FHA Office of Single Family Housing

ATLANTA HOMEOWNERSHIP CENTER
2016 Credit Training

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Presenters

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Outline

I. Accept Risk Clarifications Required Downgrade to Manual Underwrite
- 11 Clarifications
- Ratios/Acceptable Compensating Factors (Manual)

II. Evaluating Credit history
- Delinquent Federal vs Delinquent Federal Non- tax Debt
- Disputed Accounts and/or Non Disputed Account reflected on credit report
- Judgments
- Collections

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III. Evaluating Liabilities and Debts

- Closed –end Debts
- Undisclosed Debt other than mortgage
- Deferred obligation/ Student Loans
- Contingent Liabilities
- Business Debt
- Negative income

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IV. Income/Assets Requirement

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- Underwriting Summary

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V. Programs and Products

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-Types of Refinance: Cash Out & No Cash Out

i. Cash Out

ii. Rate and Term

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Accept Risk Classifications Requiring a Downgrade to Manual Underwriting

Accept Risk Classifications Requiring a Downgrade to Manual Underwriting

The Mortgagee ***must downgrade*** and manually underwrite any mortgage that ***received an Accept*** recommendation if:

- The mortgage file contains information or documentation that ***cannot be entered into or evaluated by TOTAL Mortgage Scorecard***.

Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee ***must downgrade*** and manually underwrite any mortgage that ***received an Accept*** recommendation if:

- Additional information, ***not considered in the AUS*** recommendation, ***effects the overall insurability*** of the mortgage.

Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee ***must downgrade*** and manually underwrite any mortgage that ***received an Accept*** recommendation if:

- The Borrower has ***$1,000 or more collectively in Disputed Derogatory Credit*** accounts.

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Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee ***must downgrade*** and manually underwrite any mortgage that ***received an Accept*** recommendation if:

- The date of the Borrower's *bankruptcy discharge* as reflected on ***bankruptcy documents*** *is within two years from the* ***date of case number assignment****.*

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Chapter 7

Discharge Period less than 2 Years

- A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured mortgage if, **at the time of case number assignment** if an elapsed period of **less than two years, but not less than 12 months**, may be acceptable, have elapsed since the date of the bankruptcy discharge if the Borrower:
  - Can show that the bankruptcy was caused by extenuating circumstances beyond the Borrower's control; and
  - Has since exhibited a documented ability to manage their financial affairs in a responsible manner.

Chapter 13 Bankruptcy: Pay-out Period

- A Chapter 13 bankruptcy does not disqualify a Borrower from obtaining an FHA-insured mortgage if, **at the time of case number assignment**, **at least 12 months** of the pay-out period under the bankruptcy has elapsed.
- The Mortgagee must determine that during this time, 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.

Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee ***must downgrade*** and manually underwrite any mortgage that ***received an Accept*** recommendation if:

- The ***case number assignment date*** is *within three years* of the date of the *transfer of title through a foreclosure sale*.

Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee ***must downgrade*** and manually underwrite any mortgage that ***received an Accept*** recommendation if:

- The ***case number assignment date*** is within *three years* of the date of the transfer of *title through a Deed-in-Lieu* (DIL) of foreclosure.

Foreclosure and Deed-in-Lieu Period

- A Borrower is generally not eligible for a new FHA-insured mortgage if the Borrower had a foreclosure or a Deed-in-Lieu of foreclosure in the three-year period prior to the date of case number assignment.
- The three-year period begins on the date of the Deed-in-Lieu or the date that the Borrower transferred ownership of the property to the foreclosing Entity/designee.

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Foreclosure and Deed-in-Lieu of Foreclosure: Exceptions

- The Mortgagee 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.
- The inability to sell the property due to a job transfer or relocation to another area **does not qualify** as an extenuating circumstance.

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Foreclosure and Deed-in-Lieu: Documentation

- If the credit report does not indicate the date of the foreclosure or DIL of foreclosure, the Mortgagee must obtain the Settlement Statement, deed, or other legal documents evidencing the date of property transfer.
- If the foreclosure or DIL of foreclosure was the result of a circumstance beyond the Borrower’s control, the Mortgagee must obtain an explanation of the circumstance and document that the circumstance **was beyond the Borrower’s control**.

Extenuating Circumstances: Clarification

- A list of acceptable Extenuating Circumstances is **not provided** in the Single Family Housing Policy Handbook.
- The underwriter must make the determination if the cause of the credit history was due to a **life changing event that was beyond the Borrower's control and most likely will not reoccur**.
- An example of a life changing event is, death or serious illness of a wage earner who contributes to the support of the household.
- **Divorce is not** to be considered as an **extenuating circumstance**.

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Short Sale

- The Mortgagee must document the passage of three years since the date of the short sale. If the short sale occurred within three years of the case number assignment date, the mortgage must be downgraded to a Refer and manually underwritten.
- If the credit report does not verify the date of the transfer of title by short sale, the Mortgagee must obtain the short sale documents. A Borrower is generally not eligible for a new FHA-insured mortgage if they relinquished a property through a short sale within three years from the date of case number assignment.
- This three-year period begins on the date of transfer of title by short sale.

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Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee ***must downgrade*** and manually underwrite any mortgage that ***received an Accept*** recommendation if:

- The Mortgage Payment history requires a downgrade as defined in ***Housing Obligations/Mortgage Payment History***.

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Mortgage Payment Downgrade: Obligations/Mortgage Payment History Purchase and No Cash-Out Refinance

Purchase and No Cash-Out Refinance Transactions	
Downgraded to a **Refer** if any mortgage trade line reflects:	
Most recent 12 months	> 3 x 30 Three or more late payments of greater than 30 Days
	> 1 x 60 + > 1 x 30 One or more late payments of 60 Days plus one or more 30-Day late payments.
	> 1 x 90 One payment greater than 90 Days late.
* A Mortgage Payment is considered delinquent if not paid within the month due.	
** Modified Mortgage utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.	

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Mortgage Payment Downgrade: Obligations/Mortgage Payment History Purchase and No Cash-Out Refinance Transactions (cont.)

Cash-Out Refinance Transactions
Downgraded to a **Refer** if any mortgage trade line reflects:
• Any delinquency within 12 months of the case assignment date; or
• A current delinquency.
*A Mortgage Payment is considered delinquent if not paid within the month due.
**Modified Mortgage utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

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Accept Risk Classifications Requiring a Downgrade to Manual Underwriting

The Mortgagee ***must downgrade*** and manually underwrite any mortgage application that ***received an Accept*** recommendation if:

- The Borrower has an ***undisclosed mortgage debt***.

