutory limit by the accrued negative amortization and the new upfront mortgage insurance premium (UFMIP).

References: For more information on
- net tangible benefit requirements, see HUD 4155.1 6.C.5, and
- seasoning requirements for streamline refinances, see HUD 4155.1 6.C.3.f.

4155.1 6.C.4.h GPM to ARM Refinancing

A GPM may be refinanced to an ARM, *provided* that the note rate results in a reduction to the current principal and interest payments.

If the streamline refinance is completed without an appraisal, the new mortgage amount may exceed the statutory limit by the accrued negative amortization and the new UFMIP.

Continued on next page

4. Types of Permissible Streamline Refinances, Continued

4155.1 6.C.4.i Section 203(k) to Section 203(b) Refinancing

A section 203(k) rehabilitation mortgage may be refinanced into a Section 203(b) mortgage after all work is complete.

The rehabilitation work is considered complete by

- a fully executed certificate of completion
- closing the rehabilitation escrow account with a final release, and
- the lender entering the required closeout information into the FHA Connection (FHAC) or its functional equivalent.

Note: Before lenders can order a case number for the refinance of a 203(k) mortgage, the previous lender must have completed the Section 203(k) closeout process in FHAC. See https://entp.hud.gov/clas/html/f17npcase-1.cfm for further information.

Reference: For more information on the Section 203(b) Home Mortgage Insurance Program, see HUD 4155.2 1.C.2.

4155.1 6.C.4.j Section 235 to Section 203(b) Refinancing

A lender may refinance a Section 235 mortgage to a Section 203(b) mortgage using the streamline underwriting procedures described in HUD 4155.1 6.C and HUD 4155.1 3.C.

Any overpaid subsidy that has been paid by the lender to HUD, and is part of the borrower's mortgage account, can be included in the Section 203(b) mortgage amount, provided that the mortgage amount does not exceed the maximum mortgage permitted under the streamline refinancing requirements described in either HUD 4155.1 3.C.2 or HUD 4155.1 3.C.3, as appropriate.

If HUD has a junior lien that was part of the original Section 235 financing, HUD will subordinate the junior lien to the Section 203(b) mortgage that refinances the Section 235 mortgage.

Continued on next page

4. Types of Permissible Streamline Refinances, Continued

4155.1 6.C.4.k Investment Properties and Secondary Residences Ineligible for Streamline Refinance

In addition to meeting the requirement for a reduction in the total mortgage payment, investment properties and secondary residences are not eligible for streamline refinancing to ARMs.

References: For more information on

- investment properties, see HUD 4155.1 4.B.4, and
- secondary residences, see HUD 4155.1 4.B.3.

5. Establishing Net Tangible Benefit of Streamline Refinance

Introduction

This topic contains information on establishing the net tangible benefit of a streamline refinance**,** including

- definition of net tangible benefit
- net tangible benefit of reduction in mortgage payment
- net tangible benefit of refinance from adjustable rate mortgage (ARM) to fixed rate mortgage, and
- net tangible of fixed rate to ARM refinance.

Change Date

March 24, 2011

4155.1 6.C.5.a Definition of Net Tangible Benefit of Streamline Refinance

The lender must determine that there is a net tangible benefit to the borrower as a result of the streamline refinance transaction, with or without an appraisal.

Net tangible benefit is defined as

- a 5% reduction to the principal and interest (P&I) of the mortgage payment plus the annual mortgage insurance premium (MIP), **or**
- refinancing from an Adjustable Rate Mortgage (ARM) to a fixed rate mortgage.

Notes:
- A reduction in the term of the mortgage is *not* a net tangible benefit.
- When refinancing to a hybrid ARM, lenders must treat the new hybrid ARM as a fixed rate mortgage.

References: For more information on the net tangible benefit of
- reduction in mortgage payment, see HUD 4155.1 6.C.5.b
- ARM to fixed rate refinances, see HUD 4155.1 6.C.5.c, and
- fixed rate to ARM refinances, see HUD 4155.1 6.C.5.d.

Continued on next page

5. Establishing Net Tangible Benefit of Streamline Refinance, Continued

4155.1 6.C.5.b Net Tangible Benefit of Reduction in Mortgage Payment from Streamline Refinance

To qualify as a net tangible benefit, the new mortgage payment (P&I plus MIP) must be *at least* 5% lower than the mortgage payment of the loan being refinanced.

Note: This requirement applies when refinancing from

- fixed rate to fixed rate
- ARM to ARM
- Graduated Payment Mortgage (GPM) to ARM
- GPM to fixed rate
- 203(k) to 203(b), and
- 235 to 203(b).

References: For additional information on

- ARM to ARM refinancing, see HUD 4155.1 6.C.4.d
- fixed rate to ARM refinancing, see HUD 4155.1 6.C.5.d
- GPM to ARM refinancing, see HUD 4155.1 6.C.4.h
- GPM to fixed rate refinancing, see HUD 4155.1 6.C.4.g
- 203(k) to 203(b) refinancing, see HUD 4155.1 6.C.4.i, and
- 235 to 203(b) refinancing, see HUD 4155.1 6.C.4.j.

Continued on next page

5. Establishing Net Tangible Benefit of Streamline Refinance,
Continued

4155.1 6.C.5.c Net Tangible Benefit of ARM Refinance

The table below provides the net tangible benefit requirements for various types of ARM refinances.

Type of ARM Refinance	Requirement to Establish Net Tangible Benefit
One-Year ARM to Fixed Rate Refinance	New interest rate must be *no greater than* two percentage points above the current interest rate of the existing ARM.
One-Year ARM to One-Year ARM Refinance	Reduction of at least 5% of P&I and MIP.
One-Year ARM to Hybrid ARM Refinance	New interest rate must be *at least* two percentage points below the current interest rate of the ARM.
Hybrid ARM (during Fixed Period) to Fixed Rate Refinance	Reduction of at least 5% of P&I and MIP.
Hybrid ARM (during Fixed Period) to One-Year ARM	New interest rate must be *at least* two percentage points below the current interest rate of the ARM.
Hybrid ARM (during Fixed Period) to Hybrid ARM	Reduction of *at least* 5% of P&I and MIP.
Hybrid ARM (during Adjustable Period) to Fixed Rate	New interest rate must be *no greater than* two percentage points above the current interest rate of the existing ARM.
Hybrid ARM (during Adjustable Period) to One-Year ARM	Reduction of *at least* 5% of P&I and MIP.
Hybrid ARM (during Adjustable Period) to Hybrid ARM	New interest rate must be *at least* two percentage points below the current interest rate of the ARM

Continued on next page

Establishing Net Tangible Benefit of Streamline Refinance, Continued

4155.1 6.C.5.d Net Tangible Benefit of Fixed Rate Refinance

The table below provides the net tangible benefit requirements for various types of fixed rate mortgage refinances.

