



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

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**Special Attention of:**  
All FHA Approved Mortgagees  
All Direct Endorsement Underwriters

**Transmittal:** Handbook 4000.1  
**Issued:** September 30, 2014  
**Effective Date:** June 15, 2015

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**1. This Transmits:**

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

**2. Implementation:**

Handbook 4000.1, Issued September 30, 2014 is effective for case numbers assigned on or after June 15, 2015.

**3. Explanation of materials transmitted:**

FHA is in the process of developing a consolidated SF Handbook that, when complete, will be a single, authoritative source of policy, uses clear, consistent, more direct language, aligns the flow of the SF Handbook to the mortgage process, and makes it easier to understand and implement policy changes. This section is the first published section of the consolidated SF Housing Policy Handbook.

The Origination through Post-Closing/Endorsement section of this Single Family Handbook is effective for all case numbers assigned on or after June 15, 2015, except as follows. FHA will be publishing a Federal Register notice soliciting comment relating to Paragraph (4)(j) of II.A.8.d.vi.(C) "Streamline Refinances." Following consideration of comments received in response to this FR notice, FHA will announce any changes to these provisions and the effective date of those paragraphs.

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## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### A. Origination through Post-Closing/Endorsement

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## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### A. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

The Title II Insured Housing Programs Forward Mortgages, Origination through Post-Closing/Endorsement section in this *FHA Single Family Housing Policy Handbook (SF Handbook)* provides the origination, underwriting, closing, post-closing, and endorsement standards and procedures applicable to all Single Family (one- to four-units) mortgages insured under Title II of the National Housing Act, except for Home Equity Conversion Mortgages (HECM). The mortgagee must fully comply with all of the following standards and procedures in originating, underwriting, and closing for obtaining Federal Housing Administration (FHA) mortgage insurance on a mortgage. If there are any exceptions or program-specific standards or procedures that differ from those set forth below, the exceptions or alternative [program or product](#) specific standards and procedures are explicitly stated. Terms and acronyms used in this *SF Handbook* have their meanings defined in the [Glossary](#) and [Acronyms](#) sections or in the specific section of the *SF Handbook* in which the definitions are located.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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#### 1. Origination/Processing

##### a. Applications and Disclosures

The mortgagee must obtain a completed [Fannie Mae Form 1003/Freddie Mac Form 65, Uniform Residential Loan Application \(URLA\)](#) from the Borrower and provide all required federal and state disclosures in order to begin the origination process. The mortgagee is responsible for using the most recent version of all forms as of the date of completion of the form.

##### i. Contents of the Mortgage Application Package

The mortgagee must maintain all information and documentation that is relevant to its approval decision in the mortgage file. All information and documentation that is required in this *SF Handbook*, and any incidental information or documentation related to those requirements, is relevant to the mortgagee's approval decision.

If after obtaining all documentation required below, the mortgagee has reason to believe it needs additional support of the approval decision, the mortgagee must obtain additional explanation and documentation, consistent with information in the mortgage file to clarify or supplement the information and documentation submitted by the Borrower.

#### (A) General Requirements

##### (1) Maximum Age of Mortgage Documents

###### (a) General Document Age

Documents used in the origination and underwriting of a mortgage may not be more than 120 Days old at the Disbursement Date. Documents whose validity for underwriting purposes is not affected by the passage of time, such as divorce decrees or tax returns, may be more than 120 Days old at the Disbursement Date.

For purposes of counting Days for periods provided in this *SF Handbook*, Day one is the Day after the effective or issue date of the document, whichever is later.

###### (b) Appraisal Validity

###### (i) Initial Appraisal Validity

The 120 Day validity period for an appraisal (see [Ordering Appraisals](#)) may be extended for 30 Days at the option of the mortgagee if (1) the mortgagee approved the Borrower or HUD issued the Firm Commitment before the expiration of the original appraisal; or (2) the Borrower signed a valid sales contract prior to the expiration date of the appraisal.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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#### **(ii) Appraisal Update**

An appraisal update must be performed before the initial appraisal, with no extension, has expired. Where the initial appraisal is subsequently updated, the updated appraisal is valid for a period of 240 Days after the effective date of the initial appraisal report that is being updated.