Undisclosed Mortgage

- When a debt or obligation that is secured by a mortgage not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, the Mortgagee must downgrade to a Refer and manually underwrite the mortgage.

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Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (cont.)

The Mortgagee ***must downgrade*** and manually underwrite any mortgage application that ***received an Accept*** recommendation if:

- **Business income shows a greater than 20 percent decline over the analysis period.**

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Ratio Requirements/Acceptable Compensating Factors (Manual)

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
500-579 or No Credit Score	31/43	Not applicable. Borrowers with Minimum Decision Credit Scores below 580, or with no credit score may not exceed 31/43 ratios. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	31/43	No compensating factors required. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	37/47	**One** of the following: • verified and documented cash Reserves; • minimal increase in housing payment; or • residual income.
580 and above	40/40	No discretionary debt.
580 and above	40/50	**Two** of the following: • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income.

Evaluating Credit History

Delinquent Federal Non-Tax Debt vs. Delinquent Federal Tax Debt

Federal Non-Tax Debt	**Federal Tax Debt**
CAIVRS (or other means) ↓ Debt Collection Improvement Act ↓ Borrower must resolve their federal non-tax debt in accordance with the **Debt Collection Improvement Act**. ↓ Clear CAIVRS Report	Does not report on CAIVRS Delinquency must be resolved (paid satisfied or payment arrangement)

Credit Report: Non-borrowing Spouse

- The Mortgagee must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject property is located in a community property state.
- The credit report must indicate the non-borrowing spouse's SSN was matched with the SSA, or the Mortgagee must provide separate documentation indicating that the SSN was matched with the SSA.
- The Mortgagee does not *submit the non-borrowing spouse credit report as part of the TOTAL Scorecard risk evaluation*.

Disputed Derogatory Credit Accounts

- **Disputed Derogatory Credit Account** refers to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

Disputed Derogatory Credit Accounts: Exclusions

The following accounts can be ***excluded*** *from consideration* in the underwriting analysis:

- Medical accounts; and
- Disputed derogatory credit resulting from **identity theft**, credit card theft or unauthorized use
  - To exclude these balances, the ***Mortgagee must include*** *a copy of the police report or other* ***documentation*** *from the creditor to support the status of the accounts*.

Disputed Derogatory Credit Accounts: Applicability

- Credit report utilized by TOTAL Mortgage Scorecard indicates that the Borrower has **$1,000 or more collectively** in Disputed Derogatory Credit Accounts, the mortgage must be downgraded to a **Refer and manually underwritten**.

- Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state **are not** included in the cumulative balance for determining if the mortgage application is downgraded to a Refer.

Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report

Non-Derogatory Disputed Accounts include the following types of accounts:

- Disputed accounts with zero balance;
- Disputed accounts with late payments aged 24 months or greater; **and**
- Disputed accounts that are current and paid as agreed.

Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (cont.)

Non-Derogatory Disputed Accounts the Mortgagee:

- *Is not required to downgrade the application to a Refer*;
- Must analyze the effect of the disputed accounts on the Borrower's ability to repay the mortgage; and
- Must provide acceptable documentation from the borrower if the the dispute results in the Borrower's monthly debt payments utilized in computing the Debt-to-Income (DTI) ratio being less than the amount indicated on the credit report.

Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (cont.)

- Non-derogatory disputed accounts are **excluded** from the $1,000 cumulative balance.

Judgments

- Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.
- The Mortgagee must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

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Judgments: Exception Policy Clarification

Exception:

A Judgment is considered resolved if the Borrower has:

- entered into a valid agreement with the creditor to make regular payments on the debt;
- has made timely payments for at **least three months of scheduled payments**; and
- the Judgment will not supersede the FHA-insured mortgage lien.

- The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

Note: All judgment liens must be subordinated.

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Judgments: Payment Agreement

The Mortgagee must:

- Include the payment amount in the agreement in the Borrower's monthly liabilities and debt;
- Obtain a copy of the agreement;
- Evidence for at least three months that payments were made on time in accordance with the agreement; and
- Include the subordination agreement for any liens existing on title.

Collection Accounts

- A **<u>Collection Account</u>** refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.
- *Medical Collections*, are not required to be paid, satisfied, or considered in the Borrower's qualifying ratios.

Collection Accounts (cont.)

If the credit reports used in the analysis show a **cumulative outstanding collection account balances of $2,000 or greater**, the Mortgagee must:

- Verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds;
- Verify that the Borrower has made payment arrangements with the creditor and include the monthly payment in the Borrower's DIT; or
- If a payment arrangement is not available, calculate the **monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI ratio**.

Collection Accounts (cont.)

- Collection accounts of a non-borrowing spouse in a community property state must be included in the $2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless specifically excluded by state law.
- The Mortgagee must provide the following documentation:
  - Evidence of payment in full, if paid prior to settlement; or
  - The payoff statement, if paid at settlement; or
  - The payment arrangement with creditor, if not paid prior to or at settlement.
- If the Mortgagee uses 5 percent of the outstanding balance, no documentation is required.

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Evaluating: Mortgage History for Modification

- A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.
- Mortgages in which modifications incorporated deficiency balances, are not considered delinquent.

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Evaluating Liabilities and Debts

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Closed-end Debts Paid Off Within 10 Months

- Closed-end debts do not have to be included if:
  - They will be paid off within 10 months; **and**
  - **The cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income**.
- The Borrower may not pay down the balance in order to meet the 10-month requirement.

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Undisclosed Debt Other Than a Mortgage

- When a *debt or obligation (other than a mortgage)* not listed on the mortgage application and/or credit report and *not considered by the AUS* is revealed during the application process, the Mortgagee must:
  - *Verify* the actual monthly payment amount;
  - *Re-submit* the mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the *Borrower's debt increases* by more than *$100 per month*; and
  - Determine that any *funds borrowed were not/will not be used for the Borrower's MRI (Minimum Required Investment).*

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Deferred Obligations: Clarification

- **Deferred Obligations** refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, *including accounts* ***in forbearance***.
- The Mortgagee must *verify* and *include deferred obligations in the calculation of the Borrower's debt*.

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Deferred Obligations: Clarification (cont.)

Mortgagee must use the actual monthly payment to be paid on a deferred liability, whenever available.

If the actual monthly payment is not available, for:

- **Installment Debt**:
  - *5 percent of the outstanding balance to establish the monthly payment.*
- **Student Loan**:
  - *2 percent of the outstanding balance to establish the monthly payment.*

Installment Loan Monthly Payment Clarification

- If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard.
- **If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required**.
- If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, *the Mortgagee must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment*.