Type of Fixed Rate Refinance	Requirement to Establish Net Tangible Benefit
Fixed Rate to Fixed Rate	Reduction of at least 5% of P&I and MIP.
Fixed Rate to One-Year ARM	New interest rate must be *at least* two percentage points below the current interest rate of the fixed rate mortgage.
Fixed Rate to Hybrid ARM	Reduction of at least 5% of P&I and MIP.

Section D. Energy Efficient Mortgage Program

Overview

In This Section

This section contains the topics listed in the table below.

1. General Information on the EEM Program

Introduction

This topic contains general information on the Energy Efficient Mortgage (EEM) Program, including

- the purpose of the EEM program
- features of the EEM program
- escrow account required prior to installation of improvements, and
- lender responsibilities for the EEM escrow account.

Change Date

March 24, 2011

4155.1 6.D.1.a Purpose of the EEM Program

The Energy Efficient Mortgage (EEM) Program allows a borrower to finance 100% of the expense of a cost effective "energy package," that is, the property improvements to make the house more energy efficient. The EEM Program recognizes that the improved energy efficiency of a house can increase its affordability by reducing operating costs.

Because the home is energy efficient, the occupant(s) will save on utility costs, and therefore, be able to devote more income to the monthly mortgage payment.

A cost effective energy package is one where the cost of improvements, including maintenance, is less than the present value of the energy saved over the useful life of those improvements.

Energy efficiency improvements can include energy saving equipment, and active and passive solar technologies.

Continued on next page

1. General Information on the EEM Program, Continued

4155.1 6.D.1.b Features of the EEM Program

Under the EEM Program, a borrower can finance 100% of the cost of eligible energy efficient improvements into the mortgage, subject to certain dollar limitations, without an appraisal of the energy efficient improvements. For the EEM Program, the

- mortgage amount includes the cost of the energy efficient improvements, in addition to the usual mortgage amount normally permitted
- FHA maximum loan limit for the area *may* be exceeded by the cost of the energy efficient improvements
- energy efficient improvements *must* be cost effective in order to be included into the mortgage, and
- amount of the cost effective energy package is added to the approved base loan amount before adding any upfront mortgage insurance premium (UFMIP).

For existing properties, energy-related weatherization items may be combined with the EEM, where the maximum dollar amount allowed under an EEM does not cover the cost of the entire energy package. The weatherization amount would be the cost of the improvements not covered by the EEM amount. With a 203(k), the excess improvements would be included in the rehabilitation work.

Note: While the energy package may be financed into the loan, the borrower does not need to qualify with the additional financing or provide additional downpayment.

References: For more information on
- cost-effectiveness of the improvements, see HUD 4155.1 6.D.2.d
- the calculation Worksheet, see HUD 4155.1 6.D.4.b, and
- maximum mortgage additions, see HUD 4155.1 2.A.5.g.

Continued on next page

1. General Information on the EEM Program, Continued

4155.1 6.D.1.c Escrow Account Required for Prior to Installation of Improvements

FHA *will* endorse a mortgage for an existing property before the energy-efficient improvements are installed, provided that the lender establishes an escrow account and deposits funds into the account to pay for the energy-efficient improvements.

The escrow account must be established for no more than 90 days, or 180 days for a Section 203(k) rehabilitation mortgage.

Notes:
- If the improvements are not completed within 90 days, or 180 days for a 203(k) mortgage, the lender must apply the funds held in escrow to a prepayment of the mortgage principal.
- For new construction, there is no escrow account necessary, since the energy package is installed as part of the total construction, which must be completed prior to closing. The energy package must be completed before the mortgage is eligible for insurance, if using an FHA Construction-Permanent mortgage.

References: For more information on
- lender responsibilities for the EEM escrow account, see HUD 4155.1 6.D.1.d, and
- construction-permanent mortgages, see HUD 4155.1 6.A.3.

Continued on next page

1. General Information on the EEM Program, Continued

4155.1 6.D.1.d Lender Responsibilities for the EEM Escrow Account

In order for FHA to insure a mortgage prior to installation of energy-efficient improvements, the lender must

- ensure that an escrow account is established and insured at a financial institution supervised by a Federal agency, and that the appropriate funds are deposited into the account
- administer the account, or arrange for administration by a
  - utility company
  - nonprofit organization, or
  - government agency
- execute Form HUD-92300, *Mortgage Assurance of Completion*, to indicate that the escrow for the improvements has been established, and
- upon completion of the improvements
  - inspect the improvements, or arrange for inspection by the rater or an FHA fee inspector, and
  - notify FHA, through the FHA Connection (FHAC), that the improvements have been made and that the escrow has been cleared.

Note: The borrower *cannot*
- be paid for labor he/she performed (sweat equity), or
- receive cash back from the mortgage transaction.

2. Basic EEM Program Requirements and Criteria

Introduction

This topic contains information on basic EEM program requirements and criteria, including

- eligible EEM properties and programs
- underwriting the EEM
- EEM appraisal requirements
- the cost of energy efficient improvements
- HERS report for EEM
- when EEM work differs from the approved energy package
- the required inspection by a HERS representative
- requirements for the HERS representative
- the requirement for streamline refinance transactions, and
- fees for the Home Energy Rating on EEM.

Change Date

March 24, 2011

4155.1 6.D.2.a Eligible EEM Properties and Programs

New and existing one to four unit properties, including one unit condominiums and manufactured housing properties, are eligible for the Energy Efficient Mortgage (EEM) Program.

EEMs may be used for both purchases and refinances, including streamline refinances, with

- Section 203(b)
- Section 203(k) rehabilitation loans
- Section 234(c) units in FHA-approved condominium projects, and
- 203(h) mortgages for disaster victims

Note: For multiple unit properties, the allowable EEM dollar amount is for the entire property, and not calculated on a per-unit amount.

Continued on next page

2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.b Underwriting the EEM

The EEM is initially underwritten as if the energy package did not exist, using standard FHA underwriting guidelines, qualifying income ratios, and maximum mortgage/minimum downpayment requirements, without regard to the energy package.