#### **(2) Handling of Documents**

Mortgagees must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by, or transmitted from or through the equipment of unknown parties, or Interested Third Parties. Mortgagees may not accept or use any third party verifications that have been handled by, or transmitted from or through any Interested Third Party, or the Borrower.

#### **(a) Information Sent to the Mortgagee Electronically**

The mortgagee must authenticate all documents received electronically by examining the source identifiers (e.g., the fax banner header or the sender's email address) or contacting the source of the document by telephone to verify the document's validity. The mortgagee must document the name and telephone number of the individual with whom the mortgagee verified the validity of the document.

#### **(b) Information Obtained via Internet**

The mortgagee must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. The mortgagee must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting the mortgagee's visit to the URL and website.

Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

#### **(c) Confidentiality Policy for Credit Information**

Mortgagees 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 (Fair Housing Act);
- the Fair Credit Reporting Act, Public Law 91-508;
- the Right to Privacy Act, Public Law 93-579;

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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- the Financial Privacy Act, Public Law 95-630; and
- the Equal Credit Opportunity Act, Public Law 94-239 and [12 CFR Part 202](#).

#### (3) Signature Requirements for all Application Forms

All Borrowers must sign and date the initial and final [Fannie Mae Form 1003/Freddie Mac Form 65](#), *Uniform Residential Loan Application* (URLA). All Borrowers must sign and date page two of the initial form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, and sign and date the complete final form [HUD-92900-A](#). The application may not be signed by any party who will not be on the Note.

- For Borrowers that are Entities, the signatory must be a representative who is duly authorized to bind the Entity.
- A Power of Attorney (POA) may not be used unless the mortgagee verifies and documents that all of the following requirements have been satisfied:
  - For military personnel, a POA may only be used for one of the applications (initial or final), but not both:
    - when the service member is on overseas duty or on an unaccompanied tour;
    - when the mortgagee is unable to obtain the absent Borrower's signature on the application by mail or via fax; and
    - where the attorney-in-fact has specific authority to encumber the property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
  - For incapacitated Borrowers, a POA may only be used where:
    - a Borrower is incapacitated and unable to sign the mortgage application;
    - the incapacitated individual will occupy the property to be insured, or the property is being underwritten as an eligible Investment Property; and
    - the attorney-in-fact has specific authority to encumber the property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

For guidance on use of POA on closing documents refer to [Use of Power of Attorney at Closing](#).

#### Prohibition on Documents Signed in Blank

Mortgagees are not permitted to have Borrowers sign documents in blank, incomplete documents, or blank sheets of paper.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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#### (4) Policy on Use of Electronic Signatures

##### Definition

An Electronic Signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. FHA does not accept an electronic signature that is solely voice or audio. Digital signatures are a subset of electronic signatures.

##### Use of Electronic Signatures

An electronic signature conducted in accordance with the Electronic Signature Performance Standards (Performance Standards) is accepted on FHA documents requiring signatures to be included in the case binder for mortgage insurance, unless otherwise prohibited by law.

Electronic Signatures meeting the Performance Standards are treated as equivalent to handwritten signatures.

##### (a) Electronic Signature Performance Standards

The Performance Standards are the set of guidelines that govern FHA acceptance of an electronic signature. The use of electronic signatures is voluntary. However, mortgagees choosing to use electronic signatures must fully comply with the Performance Standards.

##### (i) The Electronic Signatures in Global and National Commerce Act (E-Sign Act) Compliance and Technology

A mortgagee's electronic signature technology must comply with all requirements of the E-Sign Act, including those relating to disclosures, consent, signature, presentation, delivery, retention and any state law applicable to the transaction.

##### (ii) Third Party Documents

Third Party Documents are those documents that are originated and signed outside of the control of the mortgagee, such as the sales contract. FHA will accept electronic signatures on third party documents included in the case binder for mortgage insurance endorsement in accordance with the E-Sign Act and the Uniform Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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#### **(iii) Authorized Documents**

Authorized Documents refer to the documents on which FHA accepts electronic signatures provided that the mortgagee complies with the Performance Standards.