Contingent Liabilities

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

Contingent Liabilities (cont.)

- The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations *unless* the Mortgagee verifies and documents that there is **no possibility** that the *debt holder will pursue debt collection against the Borrower* should the other party default or the other legally obligated party *has made 12 months of timely payments*.
- The Mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

Contingent Liabilities: Mortgage Assumptions

- The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.

Note: The Mortgagee verifies and must document that there is ***no possibility*** *that the* ***debt holder will pursue debt collection against the Borrower*** *should the other party default.*

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Contingent Liabilities: Cosigned Liabilities

- If the *cosigned liability* is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the *other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan*.

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Business Debt in Borrower's Name

- When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Mortgagee must *obtain documentation to evidence the following*:

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Business Debt in Borrower's Name (cont.)

- *The company has been making regular on-time payments during the previous 12 months without delinquency;*
- *The debt is paid out of company funds; and*
- *The debt was considered in the cash-flow analysis of the Borrower's business.*

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Negative Income

- Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

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Income / Assets Requirements

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Past Employment Documentation: Current Employment for Two Years

- Direct verification of the Borrower's employment history for the previous two years is not required if **all** of the following conditions are met:
  - The current employer confirms a two-year employment history, or a paystub reflects a hiring date of a minimum of two years;
  - Only **base pay** is used to qualify (no Overtime or Bonus Income); **and**
  - The Borrower executes IRS Form 4506, *Request for Copy of Tax Return,* or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years.

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Frequent Changes in Employment

- If the Borrower has **changed jobs more than three times in the previous 12-month period**, or *has changed lines of work*, the Mortgagee must take additional steps to verify and document the stability of the Borrower's Employment Income.
- The Mortgagee must obtain:
  - Transcripts of training and education demonstrating qualification for a new position; or
  - Employment documentation evidencing continual increases in income and/or benefits.

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Overtime and Bonus Income: Calculation

Calculation:

- The Mortgagee must average the Overtime or Bonus Income over the previous two years.
- However, if the Overtime or Bonus Income from the current year ***decreases by 20% or more*** *from the previous, the Mortgagee must use the current year's income*.

Self-Employment Income

- **Self-Employment Income** refers to income generated by a business in which the *Borrower has a 25 percent or greater ownership interest*.
- The Mortgagee may consider Self-Employment Income if the Borrower has been self-employed **for at least two years**.
- If the Borrower has been self-employed between **one and two years**, the Mortgagee may only consider the income as Effective Income if the Borrower was previously employed in the same line of work in which the Borrower is self-employed or in a related occupation for at least two years.

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Self-Employment Income: Stability

- Income obtained from businesses with **annual earnings that are stable or increasing is acceptable**.
- If the income from businesses shows *a* greater than 20 percent decline *in Effective Income over the analysis period, the Mortgagee must* downgrade the transaction to a Refer and manually underwrite the transaction.

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Self-Employment Income: Documentation

- **Individual and Business Tax Returns**
  - The Mortgagee must obtain complete individual and business federal income tax returns for the most recent two years, including all schedules.
  - **In lieu of signed individual or business tax returns from the Borrower**, the Mortgagee may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and *tax transcripts directly from the IRS*.

Self-Employment Income-Documentation (cont.)

- The Mortgagee must obtain the Borrower's business tax returns for the most recent two years **unless** the following criteria are met:
  - Individual federal income tax returns show ***increasing*** Self-Employment Income over the past two years;
  - ***Funds to close*** are not coming from ***business accounts***; and
  - The mortgage to be insured is ***not a cash-out refinance***.

Self-Employment Income-Documentation (cont.)

- The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if:
  - More than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower.
- A balance sheet is **not required** for self-employed Borrowers filing ***Schedule C income***.
- If **income used to qualify** the Borrower **exceeds the two year average of tax returns**, an **audited P&L or signed quarterly tax return must be obtained from the IRS**.

Temporary Reduction in Income

- For Borrowers with a *temporary reduction of income due to a short-term disability or similar temporary leave*, the Mortgagee may consider the Borrower's current income as Effective Income, if it can verify and document that:
  - The Borrower intends to return to work;
  - The Borrower has the right to return to work; and
  - The Borrower qualifies for the mortgage taking into account any reduction of income due to the circumstance.

Temporary Reduction in Income: Calculation

- Borrowers returning to work *before or at the time the first Mortgage Payment due date*; **and**
- The Mortgagee may use the Borrower's *pre-leave income*.

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Temporary Reduction in Income: Calculation (cont.)

Borrowers returning to work ***after*** the first Mortgage Payment due date:

- The Mortgagee may use the *Borrower's current income plus available surplus liquid asset Reserves*, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income.
- The amount of the monthly income supplement is:
  - The total amount of *surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work*.
- ***Surplus Liquid Asset Reserves***: Liquid asset reserves above and beyond the program requirements.

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Temporary Reduction in Income: Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- A written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
- Documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
- **Documentation of sufficient liquid assets, to be used to supplement the Borrower's income through the intended return date to work after the first due date of the mortgage payment**.

Alimony, Child Support, or Maintenance Income

- **<u>Alimony, Child Support, or Maintenance Income</u>** refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.

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Alimony, Child Support, or Maintenance Income: Inconsistent Payments– Effective Income

- If **legal record or voluntary payment** alimony, child support, or other maintenance payments ***have not been consistently received*** for the ***most recent six months***, the Mortgagee must use the ***average of the income received over the previous two years to calculate Effective Income***.
- If Alimony, Child Support, or Maintenance Income has been received ***for less than two years***, the Mortgagee must ***use the average over the time of receipt***.

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Automobile Allowances

- **<u>Automobile Allowance</u>** refers to the funds provided by the Borrower's employer for automobile-related expenses.

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Automobile Allowances: Calculation

- The Mortgagee must *subtract automobile expenses as shown on IRS Form 2106 from the Automobile Allowance before calculating Effective Income based on the current amount of the allowance received*.

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Rental Income

- Rental Income refers to income received or to be received from the subject property or other real estate holdings.

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History of Rental Income Received Subject Property

The Borrower has a history of Rental Income from the subject since the previous tax filing:	One Unit	Two-to-Four Units
	Executed lease	Executed leases
	24 month rental history free of unexplained gaps > 3 months	24 month rental history free of unexplained gaps > 3 months
	Borrower's most recent 2 years Tax Returns including Schedule E	Borrower's most recent 2 years Tax Returns including Schedule E
	Properties with less than 2 years of Rental Income history, the date of acquisition must be documented by providing the deed, Settlement Statement or other legal document.	