In addition to the cost of improvements, the borrower can get "stretch ratios" of 33% and 45% for an EEM on

- new construction, or
- homes that
  - were built to the 2000 International Energy Conservation Code (IECC) formerly known as the Model Energy Code, or
  - are being retrofitted to that standard.

For new construction, when qualifying the borrower, the cost of the energy package should be subtracted from the sales price (since the builder has included the EEM improvements in the sales price) and the qualifying ratios are calculated on this lower amount.

Note: FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard may also be used for underwriting EEMs. If the lender obtains an "accept" or "approve" on a mortgage loan application, FHA will recognize the risk rating from TOTAL and permit the increase to the mortgage payment without re-underwriting or rescoring, provided that the lender's Direct Endorsement (DE) underwriter attests that he/she has reviewed the calculations associated with the energy efficient improvements, and found the mortgage and the property to be in compliance with FHA's underwriting instructions.

References: For more information on the TOTAL Mortgage Scorecard, see
- HUD 4155.1 6.A.1, and
- the *TOTAL User Guide* at http://www.hud.gov/offices/hsg/sfh/total/total_userguide.pdf.

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2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.c EEM Appraisal Requirements

On an EEM, there is no need for a second appraisal that reflects the expense of the energy package and the improvements. The appraisal does not need to reflect the value of the energy package that will be added to the property for either new or existing construction.

On a Section 203(k), the after-improved value is to be used for the EEM process.

4155.1 6.D.2.d Cost of EEM Improvements

Once the borrower and the property are determined eligible for FHA-insured financing, the lender, using the energy rating report and the EEM worksheet, determines the dollar amount of the cost-effective energy package that may be added to the mortgage amount.

The cost of any improvement to the property that will increase the property's energy efficiency, and that is determined to be cost effective, is eligible for financing into the mortgage.

The cost that may be added to the mortgage amount is up to the *greater* of

- 5% of the property's value, not to exceed $8,000, or
- $4,000.

Note: Regardless of the property's value, every borrower who otherwise qualifies can finance at least $4,000 of the costs of the energy package, if the cost exceeds $4,000.

Reference: For more information on the EEM worksheet, see HUD 4155.1 6.D.4.b.

Continued on next page

2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.e HERS Report for EEM

The energy package is the set of improvements agreed to by the borrower, based on recommendations and analysis performed by a qualified home energy rater using the HERS tool.

The HERS must

- meet the minimum requirements of the Department of Energy (DOE) approved ratings guidelines, and
- achieve passing results for DOE's Building Energy Simulation Test (BESTTEST), or subsequent testing requirements.

For new construction, the energy package includes those cost-effective energy improvements over and above the requirements of the 2000 IECC.

4155.1 6.D.2.f When EEM Work Differs From the Approved Energy Package

The table below describes the actions required if the improvement work differs from the approved energy package.

When the ...	Then ...
work that is done differs from the approved energy package	submit a change order, along with a revised HERS report to the DE underwriter for approval.
changes still meet the cost-effectiveness test	further analysis is *not* required.
changes *do not* meet the cost-effectiveness test	the funds for the work not included in the approved energy package must be used to pay down the loan principal.

Continued on next page

2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.g Required Inspection by HERS Representative

The cost of the energy improvements, including maintenance costs, and the estimate of the energy savings must be determined based upon a physical inspection of the property, or the plans and specifications of a house being built, by a home energy rater using HERS.

The rater must be trained to perform the physical inspection and/or diagnostic tests that provide the data on the property. The home energy rater, using the HERS, prepares a written home energy rating report, and provides copies to both the borrower and the lender.

The lender must include a copy of the HERS report and Energy Efficient Mortgage Worksheet in the closing package, placed behind Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary* when requesting insurance endorsement.

References: For more information on requirements for the HERS

- representative, see HUD 4155.1 6.D.2.h, and
- report, see HUD 4155.1 6.D.3.

4155.1 6.D.2.h Requirements for the HERS Representative

The HERS representative or energy consultant, must be an independent entity. He/she cannot be related directly or indirectly to the seller of the property, the prospective borrower, or the contractor selected by the borrower to install the energy efficient improvements.

The HERS representative or energy consultant may be a(n)

- utility company
- local, state, or Federal government agent
- entity approved by a local, state, or Federal government agency specifically for the purpose of providing home energy ratings on residential properties, or
- nonprofit organization experienced in conducting home energy ratings of residential properties.

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2. Basic EEM Program Requirements and Criteria, Continued

4155.1 6.D.2.i Streamline Refinance Transactions with EEM

For a streamline refinance with EEM, the borrower's principal and interest (P&I) payment on the new loan, including the energy package, may be greater than the P&I payment on the current loan, provided the estimated monthly energy savings shown on the HERS report exceeds the increase in the P&I.

On a streamline refinance without an appraisal, the original principal balance substitutes for an appraised value.

4155.1 6.D.2.j 1 Fees for the Home Energy Rating on EEM

FHA does not set the fees for the Home Energy Rating, including the physical inspection, the HERS Report, and any post-installation test. The fees charged to the borrower for the Home Energy Rating must be customary and reasonable for the area.

These fees may be included and financed as part of the energy package if the entire package, including those fees, is cost-effective. If not, such fees are considered closing costs.

With a Section 203(k), the rating fee and inspections would be in addition to the consultant's fee.

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3. Home Energy Rating System (HERS) Report Requirements

Introduction

This topic contains information on the requirements for the home energy rating report, including

- HERS report requirements
- required information for the HERS report, and
- the HERS representative certification statement.

Change Date

March 24, 2011

4155.1 6.D.3.a HERS Report Requirements

The Home Energy Rating System (HERS) representative or energy consultant is responsible for preparing the home energy rating report. He/she must

- prepare the report in writing, and
- provide a copy to the
  - prospective borrower, and
  - lender.

Note: The lender must include a copy of the home energy rating report in the closing package when requesting insurance endorsement.

Continued on next page

3. Home Energy Rating System (HERS) Report Requirements, Continued

4155.1 6.D.3.b Required Information for the HERS Report

The energy package report prepared by the HERS representative must include the information described in the table below.