- **Mortgage Insurance Endorsement Documents:** Electronic signatures will be accepted on all documents requiring signatures included in the case binder for mortgage insurance except the Note. As of December 31, 2014, FHA will accept electronic signatures on the Note for forward mortgages only. FHA will not accept electronic signatures on HECM notes.
- **Servicing and Loss Mitigation Documentation:** Electronic signatures will be accepted on any documents associated with servicing or loss mitigation services for FHA-insured mortgages.
- **FHA Insurance Claim Documentation:** Electronic signatures will be accepted on any documents associated with the filing of a claim for FHA insurance benefits, including form [HUD-27011](#), *Single Family Application for Insurance Benefits*.
- **HUD Real Estate Owned (REO) Documents:** Electronic signatures will be accepted on the HUD REO Sales Contract and related addenda.

#### **(iv) Associating an Electronic Signature with the Authorized Document**

The mortgagee must ensure that the process for electronically signing authorized documents provide for the document to be presented to the signatory before an electronic signature is obtained. The mortgagee must ensure that the electronic signature is attached to, or logically associated with, the document that has been electronically signed.

#### **(v) Intent to Sign**

The mortgagee must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the E-Sign Act if they are “executed or adopted by a person with the intent to sign the record.” Establishing intent includes:

- identifying the purpose for the Borrower signing the electronic record;
- being reasonably certain that the Borrower knows which electronic record is being signed; and

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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- providing notice to the Borrower that their electronic signature is about to be applied to, or associated with, the electronic record.

Intent to use an electronic signature may be established by, but is not limited to:

- an online dialog box or alert advising the Borrower that continuing the process will result in an electronic signature;
- an online dialog box or alert indicating that an electronic signature has just been created and giving the Borrower an opportunity to confirm or cancel the signature; or
- a click-through agreement advising the Borrower that continuing the process will result in an electronic signature.

#### **(vi) Single Use of Signature**

Mortgagees must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied.

This provision does not apply to documents signed by mortgagee employees or mortgagee contractors provided the mortgagee obtains the consent of the individual for the use of their electronic signature. The mortgagee must document the Borrower's consent.

#### **(vii) Authentication**

##### **Definition**

Authentication refers to the process used to confirm a signer's identity as a party in a transaction.

##### **Standard for Authentication**

Before a mortgagee submits the case for endorsement, the mortgagee must confirm the identity of the signer by authenticating data provided by the signer with information maintained by an independent source.

Independent sources include, but are not limited to:

- national commercial credit bureaus;
- commercially available data sources or services;
- state motor vehicle agencies; or
- government databases.

The mortgagee must verify a signer's name and date of birth, and either their Social Security Number (SSN) or driver's license number.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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#### *(viii)* Attribution

##### **Definition**

Attribution is the process of associating the identity of a signer with their signature.

##### **Standard for Attribution**

The mortgagee must maintain evidence sufficient to establish that the electronic signature may be attributed to the individual purported to have signed.

The mortgagee must use one of the following methods, or combinations of methods, to establish attribution:

- selection by or assignment to the individual of a Personal Identification Number (PIN), password, or other shared secret, that the individual uses as part of the signature process;
- delivery of a credential to the individual by a trusted third party, used either to sign electronically or to prevent undetected alteration after the electronic signature using another method;
- knowledge base authentication using “out of band/wallet” information;
- measurement of some unique biometric attribute of the individual and creation of a computer file that represents the measurement, together with procedures to protect against disclosure of the associated computer file to unauthorized parties; or
- public key cryptography.

#### *(ix)* Credential Loss Management

Mortgagees must have a system in place to ensure the security of all issued credentials. One or a combination of the following loss management controls is acceptable:

- maintaining the uniqueness of each combined identification code and password, such that no two individuals have the same combination of identification code and password;
- ensuring that identification code and password issuances are periodically checked, recalled, or revised;
- following loss management procedures to electronically de-authorize lost, stolen, missing, or otherwise compromised identification code or password information, and to issue temporary or permanent replacements using suitable, rigorous controls;
- using transaction safeguards to prevent unauthorized use of passwords or identification codes; or

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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- detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.