Note: If rental history over the previous 24 months reflects gaps greater than 3 months, an explanation is required. Such vacancies could be explained by seasonal or military renters, or property rehabilitation.

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History of Rental Income Received Subject Property: Calculation

- The Mortgagee must:
  - **Add the net** subject property **Rental Income** to the Borrower's **gross income**; and
  - Calculate the Rental Income by **averaging** the **amount shown on the Schedule E.**
- The Mortgagee **may not reduce** the Borrower's total **Mortgage Payment** by the net subject property **Rental Income**.
- If the property has been **owned for less than two years**, the Mortgagee must **annualize the Rental Income** for the **length of time the property has been owned**.

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Rental Income: Limited/No History Other Real Estate

Rental income Limited or No History by the Borrower:	One Unit	Two-to-Four Units
	Fannie Mae Form 1004/Freddie Mac Form 70, *Uniform Residential Appraisal Report*, Fannie Mae Form 1007/Freddie Mac Form 1000, *Single Family Comparable Rent Schedule*, and Fannie Mae Form 216/Freddie Mac Form 998, *Operating Income Statement*, showing fair market rent must be obtained on the investment property (s). Appraisal is not required to be completed by an FHA appraiser.	Appraisal showing fair market rent (use Fannie Mae Form 1025/Freddie Mac Form 72, *Small Residential Income Property Appraisal Report*) must be obtained on the investment property (s). Appraisal is not required to be completed by an FHA appraiser.
	Investment property (s) must support a minimum 25% equity position	Investment property must support a minimum 25% equity position
	Executed 1 year lease agreement	Executed 1 year lease agreement
	Properties with less than 2 years of Rental Income history, the date of acquisition must be documented by providing the deed, Settlement Statement or other legal document.	

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Limited/No History of Rental Income Received: Calculation

- To calculate the effective net Rental Income from other real estate holdings where the Borrower **does not have a history of Rental Income** since the previous tax filing, the Mortgagee must deduct the PITI from the lesser of:

–The monthly operating income reported on Freddie Mac Form 998; **or**

–75 percent of the lesser of:

- Fair market rent reported by the appraiser; **or**
- The rent reflected in the lease or other rental agreement.

History of Rental Income Received: Calculation

•The Mortgagee must:

– Calculate the Rental Income by **averaging** the **amount shown on the Schedule E** provided, the Borrower continues to own all properties included on the Schedule E;
– Annualize the Rental Income for properties owned less than two year;
– Add positive Rental Income to the Borrower's Effective income; and
– Include negative net Rental Income as a reoccurring debt/liability.

•Depreciation shown on Schedule E may be added back to the net income or loss.

Self-Sufficiency Rental Income Eligibility (Three-to-Four Unit Properties)

- Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property over and above the Principal, Interest, Taxes, and Insurance (PITI).
- The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit Properties.
- Net Self-Sufficiency Rental Income is calculated by using the Appraiser's estimate of fair market rent from all units, including the unit the Borrower chooses for occupancy, and subtracting the greater of the Appraiser's estimate for vacancies and maintenance, or 25 percent of the fair market rent.

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Earnest Money Deposit

- The Mortgagee must verify and document the deposit amount and source of funds if the amount of the earnest money deposit **exceeds 1 percent** of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:
  - A copy of the Borrower's cancelled check;
  - Certification from the deposit-holder acknowledging receipt of funds; or
  - 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.
- If the source of the earnest money deposit was a gift, the Mortgagee must verify that the gift is in compliance with Gifts (Personal and Equity).

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Reserves

- Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.
- The Mortgagee must verify and document all assets submitted to the AUS.

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Standards for Gifts

- Gifts may be provided by:
  - The Borrower's *Family Member*;
  - The Borrower's employer or labor union;
  - A close friend with a clearly defined and documented interest in the Borrower;
  - A charitable organization; or
  - A governmental agency or Public Entity that has a program providing homeownership assistance to:
    - Low or moderate income families; or
    - First-time homebuyers.

Documenting the Transfer of Gifts

- The Mortgagee *must verify and document the transfer of gift funds from the donor to the Borrower*.
- Regardless of when gift funds are made available to a Borrower, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source, and were the donor's own funds.

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Documenting the Transfer of Gifts

- If the gift funds:
  - Have been verified in the Borrower's account, obtain the *donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account*.
  - Are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account.
  - Are paid directly to the settlement agent, the Mortgagee must verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.

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Documenting the Transfer of Gifts (cont.)

- If the gift funds:
  - Are being borrowed by the donor and documentation from the bank or other savings account is not available, the Mortgagee must have the *donor provide written evidence that the funds were borrowed from an acceptable source*, not from a party to the transaction.
  - The Mortgagee and its Affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

Secondary Financing

- Secondary Financing is any financing other than the first mortgage that creates a lien against the property.
- Any such financing that does create a lien against the property is not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt.

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Real Estate Tax Credits

- Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the minimum required investment (MRI), *if the Mortgagee documents that the Borrower had sufficient assets to meet the MRI and the Borrower paid closing costs at the time of underwriting*.

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Final Underwriting Decision

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Summary

- We have reviewed **Underwriting the Borrower Using the TOTAL Mortgage Scorecard**.
- Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the final underwriting decision.
- The Mortgagee must ensure full compliance with all FHA eligibility requirements.

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Summary (cont.)

- Underwriting requires careful analysis of the many aspects of the mortgage application. Each mortgage is a separate and unique transaction.
- A mortgage transaction that meets minimal standards does not necessarily constitute prudent underwriting. The underwriter should judge the overall merits of the loan application to render a justifiable and documentable decision.

FHA Office of Single Family Housing

Programs and Products: Refinance

Single Family Housing Policy Handbook 4000.1
Title II Insured Housing Program Forward Mortgages
Origination through Post-Closing/Endorsement

Refinance: Definition

- A Refinance Transaction is used to pay off the existing debt or to withdraw equity from the property with the proceeds of a new mortgage for a Borrower with legal title to the subject property.

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Types of Refinances

- Cash-Out Refinance:
  – A Cash-Out Refinance is a refinance of any mortgage or a withdrawal of equity where no mortgage currently exists, in which the mortgage proceeds are not limited to specific purposes.
- No Cash-Out Refinance:
  – A No Cash-Out Refinance is a refinance of any mortgage in **which the mortgage proceeds are limited to the purpose of** extinguishing the existing debt and costs associated with the transaction.