Type of Information	Includes
General Information	• Address of the property • Name of the borrower • FHA case number (if applicable) • Name of lender (if applicable) • Type of property • Classification as new or existing property, and • Date of the – physical inspection of the existing property, or – plan review for new construction.
Energy Features Description	A description of the energy features currently at the property (or proposed features if new construction), including, at a minimum, a description of the • insulation R values in ceilings, walls, and floors • infiltration levels and barriers (caulking, weatherstripping, and sealing) • windows (storm, double pane, triple pane) and doors, and • heating (including water heating) and cooling systems.
Energy Package Description	A description of the energy package, which, for • *existing properties*, includes cost-effective improvements recommended to improve the energy efficiency of the property, or • *new construction*, includes cost-effective improvements to be included in the home that exceeded the requirements of 2000 International Energy Conservation Code (IECC).

Continued on next page

3. Home Energy Rating System (HERS) Report Requirements, Continued

4155.1 6.D.3.b Required Information for the HERS Report (continued)

Type of Information	Includes
Energy Package Estimate	• Estimated costs of the energy package • Useful life, and • Costs of any maintenance over the useful life of the improvements.
Annual Estimates	• The estimated present annual utility costs, before installation of the energy package, for existing property and for new construction (i.e., a referenced house built to 2000 IECC standards). • The estimated annual – costs *after* installation of the energy package, and – savings in utility costs *after* installation of the energy package, including the present value of the savings. ***Note***: The present value test is a statutory requirement. Actual energy savings cannot be used to determine cost effectiveness in lieu of the present value calculation of the energy savings.
Inspection Report Names	Printed name and signature of the person performing the inspection and preparing the report, as well as the date of the report.

4155.1 6.D.3.c HERS Representative Certification Statement

The following certification statement must be signed by the person who

- inspected the property, and
- prepared the HERS report.

"I certify, that to the best of my knowledge and belief, the information contained in this report is true and accurate and I understand that the information in this report may be used in connection with an application for an energy efficient mortgage to be insured by the Federal Housing Administration of the United States Department of Housing and Urban Development."

4. Processing an EEM

Introduction

This topic contains information on processing an Energy Efficient Mortgage (EEM), including

- processing an EEM, and
- the Energy Efficient Mortgage Worksheet.

Change Date

March 24, 2011

4155.1 6.D.4.a Processing an EEM

If the borrower elects to have an Energy Efficient Mortgage (EEM) and add the cost of the energy efficient improvements to the mortgage, the lender must complete the additional processing steps found in the table below.

Step	Action
1	Obtain the home energy rating report prepared by a Home Energy Rating System (HERS) representative or energy consultant showing the estimated • costs of installing the energy efficient improvements, including any maintenance costs, and • annuals savings in utility costs that will result from the installation of the energy efficient improvements.
2	Using the HERS report, determine if the energy efficient improvements are “cost effective” by calculating the • *present cost* of the energy improvements, including maintenance costs (if any) over the useful life of the improvements, and • *present value of the energy savings* over the useful life of the energy improvements.

Continued on next page

4. Processing an EEM, Continued

4155.1 6.D.4.a Processing an EEM (continued)

Step	Action
3	Determine whether or not the energy-efficient improvements are cost effective (meaning that the present *cost* of improvements is *less* than the present value of the energy savings) • If *yes* – add 100% of the cost of the energy-efficient improvements, subject to the dollar limits described in HUD 4155.1 6.D.2.d, to the otherwise allowable maximum mortgage amount, and – go to Step 4. • If *no*, do *not* include the additional expense of the energy package in the maximum mortgage amount. ***Note***: If the improvements *are* determined to be cost effective, no appraisal is necessary and the borrower is not required to meet any further credit standards.
4	Calculate the upfront mortgage insurance premium (UFMIP) on the full mortgage amount, which includes the cost of the energy improvements.

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4. Processing an EEM, Continued

4155.1 6.D.4.b Energy Efficient Mortgage Worksheet

The following is the format of the *Energy Efficient Mortgage Worksheet*.

<table>
<tr><th colspan="3">Energy Efficient Mortgage
(EEM) Worksheet</th></tr>
<tr><td colspan="2">Borrower's Name:</td><td>FHA Case No.:</td></tr>
<tr><td>Property Address:</td><td colspan="2"></td></tr>
<tr><td>A. Qualifying Mortgage Amount</td><td>1. Mortgage (w/o MIP)</td><td>A. $ ____________</td></tr>
<tr><td>B. EEM Amount</td><td>The Home Energy Rating System (HERS) Report will provide the information on the Recommended Energy Package
• cost, and
• present value of the energy saved.</td><td></td></tr>
<tr><td></td><td>Compare Cost and PV of energy savings:
• Cost of the Energy Package $ _____
• PV of Energy Saved $ _____
• Is PV more than Cost? Y / N
• If Yes, Continue:</td><td></td></tr>
<tr><td></td><td>1. If the Cost is less than $4,000, enter the Cost in B.</td><td>B. $ ____________</td></tr>
<tr><td></td><td>2. If the Cost is more than $4,000, but 5% of the value is less than $4,000, enter $4,000 in B.</td><td></td></tr>
<tr><td></td><td>3. If the Cost is less than 5% of the value, but 5%of the value is more than $4,000, enter the lesser of the cost, or $8,000 in B.</td><td></td></tr>
<tr><td></td><td>4. If the Cost is greater than 5% of the value, enter the lesser of 5% of the value, or $8,000 in B.</td><td></td></tr>
</table>

C. Final EEM Mortgage Amount (without MIP)	Add A and B.	C. $____________
REMARKS:		

Section E. Hope for Homeowners (H4H) Program

Overview

In This Section	This section contains the topic "*General Information on the Hope for Homeowners (H4H) program*."

1. General Information on the HOPE for Homeowners (H4H) Program

Introduction	This topic contains general information on the HOPE for Homeowners (H4H) program, including • a description of the H4H program • the effective dates for the program, and • a reference for comprehensive guidance on the H4H program**.**
Change Date	March 24, 2011
4155.1 6.E.1.a Description of the H4H Program	The Helping Families Save Their Homes Act of 2009 amends the National Housing Act and provides for key changes in the HOPE for Homeowners (H4H) Program. Under the H4H program, certain borrowers who are having difficulty paying their mortgages are eligible to refinance into affordable FHA-insured mortgages.
4155.1 6.E.1.b Effective Dates for the H4H Program	The H4H program is effective for ***endorsements*** made on or after January 1, 2010 through September 30, 2011.
4155.1 6.E.1.c Guidance on the H4H Program	For comprehensive guidance on the H4H program, see ML 09-43.