#### **(b) Required Documentation and Integrity of Records**

Mortgagees must ensure that they employ industry-standard encryption to protect the signer's signature and the integrity of the documents to which it is affixed. Mortgagees must ensure that their systems will detect and record any tampering with the electronically signed documents. FHA will not accept documents that show evidence of tampering.

If changes to the document are made, the electronic process must be designed to provide an "audit trail" showing all alterations, the date and time they were made, and identify who made them.

The mortgagee's system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the mortgagee or holder as the controlling reference copy.

#### **(B) Mortgage Application and Initial Supporting Documentation**

##### **(1) URLA and HUD/VA Addendum to the URLA**

Unless otherwise noted, *URLA* and *HUD/VA Addendum to the URLA* refer to both initial and final applications.

The mortgagee must obtain the Borrower's initial complete, signed *URLA* ([Fannie Mae Form 1003/Freddie Mac Form 65](#)) and page two of form [HUD-92900-A](#) before underwriting the mortgage application.

The mortgagee must also include the debt of a non-borrowing spouse on the *URLA* if the Borrower resides in or the property to be purchased is located in a community property state.

The interviewer identified on the *URLA* must be the actual licensed interviewer regardless of whether the interviewer is employed by a sponsored Third-Party Originator (TPO) or the mortgagee. The *URLA* must contain the interviewer's name, Nationwide Mortgage Licensing System and Registry (NMLS) identification number, telephone number, and signature.

##### **(2) Mortgage Application Name Requirements**

###### **(a) Standard**

All mortgage applications must be executed in the legal names of all parties.

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All mortgage applications must be executed in the name of one or more individuals.

Mortgage applications from a corporation, partnership, sole proprietorship, or trust must be in the name of the Entity and also be in the name of one or more individuals.

#### **Exception**

Mortgage applications for Governmental Entities and FHA-approved nonprofit corporations that provide assistance to low or moderate income families may be solely in the corporation's name.

#### **(b) Required Documentation**

The mortgagee must include a statement that it has verified the Borrower's identity using valid government-issued photo identification prior to endorsement of the mortgage or the mortgagee may choose to include a copy of such photo identification as documentation.

For nonprofit Borrowers, the mortgagee must obtain a copy of the FHA approval letter from the nonprofit. The mortgagee must also verify that the nonprofit is eligible to be a Borrower as indicated on the U.S. Department of Housing and Urban Development (HUD) [Nonprofit Agency Roster](#).

#### **(C) Borrower Authorization for Verification Information**

##### **(1) Borrower's Authorization**

###### **(a) Standard**

The mortgagee must obtain the Borrower's authorization to verify the information needed to process the mortgage application. The mortgagee must obtain a non-borrowing spouse's authorization where necessary to verify specific information required to process the mortgage application.

###### **(b) Required Documentation**

For each individual or Entity, Borrower authorization may be accomplished through a blanket authorization form.

##### **(2) Form HUD-92900-A Part IV: Borrower Consent for Social Security Administration to Verify Social Security Number**

The mortgagee must obtain the Borrower's signature on Part IV of form [HUD-92900-A](#) to verify the Borrower's SSN with the Social Security Administration (SSA).

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The mortgagee must also obtain the non-borrowing spouse's signature on Part IV of form [HUD-92900-A](#) to verify the non-borrowing spouse's SSN with the SSA where necessary to verify specific information required to process the mortgage application.

#### **(3) Tax Verification Form or Equivalent**

The mortgagee must obtain the Borrower's signature on the appropriate Internal Revenue Service (IRS) form to obtain tax returns directly from the IRS for all credit-qualifying mortgages at the time the final *URLA* is executed.

#### **(D) Borrower's Authorization for Use of Information Protected under the Privacy Act**

##### **(1) Standard**

The mortgagee must obtain the Borrower's consent for use of the Borrower's information for any purpose relating to the origination, servicing, loss mitigation, and disposition of the mortgage or property securing the mortgage, and relating to any insurance claim and ultimate resolution of such claims by the mortgagee and FHA.

##### **(2) Required Documentation**

The mortgagee must obtain a signed statement from the Borrower that clearly expresses the Borrower's consent for the use of the Borrower's information as required above.