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Types of No Cash-Out Refinance Options

Rate and Term	Simple Refinance	Streamline Refinance
All proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction.	FHA-insured mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject property and costs associated with the transaction.	Refinance of an existing FHA- insured mortgage requiring limited Borrower credit documentation and underwriting. There are two different streamline options available.
Appraisal Required	Appraisal Required	No Appraisal Required
Any lien applicable	Current FHA Mortgage Lien	Current FHA Mortgage Lien
The Mortgagee must obtain a Refinance Authorization Number from FHA Connection (FHAC) for all FHA-to-FHA refinances.		

Borrower Eligibility

- At least *one Borrower on the refinancing* mortgage must hold title to the property being refinanced *prior to case number assignment.*

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Adjusted Value

- The **Adjusted Value** is the determined value of the property used for making an FHA-insured Mortgage Loan.

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Adjusted Value: Refinance

- For properties acquired by the Borrower within 12 months of the case number assignment date the Adjusted Value is the lesser of:
  - The Borrower's purchase price, plus any documented improvements made after the purchase; or
  - The Property Value.
- This policy applies to all FHA refinance transactions that require appraisals including, FHA-to-FHA refinance transactions.

Reference 4000.1 II A 2 Qtr 2 FY15

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Adjusted Value: Refinance (cont.)

- Properties acquired by the Borrower within 12 months of application by inheritance or through a gift from a family member may:
  - Utilize the calculation of Adjusted Value for properties purchased 12 months or greater.

Reference 4000.1 II A 2 Qtr 2 FY15

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Adjusted Value: Refinance (cont.)

- For properties acquired by the Borrower greater than or equal to 12 months prior the case assignment date, the Adjusted Value is the Property Value.

Reference 4000.1 II A 2 Qtr 2 FY15

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Cash-Out Refinances

Borrower Eligibility: Non-Occupant Co-Borrower

- *Income from a non-occupant, co-Borrower may not be used to qualify for a cash-out refinance.*

Occupancy Requirements

- Cash-out refinance transactions are only permitted on owner-occupied Principal Residences.
- The property securing the cash-out refinance must have been owned and **occupied by the Borrower as their Principal Residence for the 12 months prior to the date of case number assignment.**

Occupancy Requirements—Exception

- Inheritance, a Borrower is not required to occupy the property for a minimum period of time before applying for a cash-out refinance, provided the Borrower has not treated the subject property as an Investment Property at any point since inheritance of the property.
- If the Borrower rents the property following inheritance, the Borrower is not eligible for cash-out refinance until the Borrower has occupied the property as a Principal Residence for at least 12 months.

Payment History Requirements

- The Mortgagee must document that the Borrower:
  - Has made all payments for all their mortgages within the month due for the previous 12 months or since the borrower obtained the mortgages, *whichever is less*.
  - The payments for all mortgages secured by the subject property must have been paid within the month due for the month prior to mortgage Disbursement.

Payment History Requirements (cont.)

- Properties with mortgages must have a minimum of six months of Mortgage Payments.
- Properties owned free and clear may be refinanced as cash-out transactions.

Reference 4000.1 II A 8 d Qtr. 2 FY15

Rate and Term Refinances

Occupancy Requirements

- Rate and Term refinance transactions are only permitted on owner-occupied Principal Residences and HUD-approved Secondary Residences.

Maximum Loan-to-Value Ratio

Maximum LTV	Maximum CLTV	Principal/Secondary Residence	Occupancy
97.75%	97.75%	Principal	Occupied as principal residence for 12 months or occupied since acquisition if acquired within 12 months.
85%	97.75%	Principal	Occupied as Principal Residence fewer than 12 months or if owned less than 12 months, has not occupied the property for that entire period of ownership
85%	97.75%	For all HUD-approved Secondary Residences	

Reference 4000.1 II A 8 d Qtr 2 FY15

Calculating Maximum Mortgage Amount: Debts

- The existing debt that can be included in a Rate and Term Refinance:
  - The unpaid principal balance of the first mortgage as of the month prior to mortgage Disbursement;
  - The unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage Disbursement;
  - The unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new mortgage;

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Calculating Maximum Mortgage Amount: Debts (cont.)

- The existing debt that can be included in a Rate and Term Refinance:
  - Ex-spouse or co-Borrower equity, as described in "Refinancing to Buy out Title Holder Equity" below;
  - Interest due on the existing mortgage(s);
  - Mortgage Insurance Premium (MIP) due on existing mortgage;
  - Any prepayment penalties assessed;
  - Late charges; and
  - Escrow shortages.

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Calculating Maximum Mortgage Amount: Additional Costs

- Additional costs associated with the transaction may be able to be financed in to the Rate – Term transaction, including :
  - Allowed costs include all Borrower-paid costs associated with the new mortgage; and
  - Any Borrower-paid repairs required by the appraisal.

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Short Payoffs

- **The Mortgagee may approve a Rate and Term refinance where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt, provided the existing Note holder writes off the amount of the indebtedness that cannot be refinanced into the new FHA-insured mortgage.**

Reference 4000.1 II A 8 d Qtr 2 FY15

Cash Back to the Borrower: $500 Limitation

- The Mortgagee may utilize estimates of existing debts and costs in calculating the maximum mortgage amount to the extent that the actual debts and costs *do not result in the Borrower receiving greater than $500 cash back at mortgage Disbursement.*

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Simple Refinance

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Simple Refinance

- Simple Refinance refers to a no cash-out refinance of an existing FHA-insured mortgage in which all proceeds are used to pay the existing FHA-insured mortgage liens on the subject property and costs associated with the transaction.

Simple Refinance (cont.)

Simple refinance vs rate-term calculations
The following items ARE NOT permissible to be included in a simple refinance transaction
The unpaid principle balance of any purchase junior mortgage or liens, ex-spouse or co borrower equity and any prepayment penalties assessed.

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Streamline Refinances

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Streamline Refinances

- Streamline Refinance may be used when the proceeds of the mortgage are used to extinguish an existing FHA-insured first mortgage lien.
- Mortgagees must manually underwrite all Streamline Refinances in accordance with the guidance provided in this section.

Borrower Eligibility

- Streamline Refinances may be used for Principal Residences, HUD-approved Secondary Residences, or non-owner occupied properties.