Section F. Refinance of Borrowers in Negative Equity Positions Program

Overview

In This Section

This section contains the topic "*General Information on the Refinance of Borrowers in Negative Equity Positions Program*."

1. General Information on the Refinance of Borrowers in Negative Equity Positions Program

Introduction

This topic contains general information on the Refinance of Borrowers in Negative Equity Positions Program, including

- a description of the Refinance of Borrowers in Negative Equity Positions Program
- the effective dates for the program, and
- a reference for guidance on the Refinance of Borrowers in Negative Equity Positions Program.

Change Date

March 24, 2011

4155.1 6.F.1.a Description of Refinance of Borrowers in Negative Equity Positions Program

On March 26, 2010, HUD and the Department of the Treasury announced enhancements to the existing Making Home Affordable (MHA) Program and Federal Housing Administration refinance program that will give a greater number of responsible borrowers an opportunity to remain in their homes.

Under the Refinance of Borrowers in Negative Equity Positions Program, a borrower who is current on his/her mortgage may qualify for an FHA refinance loan provided that the lender or investor writes off at least 10% of the unpaid principal balance of the original first lien mortgage.

4155.1 6.F.1.b Effective Dates for Refinance of Borrowers in Negative Equity Positions Program

The Refinance of Borrowers in Negative Equity Positions Program is effective for loans with case numbers issued on or after September 7, 2010 that are closed on or before December 31, 2012.

Continued on next page

1. General Information on the Refinance of Borrowers in Negative Equity Positions Program, Continued

4155.1 6.F.1.c Refinance of Borrowers in Negative Equity Positions Program (Reference)

For comprehensive guidance on the Refinance of Borrowers in Negative Equity Positions Program, see

- ML 10-23
- ML 10-35, and
- ML 11-06.

Chapter 7. Assumptions

1. General Information on Assumptions

Introduction

This topic contains general information on assumptions, including

- assumability restrictions
- restrictions under the HUD Reform Act of 1989
- mortgages subject to the 1989 Act
- mortgages not subject to the 1989 Act, and
- processing a release of liability.

Change Date

March 24, 2011

4155.1 7.1.a Assumability Restrictions

All FHA-insured mortgages are assumable. Mortgages originated before December 1, 1986 generally contained no restrictions on assumability, while those originated after that date have certain restrictions.

Depending on the date of the loan origination, the lender may require a creditworthiness review of the assumptor. To determine what restrictions have been placed on the mortgage, the lender must review the mortgage's legal documents.

Lenders should note that some mortgages executed from 1986 through 1989 contain language that is not enforced, due to later Congressional action. Mortgages from that period are now freely assumable, despite any restrictions stated in the mortgage.

Reference: For more information on assumability, see HUD 4330.1 Rev-5, *Administration of Insured Home Mortgages*.

Continued on next page

1. General Information on Assumptions, Continued

4155.1 7.1.b Restrictions on Assumptions Under the HUD Reform Act of 1989

Under the HUD Reform Act of 1989, mortgages closed on or after December 15, 1989 require credit qualification of those borrowers wishing to assume the mortgage. The creditworthiness review requirement spans the life of the mortgage. This requirement applies to both those borrowers who

- take title to a property subject to the mortgage without assuming personal liability for the debt, and
- assume and agree to pay the mortgage.

Additionally, the Act stipulates that

- assumptions without credit approval are grounds for acceleration of the mortgage, if permitted by applicable state law and subject to HUD approval, unless the
  - – seller retains an ownership interest in the property, or
  - – transfer is by devise or descent, and
- private investors are prohibited from assuming insured mortgages that are subject to the restrictions of the 1989 act. This restriction applies whether or not there is a release from liability by the lender of the selling mortgagor.

Continued on next page

1. General Information on Assumptions, Continued

4155.1 7.1.c Assumptions of Mortgages Subject to the 1989 Act

Mortgages subject to the 1989 Act require that the lender automatically prepare the release from liability, thereby releasing the original owner, when he/she sells by assumption to a creditworthy assumptor, who executes an agreement to assume and to pay the debt, thus becoming the substitute borrower.

The due-on-sale clause is generally triggered when an owner is deleted from the title, except when that party's interest is transferred by devise, descent, or other circumstances in which the transfer cannot legally lead to exercise of the due-on-sale, such as a divorce in which the party remaining on title retains occupancy.

Reference: For information on processing a release of liability, see HUD 4155.1 7.1.e.

4155.1 7.1.d Assumptions of Mortgages not Subject to the 1989 Act

Mortgages executed before December 15, 1989 require that the lender honor all former owners' written requests to process a formal release from liability.

Lenders must grant a release of liability if the assumptor

- is creditworthy, and
- agrees to execute a statement agreeing to assume and pay the mortgage debt.

Continued on next page

1. General Information on Assumptions, Continued

4155.1 7.1.e Processing a Release of Liability on an Assumption

In order to initiate processing of a release of liability, the lender completes Form HUD 92210, *Request for Credit Approval of Substitute Mortgagor*, or other similar form. Execution of this form does not formally release the borrower from personal liability on the mortgage note.

Execution of Form HUD 92210.1, *Approval of Purchaser and Release of Seller*, or other similar form, constitutes a formal release of liability.

Only the lender can execute the release of liability. The lender is required to release all parties from liability when the assuming borrower is found creditworthy.

2. Creditworthiness Review for Assumptions

Introduction

This topic contains information on the creditworthiness review for assumptions, including

- determining if an assumptor is creditworthy
- contracts between servicing lenders and DE lenders, and
- additional credit review requirements for assumptions.

Change Date

March 24, 2011

4155.1 7.2.a Determining if an Assumptor is Creditworthy

The lender who is the holder or servicer of the mortgage determines the creditworthiness of the assumptor, in accordance with standard mortgage credit analysis requirements.

The Direct Endorsement (DE) lender may also use an approved authorized agent to process assumptions.

Assumption creditworthiness review processing must be completed within 45 days from the date the lender receives all necessary documents.

Reference: For information on the allowable fees for assumption processing, see HUD 4330.1 Rev-5, *Administration of Insured Home Mortgages*.

Continued on next page

2. Creditworthiness Review for Assumptions for Assumptions, Continued

4155.1 7.2.b Contracts Between Servicing Lenders and DE Lenders

There are a number of servicing lenders that

- *do not* originate mortgages, or
- *are not* approved under the DE program.