#### **(E) Sales Contract and Supporting Documentation**

##### **(1) Sales Contract**

###### **(a) Standard**

The mortgagee must not originate an insured mortgage for the purchase of a property if any provision of the sales contract violates FHA requirements.

The mortgagee must ensure that (1) all purchasers listed on the sales contract are Borrowers, and (2) only Borrowers sign the sales contract.

An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.

###### **(i) Amendatory Clause**

If the Borrower does not receive form [HUD-92800.5B](#), *Conditional Commitment Direct Endorsement Statement of Appraised Value*, before

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signing the sales contract, the sales contract must be amended before closing to include an amendatory clause that contains the following language:

“It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than \$\_\_\_\_\_.<sup>\*</sup> The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable.”

<sup>\*</sup> Mortgagees must ensure the actual dollar amount of the sales price stated in the contract has been inserted in the amendatory clause. Increases to the sale price require a revised amendatory clause.

An amendatory clause is not required in connection with:

- HUD REO sales;
- FHA’s 203(k) mortgage program;
- sales in which the seller is:
  - Fannie Mae;
  - Freddie Mac;
  - U.S. Department of Veterans Affairs (VA);
  - United States Department of Agriculture (USDA) Rural Housing Services;
  - other federal, state, and local government agencies;
  - a mortgagee disposing of REO assets; or
  - a seller at a foreclosure sale; or
- sales in which the Borrower will not be an owner-occupant (for example, sales to nonprofit agencies).

#### **(ii) Real Estate Certification**

The Borrower, seller, and the real estate agent or broker involved in the sales transaction must certify, to the best of their knowledge and belief, that (1) the terms and conditions of the sales contract are true and (2) any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

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A separate certification is not needed if the sales contract contains a statement that (1) there are no other agreements between parties and the terms constitute the entire agreement between the parties, and (2) all parties are signatories to the sales contract submitted at the time of underwriting.

#### **(b) Required Documentation**

The mortgagee must obtain all signed copies of sales contract(s), including a complete copy of the final sales contract with any modifications or revisions agreed upon by Borrower and seller.

#### **(2) Statement of Appraised Value**

The Borrower must receive a copy of form [HUD-92800.5B](#).

A statement of appraised value is not required in connection with:

- HUD REO sales;
- FHA's 203(k) mortgage program;
- sales in which the seller is:
  - Fannie Mae;
  - Freddie Mac;
  - the VA;
  - USDA Rural Housing Services;
  - other federal, state, and local government agencies;
  - a mortgagee disposing of REO assets; or
  - a seller at a foreclosure sale; or
- sales in which the Borrower will not be an owner-occupant (for example, sales to nonprofit agencies).

#### **ii. Disclosures and Legal Compliance**

##### **(A) HUD Required Disclosures**

The mortgagee must provide or ensure the Borrower is provided with any disclosure required by FHA, including the following disclosures.

##### **(1) Informed Consumer Choice Disclosure**

The mortgagee must provide the Borrower with an [Informed Consumer Choice Disclosure](#) in accordance with the requirements of [24 CFR § 203.10](#) if the Borrower may qualify for similar non FHA-insured mortgage products offered by the mortgagee.

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#### (2) Form HUD-92900-B, Important Notice to Homebuyers

The mortgagee must provide the Borrower with a copy of form [HUD-92900-B, Important Notice to Homebuyers](#), signed by the Borrower and provide the Borrower with a copy to keep for the Borrower's records when the Borrower applies for the mortgage. The mortgagee must retain the original form HUD-92900-B signed by the Borrower.

#### (3) Disclosure Regarding Interest Due Upon Prepayment

The mortgagee must provide the Borrower with the [Disclosure Regarding Interest Due upon Prepayment](#) in accordance with [24 CFR § 203.9](#).

#### (4) Lead-Based Paint

If the property was built before 1978, the seller must disclose any information known about [lead-based paint](#) and lead-based paint hazards before selling the house. For such properties, the mortgagee must ensure that:

- the sales contract includes a disclosure about lead-based paint; and
- the Borrower was given 10 Days from the date of the signing of the sales contract to obtain a lead-based paint inspection.