Streamline Refinance: Non-Credit Qualifying

- Borrower Eligibility:
  - A Borrower is eligible for a Streamline Refinance without credit qualification *if all Borrowers on the existing mortgage remain as Borrowers on the new mortgage*.
  - Mortgages that have been assumed are eligible provided the previous borrower was released from liability.

Non-Credit Qualifying: Completing 1003

- Mortgagees may use an abbreviated Uniform Residential Loan Application (URLA, Fannie Mae Form 1003/Freddie Mac Form 65) on non-credit qualifying Streamline Refinances only.
- Mortgagees are not required to complete sections IV, V, VI, and VIII (a-k) on an abbreviated URLA, provided all other required information is captured.

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Streamline Refinance Credit Qualifying

- Borrower Eligibility:
  - At least one Borrower from the existing mortgage must remain as a Borrower on the new mortgage.

Reference 4000.1 II A 8 d Qtr 2 FY15

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Payment History Requirements: Streamline

Mortgage Payment History Streamline Refinance
0 x 30 for all mortgages for the 6 months prior to case number assignment, and no more than-
1 x 30 for the 6 months previous for all mortgages.
Note: Borrower must have made at least 6 payments on or before Case Number Assignment date.

- The Borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage Disbursement.

Reference 4000.1 II A 8 d Qtr 2 FY15

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Non-owner Occupied Properties and HUD-Approved Secondary Residences

- Non-owner occupied properties and HUD-approved Secondary Residences *are only eligible for streamline refinancing into a fixed rate mortgage*.

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Mortgage Seasoning Requirements

On the date of the FHA case number assignment:

- The Borrower must have made at least six payments on the FHA-insured mortgage that is being refinanced;
- At least six full months must have passed since the first payment due date of the mortgage that is being refinanced;
- At least 210 Days must have passed from the Disbursement Date of the mortgage that is being refinanced; and
- If the Borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption.

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Net Tangible Benefit: Streamline Refinances

- A Net Tangible Benefit is a reduced Combined Rate, a reduced term, and/or a change from an ARM to a fixed rate mortgage that results in a financial benefit to the Borrower.
- Combined Rate refers to the interest rate on the mortgage plus the Mortgage Insurance Premium (MIP) rate.

Reference 4000.1 II A 8 d Qtr 2 FY15

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Credit Reports

- FHA does not require a credit report on the non-credit qualifying Streamline Refinance.
- The Mortgagee must obtain a credit report for the credit qualifying Streamline Refinance.
- If the Mortgagee obtains a credit score, the Mortgagee must enter it into FHAC. If more than one credit score is obtained, the Mortgagee must enter all available credit scores into FHAC.

Borrower Additions to Title

- Individuals may be added to the title and mortgage on a non-credit qualifying Streamline Refinance without a creditworthiness review.

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Funds to Close

- The Mortgagee must verify Borrower's funds to close, in excess of the total Mortgage Payment of the new mortgage, in accordance with Sources of Funds.
- Additionally, the Mortgagee only on Streamline refinances may provide an unsecured interest-free mortgage to establish a new escrow account in an amount not to exceed the present escrow balance on the existing mortgage.

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Energy Efficient Mortgage (EEM)

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Energy Efficient Mortgage (EEM) Program

Allows the Mortgagee to offer financing for cost-effective, energy efficient improvements to an existing property at the time of purchase or refinancing, or for upgrades above the established residential building code for new construction.

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EEM: Eligible Programs and Transactions Types

- The EEM program can be used in conjunction with any mortgage insurance under Title II, including:
  - 203(b);
    - Purchase; **or**
    - No cash-out refinance.
  - 203(h) Mortgage Insurance for Disaster Victims;
  - 203(k) (Standard and Limited [former Streamline]); and
  - Weatherization Policy (Existing Construction only).

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EEM: Underwriting

- The Mortgagee must calculate the Borrower's debt ratios using the initial Base Loan Amount plus the portion of the Upfront Mortgage Insurance Premium (UFMIP) attributable to the initial Base Loan Amount.

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EEM: Underwriting Documentation

- For all EEM transactions, the Mortgagee must provide **two** HUD 92900 – LT's regardless of how the mortgage was underwritten:
  - Two for Total Mortgage Scorecard; or
  - Two for Manual underwrite.
- Both must be provided in the case binder

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EEM: Appraisals

- For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the property.
- If the appraisal does include the value of the energy package, the value must be subtracted from the Property Value when computing the Adjusted Value.
- On the 203(k) program, the *after-improved value* is to be used for the EEM process.

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Completion Requirements for Energy Efficient Mortgages (EEMs)

- With the exception of 203(k), the energy package is to be installed within 90 Days of the mortgage closing.
- If the work is not completed within 90 Days, the Mortgagee must apply the EEM funds to a prepayment of the mortgage principal.

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203(k) and Consultant Requirements

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Overview

The Section 203(k) Rehabilitation Mortgage Insurance Program is used to:
Rehabilitate an existing one- to four-unit *Structure* that will be used primarily for residential purposes;
Rehabilitate such a *Structure* and refinance outstanding indebtedness on the *Structure* and the real property on which the *Structure* is located; or
Purchase and rehabilitate a *Structure* and purchase the real property on which the *Structure* is located.

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How is the 203(k) Program Different?

Traditional Mortgage Program

- Property must meet minimum property standards prior to closing
- Short term financing for repair costs.
- Value of the property does not support adequate loan security
- Refinance – permanent transaction.

203(k) Rehabilitation Program

- Property *does not* meet minimum property standards at closing
- Funds for the rehabilitation costs are financed into the the mortgage amount
- "After improved" value is used for the basis of collateral evaluation
- 203(k) is a permanent transaction.

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- How the Program Can Be Used
- Benefits of the 203(k)
- Basic Eligibility

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203(k) Programs for Two Different Renovation Project Needs

There are two types of 203(k) rehabilitation mortgages as described below:
- – Standard 203(k); and
- – **Limited 203(k).**

The guidance per the Program and Product section is applicable to both the Standard 203(k) and **Limited 203(k)** mortgages, unless noted otherwise.

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203(k) Programs: The Limited 203(k)

The Limited 203(k) (formally known as the Streamlined (k)), may only be used for minor remodeling and non-structural repairs.

The Limited 203(k) does not require the use of a 203(k) Consultant, but a Consultant may be used.

The total rehabilitation cost must not exceed $35,000. There is no minimum rehabilitation cost.

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Borrower Eligibility

The Borrower must meet the eligibility requirements found in the Borrower Eligibility section of HUD Handbook 4000.1.
Non-occupant, co-Borrowers are permitted.