In these situations, if the servicer is a supervised or non-supervised financial institution, the servicer may contract with a DE approved lender to underwrite its credit-qualifying assumptions. The DE underwriter must indicate his/her Computerized Homes Underwriting Management System (CHUMS) identification number on the HUD-92900-LT, *Loan Underwriting and Transmittal Summary.* The fee is negotiated between the servicer and DE lender.

Supervised lenders with a HUD-approved authorized agent relationship may have the agent underwrite its credit-qualifying assumptions.

4155.1 7.2.c Additional Credit Review Requirements for Assumptions

The table below lists additional creditworthiness review requirements for assumptors.

Requirement	Description
Credit Review	The lender reviews the assumptor's credit, if the mortgage being assumed is held or serviced by a DE approved lender.
Secondary Financing	Secondary financing or other borrowed funds may be used by the assuming borrowers, provided the repayment terms are • clearly defined, and • included in the underwriting analysis.
Seller Contributions	Cash contributions made by the seller to facilitate an assumption are *not* acceptable. The existing mortgage balance must be reduced by the amount of the contribution. However, the seller may pay the assumptor's normal closing costs, including processing fees and credit report fees, with no reduction to the mortgage.

Continued on next page

2. Creditworthiness Review for Assumptions for Assumptions, Continued

4155.1 7.2.c Additional Credit Review Requirements for Assumptions for Assumptions (continued)

Requirement	Description
Documentation Requirements	For information on the documentation requirements for the creditworthiness review of assumptions, see HUD 4155.2 3.C.
Assumptions by Other Legal Entities	An assumption solely in the name of a corporation, partnership, sole proprietorship or trust is *not* acceptable if a creditworthiness review is required.

3. LTV Reduction Requirements for Assumptions

Introduction

This topic contains information on loan-to-value (LTV) reduction requirements for assumptions, including

- loan-to-value reduction requirements for assumptions
- investors assuming mortgages, and
- owner occupant assuming a secondary residence.

Change Date

March 24, 2011

4155.1 7.3.a Loan-to-Value Reduction Requirements for Assumptions

Certain mortgages, depending on when originated, may require a reduction to the outstanding principal balance, when assumed

- by investors, or
- as secondary residences.

4155.1 7.3.b Investors Assuming Mortgages

When assuming a mortgage *not* subject to the HUD Reform Act of 1989, an investor must pay down the outstanding mortgage balance to a 75% loan-to-value (LTV) ratio *if* the current owner occupant requests a release of liability, and the mortgage

- was originated by an owner occupant pursuant to a Certification of Reasonable Value (CRV) issued by the Veterans Administration (VA), or
- is one for which a Direct Endorsement (DE) underwriter signed an appraisal report on or after February 5, 1988.

Either the original or the current appraised value of the property may be used to determine compliance with the 75% LTV limitation.

This requirement continues throughout the life of the mortgage.

Continued on next page

3. LTV Reduction Requirements for Assumptions for Assumptions, Continued

4155.1 7.3.c Owner Occupant Assuming a Secondary Residence

When assuming a property as a secondary residence, an owner occupant must pay down the outstanding mortgage balance to an 85% LTV ratio, if a

- VA CRV was issued, or
- DE underwriter signed an appraisal report on or after February 5, 1988, but before January 27, 1991.

Either the original appraised value or the current appraised value of the property may be used to determine compliance with the 85% LTV limit.

Mortgages pursuant to a VA CRV or DE lender appraisal report or master appraisal report issued or signed on or after January 27, 1991, *may not* be assumed as secondary residences, except under hardship provisions as outlined in HUD 4155.1 4.B.3.

Note: This policy does not apply to mortgages exempt from the investor prohibitions.

Chapter 8. [TBD]

[TDB]

[TDB]	[TDB]

Chapter 9. Glossary

1. Glossary of Handbook Terms

Change Date October 18, 2010

4155.1 9.1.a Glossary of Handbook Terms: A

The table below contains definitions of terms that begin with the letter A.

Term	Definition
Adjusted Interest Rate	The ***adjusted interest rate*** is the new interest rate effective for the 12-month period following each Change Date. The Adjusted Interest Rate becomes the Existing Interest Rate on the next Change Date.

4155.1 9.1.b Glossary of Handbook Terms: B

The table below contains definitions of terms that begin with the letter B.

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Continued on next page

1. Glossary of Handbook Terms, Continued

4155.1 9.1.c Glossary of Handbook Terms: C

The table below contains definitions of terms that begin with the letter C.

Term	Definition
Calculated interest rate	The ***calculated interest rate*** is the Current Index, plus the Margin, rounded to the nearest one-eighth of one percentage point (0.125%). The Calculated Interest Rate is used to determine the Adjusted Interest Rate.
Change date	The ***change date*** is the effective date of an adjustment to the interest rate, referred to as the Interest Rate Adjustment Date by Ginnie Mae. The date is • specified in Paragraph 5(A) of the ARM note, and • not the date on which the monthly payments change.
Current index	The ***current index*** is the most recently available Index published 30 calendar days before the Change Date.

4155.1 9.1.d Glossary of Handbook Terms: D

The table below contains definitions of terms that begin with the letter D.

[**Placeholder**]

Continued on next page

1. Glossary of Handbook Terms, Continued

4155.1 9.1.e Glossary of Handbook Terms: E

The table below contains definitions of terms that begin with the letter E.

Term	Definition
Existing interest rate	The ***existing interest rate*** is the interest rate effective immediately prior to any adjustment on the pending Change Date.

4155.1 9.1.f Glossary of Handbook Terms: F

The table below contains definitions of terms that begin with the letter F.

Term	Definition
Family member	A ***family member*** is defined as a borrower's • child, parent, or grandparent • spouse • legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption, and • foster child. ***Note***: A child is defined as a son, stepson, daughter, or stepdaughter.

Continued on next page

1. Glossary of Handbook Terms, Continued

4155.1 9.1.f Glossary of Handbook Terms: F (continued)

Term	Definition
Federal debt	***Federal debt*** is defined as • a Veterans Affairs (VA) guaranteed mortgage • a Title I loan • a Federal student loan • a Small Business Administration (SBA) loan • delinquent Federal taxes, or • a lien, including taxes, placed against the borrower's property for a debt owed to the U.S.

Continued on next page

1. Glossary of Handbook Terms, Continued

4155.1 9.1.g Glossary of Handbook Terms: G

The table below contains definitions of terms that begin with the letter G.

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4155.1 9.1.h Glossary of Handbook Terms: H

The table below contains definitions of terms that begin with the letter H.

[**Placeholder**]

Continued on next page

1. Glossary of Handbook Terms, Continued

4155.1 9.1.i Glossary of Handbook Terms: I

The table below contains definitions of terms that begin with the letter I.

Term	Definition
Identity-of-interest transaction	An ***identity-of-interest transaction*** is a transaction for the purchase of a principal residence between • parties with a familial or business relationship, or • business affiliates. ***Note***: An identify-of-interest transaction does *not* include an employer/employee transaction when the employee is purchasing the seller's principal residence.
Index	***Index*** is the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year, published in the Federal Reserve Bulletin H.15.
Initial interest rate	The ***Initial Interest Rate*** is the rate stated in the adjustable rate mortgage (ARM) note that will be in effect from the date of the first monthly payment for the ARM. ***Reference***: For information on the frequency of interest rate changes, see HUD 4155.1 6.B.4.e.

4155.1 9.1.j Glossary of Handbook Terms: J

The table below contains definitions of terms that begin with the letter J.

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4155.1 9.1.k Glossary of Handbook Terms: K

The table below contains definitions of terms that begin with the letter K.

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1. Glossary of Handbook Terms, Continued

4155.1 9.1.l Glossary of Handbook Terms: L

The table below contains definitions of terms that begin with the letter L.

[**Placeholder**]

4155.1 9.1.m Glossary of Handbook Terms: M

The table below contains definitions of terms that begin with the letter M.

Term	Definition
Margin	***Margin*** is the agreed upon number of percentage points added to the Current Index to determine the Calculated Interest Rate. The number • is specified in Paragraph 5(C) of the ARM Note, and • remains constant for the life of the mortgage.

4155.1 9.1.n Glossary of Handbook Terms: N

The table below contains definitions of terms that begin with the letter N.

Term	Definition
Non-occupying borrower transaction	A ***non-occupying borrower transaction*** is a transaction involving two or more borrowers where one or more borrower will *not* occupy the property as the principal residence.

4155.1 9.1.o Glossary of Handbook Terms: O

The table below contains definitions of terms that begin with the letter O.

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1. Glossary of Handbook Terms, Continued

4155.1 9.1.p Glossary of Handbook Terms: P

The table below contains definitions of terms that begin with the letter P.

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4155.1 9.1.q Glossary of Handbook Terms: Q

The table below contains definitions of terms that begin with the letter Q.

[**Placeholder**]

4155.1 9.1.r Glossary of Handbook Terms: R

The table below contains definitions of terms that begin with the letter R.

[**Placeholder**]

4155.1 9.1.s Glossary of Handbook Terms: S

The table below contains definitions of terms that begin with the letter S.

Term	Definition
Self-employed borrower	For FHA mortgage loan underwriting purposes, a ***self-employed borrower*** is a borrower with a 25 percent or greater ownership interest in a business.

Continued on next page

1. Glossary of Handbook Terms, Continued

4155.1 9.1.t Glossary of Handbook Terms: T

The table below contains definitions of terms that begin with the letter T.

Term	Definition
Third party contribution	A ***third party contribution*** is a payment by an interested third party, or a combination of parties, toward the borrower's • closing costs, per ML 06-04 • prepaid expenses • discount points, and • other financing concessions. ***Note***: Interested parties include • real estate agents • builders, and • developers.

4155.1 9.1.u Glossary of Handbook Terms: U

The table below contains definitions of terms that begin with the letter U.

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4155.1 9.1.v Glossary of Handbook Terms: V

The table below contains definitions of terms that begin with the letter V.

[**Placeholder**]

4155.1 9.1.w Glossary of Handbook Terms: W

The table below contains definitions of terms that begin with the letter W.

[**Placeholder**]

Continued on next page

1. Glossary of Handbook Terms, Continued

4155.1 9.1.x Glossary of Handbook Terms: X	The table below contains definitions of terms that begin with the letter X. [**Placeholder**]
4155.1 9.1.y Glossary of Handbook Terms: Y	The table below contains definitions of terms that begin with the letter Y. [**Placeholder**]
4155.1 9.1.z Glossary of Handbook Terms: Z	The table below contains definitions of terms that begin with the letter Z. [**Placeholder**]

2. Acronyms

Change Date February 23, 2011

4155.1 9.2.a Acronyms: A

The table below contains a description of acronyms that begin with the letter A.

Acronym	Description
ADP	Automated Data Processing
AHP	Affordable Housing Program
AMC	Appraisal Management Company
ARM	Adjustable Rate Mortgage

4155.1 9.2.b Acronyms: B

The table below contains a description of acronyms that begin with the letter B.

Acronym	Description
B2G	Business to Government

4155.1 9.2.c Acronyms: C

The table below contains a description of acronyms that begin with the letter C.

Acronym	Description
CAIVRS	Credit Alert Interactive Voice Response System
CB	Case Binder
CBRA	Coastal Barriers Resources Act
CBRS	Coastal Barriers Resource System
CHUMS	Computerized Homes Underwriting Management System
CFR	Code of Federal Regulations
CLTV	Combined Loan-to-Value
CO	Certificate of Occupancy
CRV	Certificate of Reasonable Value

Continued on next page

2. Acronyms, Continued

4155.1 9.2.d Acronyms: D

The table below contains a description of acronyms that begin with the letter D.

Acronym	Description
DHLL	Department of Hawaiian Home Lands
DE	Direct Endorsement
DTI	Debt-to-Income
DOM	Days on the Market

4155.1 9.2.e Acronyms: E

The table below contains a description of acronyms that begin with the letter E.

Acronym	Description
EAD	Employment Authorization Document
eCB	Electronic Case Binder
ECOA	Equal Credit Opportunity Act
EEH	Energy Efficient Home
EEM	Energy Efficient Mortgage
EFT	Electronic Funds Transfer
EIN	Employer Identification Number
EPLS	Excluded Parties List System
eMIC	Electronic Mortgage Insurance Certificate

Continued on next page

2. Acronyms, Continued

4155.1 9.2.f Acronyms: F

The table below contains a description of acronyms that begin with the letter F.