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Property Eligibility

The property must be an existing property that has been *completed* for at **least one year prior to the case number assignment date.**

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Acceptable Property Types

One- to four-unit Single Family Structures
Condominiums
Individual Condominium Unit
Site Condominium Unit
Manufactured Housing
Mixed Use
HUD Real Estate Owned (REO)

Mixed Use 203(k) Specific Policies:

Mixed Use property with one- to four-residential dwelling units, is acceptable provided:

•**Fifty-one percent of gross building area is for residential use; and**

•Any commercial use will not affect the health and safety of the occupants of the residential property.

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Gross Building Area: Clarified

Fifty-one percent of gross building area is for residential use.

Gross Building Area (GBA) is the entire floor space of the building, as opposed to Gross Living Area. This includes unfinished and finished non-living areas, such as unfinished mechanical areas, laundry areas, entryways, stairs, unfinished storage, etc.

This also includes any commercial space within the building.

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Acceptable Property Types: HUD Real Estate Owned (REO)

The property is identified as eligible for 203(k) financing as evidenced in the sales contract or addendum.

HUD REOs that are listed as uninsurable can only be an FHA loan as a 203(k).

Good Neighbor Next Door and $100 Down Programs can be used with 203(k).

Investor purchases of HUD REO properties are not eligible for 203(k) financing.

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Refinancing an Existing 203(k)

A property with an existing 203(k) mortgage is not eligible to be refinanced until all repairs *are completed and the case has been closed out electronically*.

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Standard 203(k)

A Standard 203(k) has the following general requirements:

A minimum of $5,000 in **eligible improvements** are required to qualify for the product.
Fees and costs related to the renovation can be rolled into the loan amount.
Standard FHA credit and cash investment requirements apply.
Standard FHA property guidelines apply, unless otherwise stated in 203(k) policies.
A 203(k) HUD-approved Consultant is required.

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Eligible Improvements

Types of eligible improvements include, but are not limited to:
Reconstructing a Structure that has been, or will be demolished, provided the **complete existing foundation system is not affected and will still be used;**
Repairing, reconstructing, or **elevating an existing foundation** where the Structure will not be demolished;

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Eligible Improvements (cont.)

Installing or repairing wells and/or septic systems;

Note: ***Lot size requirements removed.***

Repairing or removing an in-ground swimming pool;

Note: ***$1,500 limitation removed.***

Constructing a windstorm shelter.

Note: ***$5,000 limitation removed.***

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Improvement Standards

All improvements to existing Structures must comply with HUD's MPR.
All new construction must comply with HUD's MPS.
For a newly constructed addition to the existing Structure, the energy improvements **must meet or exceed local codes and the requirements of the 2006 International Energy Conservation Code (IECC) or a successor energy code standard that has been adopted by HUD for its MPS.**

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Adjusted Value: Purchase

For purchase transactions, **the Adjusted Value** is the ***lesser*** of:

–Purchase price, less any **inducements to purchase**; **or**
–the Property Value.

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Refinance Transactions: Acquired Greater Than or Equal to 12 Months Prior to Case Assignment

203(k) Refinance Resource
Properties Acquired Greater than or Equal to
12 Months Prior to Case Assignment Date

Step One: After Improved Value

$ ____________________ After Improved Value

Step Two: Sum of Existing Debt and Costs Associated with Transaction

Unpaid Principal Balance of the First Mortgage as of the month prior to mortgage disbursement	$
Unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement	
Junior liens over 12 months old as of date of mortgage disbursement. If HELOC and excess over $1000 w/in last 12 months for purposes other than repairs-Not eligible.	
Interest due on existing mortgages	
Mortgage Insurance Premium due on existing mortgage	

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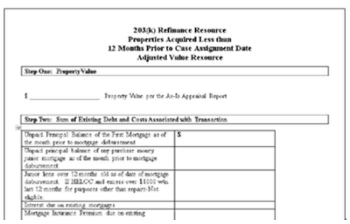
Refinance Transactions: Acquired Less Than 12 Months Prior to Case Assignment



203(k) Refinance Resource
Properties Acquired Less than
12 Months Prior to Case Assignment Date
Adjusted Value Resource

Step One: Property Value

$ ____________________ Property Value per the As-Is Appraisal Report

Step Two: Sum of Existing Debt and Costs Associated with Transaction

Unpaid Principal Balance of the First Mortgage as of the month prior to mortgage disbursement	$
Unpaid principal balance of any purchase money junior mortgage as of the month prior to mortgage disbursement	
Junior liens over 12 months old as of date of mortgage disbursement. If HELOC and excess over $1000 w/in last 12 months for purposes other than repairs-Not eligible.	
Interest due on existing mortgages	
Mortgage Insurance Premium due on existing	

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Refinance Transactions: Acquired Less Than 12 Months Prior to Case Assignment Exception

For properties acquired by the Borrower within 12 months of the case assignment date:

–By inheritance; or

–Through a gift from a Family Member.

The Mortgagee may utilize the calculation of Adjusted As-Is Value for properties acquired greater than or equal to **12 months prior to the case assignment date.**

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After-Improved Value

To establish the after-improved value, the Mortgagee must obtain an appraisal of the property *subject to the repairs and improvements.*

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Retirement of Form HUD-92700 203(k) Maximum Mortgage Worksheet

Upon the effective date of the HUD Handbook 4000.1 (September 14, 2015), the Form HUD-92700 Maximum Mortgage Worksheet will be retired.

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Required Documentation for Acquired Less Than 12 Months Prior to Case Assignment Date

For properties acquired less than 12 months prior to the case assignment date, the Mortgagee must:

–Document the lowest Acquisition Cost in the past 12 months by obtaining a copy of the Settlement Statement or other legal documentation evidencing Acquisition Cost.

Required Documentation for Acquired Less Than 12 Months Prior to Case Assignment Date (cont.)

If improvements were made to the property subsequent to the acquisition, the Mortgagee must document the associated cost of the improvements by obtaining the following:
A contract for completion of work;
Cost of materials and paid receipts; and
Permit costs.

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Limited 203(k)

The Limited 203(k), as stated earlier, may only be used for **minor remodeling and non-structural repairs**.
The Limited 203(k) does not require the use of a 203(k) Consultant. However, the Borrower can elect to hire a Consultant but the fee cannot be financed.