Acronym	Description
FCRA	Fair Credit Reporting Act
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FHAC	FHA Connection
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FICA	Federal Insurance Contributions Act
FIRM	Flood Insurance Rate Map
FIRREA	Financial Institutions Reform, Recovery, Enforcement Act
FNMA	Federal National Mortgage Association (Fannie Mae)
FOC	Financial Operations Center
FWS	U.S. Fish and Wildlife Service

4155.1 9.2.g Acronyms: G

The table below contains a description of acronyms that begin with the letter G.

Acronym	Description
GAAP	Generally Accepted Accounting Principles
GE	Government Entity
GEM	Growing Equity Mortgage
GFE	Good Faith Estimate
GI fund	General Insurance fund
GNMA	Government National Mortgage Association (Ginnie Mae)
GNND	Good Neighbor Next Door
GPM	Graduated Payment Mortgage
GSA	General Services Administration
GSE	Government Sponsored Entity

Continued on next page

2. Acronyms, Continued

4155.1 9.2.h Acronyms: H

The table below contains a description of acronyms that begin with the letter H.

Acronym	Description
H4H	Hope for Homeowners
HECM	Home Equity Conversion Mortgage
HERS	Home Energy Rating System
HFSH	Helping Family Save Their Homes (Act)
HHL	Hawaiian Home Lands
HMDA	Home Mortgage Disclosure Act
HOA	Homeowners' Association
HOC	Homeownership Center
HUD	U.S. Department of Housing and Urban Development

4155.1 9.2.i Acronyms: I

The table below contains a description of acronyms that begin with the letter I.

Acronym	Description
IACS	Insured Accounting Collection System
IECC	International Energy Conservation Code
IL	Indian Lands
IRS	Internal Revenue Service

4155.1 9.2.j Acronyms: J

The table below contains a description of acronyms that begin with the letter J.

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4155.1 9.2.k Acronyms: K

The table below contains a description of acronyms that begin with the letter K.

[**Placeholder**]

Continued on next page

2. Acronyms, Continued

4155.1 9.2.l Acronyms: L

The table below contains a description of acronyms that begin with the letter L.

Acronym	Description
LASS	Lender Assessment Sub System
LDP	Limited Denial of Participation
LI	Lender Insurance
LIBOR	London Interbank Offered Rate
LIC	Loan Insurance Certificate
LLC	Limited Liability Company
LOMA	Letter of Map Amendment
LOMR	Letter of Map Revision
LTV	Loan-to-Value

4155.1 9.2.m Acronyms: M

The table below contains a description of acronyms that begin with the letter M.

Acronym	Description
MCA	Maximum Claim Amount
MCRV	Master Certificate of Reasonable Value
MEC	Model Energy Code
MHCP	Manufactured Housing Condominium Project
MHCSS	Manufactured Home Construction and Safety Standards
MIA	Military Impacted Area
MIC	Mortgage Insurance Certificate
MIP	Mortgage Insurance Premium
MPR	Minimum Property Requirements
MPS	Minimum Property Standards
MRB	Mortgagee Review Board
MSA	Metropolitan Statistical Area

Continued on next page

2. Acronyms, Continued

4155.1 9.2.n Acronyms: N

The table below contains a description of acronyms that begin with the letter N.

Acronym	Description
NDC	Net Development Costs
NFIP	National Flood Insurance Program
NHA	National Housing Act
NMLS	Nationwide Mortgage Licensing System
NOR	Notice of Return
NP	Non Profit
NTMCR	Non-Traditional Credit Report

4155.1 9.2.o Acronyms: O

The table below contains a description of acronyms that begin with the letter O.

[**Placeholder**]

Continued on next page

2. Acronyms, Continued

4155.1 9.2.p Acronyms: P

The table below contains a description of acronyms that begin with the letter P.

Acronym	Description
P&I	Principal and Interest (Payment)
PAD	Pre Authorized Debit
PETR	Post Endorsement Technical Review
PFGMH	Permanent Foundations Guide for Manufactured Housing
PITI	Principal, Interest, Tax, Insurance
P&L	Profit and Loss
PL	Principal Limit
POA	Power of Attorney
PUD	Planned Unit Development

4155.1 9.2.q Acronyms: Q

The table below contains a description of acronyms that begin with the letter Q.

Acronym	Description
QAD	Quality Assurance Division
QC	Quality Control

4155.1 9.2.r Acronyms: R

The table below contains a description of acronyms that begin with the letter R.

Acronym	Description
REO	Real Estate Owned
RESPA	Real Estate Settlement Procedures Act
RMCR	Residential Mortgage Credit Report

Continued on next page

2. Acronyms, Continued

4155.1 9.2.s Acronyms: S

The table below contains a description of acronyms that begin with the letter S.

Acronym	Description
SBA	Small Business Administration
SFHA	Special Flood Hazard Area
SSA	Social Security Administration
SSN	Social Security Number

4155.1 9.2.t Acronyms: T

The table below contains a description of acronyms that begin with the letter T.

Acronym	Description
TILA	Truth In Lending Act
TOTAL	Technology Open to Approved Lenders
TPO	Third Party Originator
TRMCR	Three Repository Merged Credit Report

4155.1 9.2.u Acronyms: U

The table below contains a description of acronyms that begin with the letter U.

Acronym	Description
UETA	Uniform Electronic Transactions Act
UFMIP	Upfront Mortgage Insurance Premium
URAR	Uniform Residential Appraisal Report
URLA	Uniform Residential Loan Application
URS	Underwriting Report System
USC	United States Code
USCIS	United States Citizenship and Immigration Services

Continued on next page

2. Acronyms, Continued

4155.1 9.2.v Acronyms: V

The table below contains a description of acronyms that begin with the letter V.

Acronym	Description
VA	U.S. Department of Veterans Affairs
VOD	Verification of Deposit
VOE	Verification of Employment

4155.1 9.2.w Acronyms: W

The table below contains a description of acronyms that begin with the letter W.

[**Placeholder**]

4155.1 9.2.x Acronyms: X

The table below contains a description of acronyms that begin with the letter X.

[**Placeholder**]

4155.1 9.2.y Acronyms: Y

The table below contains a description of acronyms that begin with the letter Y.

Acronym	Description
YSP	Yield Spread Premium

4155.1 9.2.z Acronyms: Z

The table below contains a description of acronyms that begin with the letter Z.

[**Placeholder**]