The total rehabilitation cost must not exceed $35,000

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Limited 203(k): Lead-Based Paint Stabilization Costs

The Limited 203(k) may be used to pay for lead-based paint stabilization costs *(above and beyond what is paid for by HUD when it sells REO properties).*

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Limited 203(k): General & Specific Improvement Standards

All improvements to existing Structures must comply with HUD's MPR.
Patios and decks must increase the Property Value equal to the dollar amount spent on the improvements.

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Closing

There is only one closing for the 203(k) transaction. This includes the rehabilitation funds.

The rehabilitation funds are escrowed and disbursed as the work is satisfactorily completed.

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Initial Draw at Closing: Standard 203(k)

For Standard 203(k) transactions, Mortgagees **may** disburse the following at closing:

- –Permit fees *(the permit must be obtained before work commences)*;
- –Prepaid architectural or engineering fees;
- –Prepaid Consultant fees; and
- –Materials costs for items, prepaid by the Borrower in cash or by the contractor, *where a contract is established with the supplier* and an order is placed with the manufacturer for delivery at a later date.

Initial Draw at Closing: Standard 203(k)

For Standard 203(k) transactions, Mortgagees may disburse the following at closing:

Up to 50 percent of materials costs for items—not yet paid for by the Borrower or contractor—where a **contract is established with the supplier and an order is placed with the manufacturer** for delivery at a later date.

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Initial Draw at Closing: Limited 203(k)

For Limited 203(k) transactions, Mortgagees **may** disburse the following at closing:

- –Permit fees (the *permit must be obtained before work commences*); and
- –Up to 50 percent of the estimated materials and labor costs before beginning construction **only when** the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction.

A statement from the contractor is sufficient to document.

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Initial Draw at Closing

The Mortgagee must:

Document the amount and purpose of an initial draw at closing on the Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*.

Maximum Number of Draws

Program	Maximum Number of Draws Permitted
Standard 203(k)	5 draw requests (4 intermediate and a final)
Limited 203(k)	2 draw requests per specialized contractor or the Borrower (if acting as the contractor). The Mortgagee may arrange a payment schedule, not to exceed 2 draws, per specialized contractor (an initial release plus a final release).

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Release of Funds for Structure being Elevated or Moved: Standard 203(k)

For an existing Structure moved to a new foundation or a Structure **that will be elevated,** the Mortgagee must not release loan proceeds for the existing Structure on the non-mortgaged property until:
–The new foundation has been properly inspected and the Structure has been properly placed and secured to the new foundation.

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Holdbacks

The Mortgagee must hold back 10 percent of each draw request prior to release of funds from the Rehabilitation Escrow Account.
Exception: When a subcontractor is 100 percent complete with a Work Item, the work completed is acceptable to the inspector, and the contractor and subcontractor provide the necessary Lien Waivers, or equivalent, **the Mortgagee is not required to hold back funds; the Mortgagee has discretion to hold back funds if not required.**
The Mortgagee must release funds within **five business days** after receipt of a properly *executed draw request and title update when necessary.*

Method of Payment of the Escrow Funds: Standard 203(k)

The Borrower may provide the Mortgagee written authorization at each draw to issue the check directly to the contractor under the Standard 203(k) program.

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Contingency Release: Standard 203(k)

The Mortgagee must either make funds available for additional improvements or apply the funds towards the principal balance if the Contingency Reserve was financed.

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Contingency Release: Limited 203(k)

The Mortgagee must apply *the funds towards the principal balance* if the Contingency Reserve was financed.

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Escrow Closeout Certification: FHAC

After the Rehabilitation Escrow Account is closed, the Mortgagee must complete the "Escrow Closeout Certification" screen in FHAC **within 30 days after the escrow account is closed.**

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203(k) Resource Documents

For access to 203(k) Resource Documents:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/sample_documents

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Energy Efficient Mortgage (EEM)

Energy Efficient Mortgage (EEM) Program

Allows the Mortgagee to offer financing for cost-effective, energy efficient improvements to an existing property at the time of purchase or refinancing, or for upgrades above the established residential building code for new construction.

EEM: Eligible Programs and Transactions Types

- The EEM program can be used in conjunction with any mortgage insurance under Title II, including:
  - 203(b);
    - Purchase; **or**
    - No cash-out refinance.
  - 203(h) Mortgage Insurance for Disaster Victims;
  - 203(k) (Standard and Limited [former Streamline]); and
  - Weatherization Policy (Existing Construction only).

EEM: Underwriting

- The Mortgagee must calculate the Borrower's debt ratios using the initial Base Loan Amount plus the portion of the Upfront Mortgage Insurance Premium (UFMIP) attributable to the initial Base Loan Amount.

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EEM: Underwriting Documentation

- For all EEM transactions, the Mortgagee must provide **two** HUD 92900 – LT's regardless of how the mortgage was underwritten:
  - Two for Total Mortgage Scorecard; or
  - Two for Manual underwrite.
- Both must be provided in the case binder

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EEM: Appraisals

- For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the property.
- If the appraisal does include the value of the energy package, the value must be subtracted from the Property Value when computing the Adjusted Value.
- On the 203(k) program, the *after-improved value* is to be used for the EEM process.

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Completion Requirements for Energy Efficient Mortgages (EEMs)

- With the exception of 203(k), the energy package is to be installed within 90 Days of the mortgage closing.
- If the work is not completed within 90 Days, the Mortgagee must apply the EEM funds to a prepayment of the mortgage principal.

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Single Family Housing Policy Handbook 4000.1 Training Webcast Series

Thank you for attending.

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Outline

I. Accept Risk Clarifications Required Downgrade to Manual Underwrite

- 11 Clarifications
- Ratios/Acceptable Compensating Factors (Manual)

II. Evaluating Credit history

- Delinquent Federal vs Delinquent Federal Non- tax Debt
- Disputed Accounts and/or Non Disputed Account reflected on credit report
- Judgments
- Collections

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Outline

III. Evaluating Liabilities and Debts

- Closed –end Debts
- Undisclosed Debt other than mortgage
- Deferred obligation/ Student Loans
- Contingent Liabilities
- Business Debt
- Negative income

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Outline

IV. Income/Assets Requirement

- Past Employment Documentation/ Frequent Changes in Employment
- Overtime/Bonus
- Self-Employment
- Reduction of Income
- Rental income
- Earnest Money
- Reserves
- Gifts
- Secondary Financing
- Real Estate Tax Credits
- Underwriting Summary

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Outline

V. Programs and Products

A. Refinance

-Types of Refinance: Cash Out & No Cash Out

i. Cash Out

ii. Rate and Term

-Simple Refinance

-Streamline

B. 203K

-203K/203K Limited

C. EEM