#### (5) Form HUD-92564-CN, For Your Protection: Get a Home Inspection

Mortgagees are required to provide form [HUD-92564-CN, For Your Protection: Get a Home Inspection](#), to prospective homebuyers at first contact, be it for pre-qualification, pre-approval, or initial application.

### (B) Compliance with all Applicable Laws, Rules and Requirements

The mortgagee is required to comply with all federal, state and local laws, rules, and requirements applicable to the mortgage transaction, including all applicable disclosure requirements and the requirements of the [Consumer Financial Protection Bureau \(CFPB\)](#), including those related to:

- Truth in Lending Act (TILA); and
- Real Estate Settlement Procedure Act (RESPA).

### (C) Nondiscrimination Policy

The mortgagee must fully comply with all applicable provisions of:

- Title VIII of the Civil Rights Act of 1968 (Fair Housing Act);
- the Fair Credit Reporting Act, Public Law 91-508; and
- the Equal Credit Opportunity Act, Public Law 94-239 and [12 CFR Part 202](#).

The mortgagee must make all determinations with respect to the adequacy of the Borrower's income in a uniform manner without regard to race, color, religion, sex, national origin, familial status, handicap, marital status, actual or perceived sexual

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orientation, gender identity, source of income of the Borrower, or location of the property.

#### iii. Application Document Processing

##### (A) Mortgagee Responsibilities

The mortgagee must order the FHA case number and perform any associated tasks in [FHA Connection \(FHAC\)](#). The mortgagee may use non-employees in connection with its origination of FHA-insured mortgages only as described below. The mortgagee ultimately remains responsible for the quality of the mortgage and for strict compliance with all applicable FHA requirements, regardless of the mortgagee's relationship to the person or Entity performing any particular service or task.

##### (1) Third-Party Originator

The mortgagee is responsible for dictating the specific application and processing tasks to be performed by the sponsored TPO. Only HUD-approved mortgagees acting in the capacity of a TPO may have direct access to [FHAC](#).

##### (2) Housing Counseling Services

Mortgagees must ensure that Borrowers receive all required counseling, and that all counseling is provided by HUD-approved housing counseling agencies.

##### (3) Other Contract Service Providers

The mortgagee may utilize Eligible Contractors to perform the following administrative and clerical functions: typing of mortgage documents, mailing out and collecting verification forms, ordering credit reports, and/or preparing for endorsement and shipping mortgages to Investors.

##### (4) Excluded Parties

The mortgagee may not contract with Entities or persons that are suspended, debarred, or otherwise excluded from participation in HUD programs, or under a [Limited Denial of Participation \(LDP\)](#) that excludes their participation in FHA programs. The mortgagee must ensure that no TPO or contractor engages such an Entity or person to perform any function relating to the origination of an FHA-insured mortgage. The mortgagee must check the [System for Award Management \(SAM\)](#) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

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#### (B) Initial Document Processing

The mortgagee begins processing the mortgage by obtaining an initial *URLA* ([Fannie Mae Form 1003/Freddie Mac Form 65](#)) and Part V of form [HUD-92900-A](#).

##### (1) Ordering Case Numbers

The mortgagee must use [FHAC](#) to order FHA case numbers. A case number can be obtained only when the mortgagee has an active mortgage application for the subject Borrower and property.

In order to obtain a case number, the mortgagee must:

- provide the subject Borrower's name, SSN, and date of birth;
- provide the property address; and
- certify that the mortgagee has an active mortgage application for the subject Borrower and property.

The mortgagee is not required to input appraiser information at the time the case number is ordered.

##### (a) Automated Data Processing Codes

FHA Automated Data Processing (ADP) Codes are derived from the section of the National Housing Act under which the mortgage is to be insured. The mortgagee must select the correct ADP code for each mortgage using the following link: [FHAC ADP Codes](#).

##### (b) Case Numbers on Sponsored Originations

The mortgagee will not be able to order case numbers for sponsored originations unless their TPO has been registered in [FHAC](#).

##### (2) Holds Tracking

If FHAC detects that a case number currently exists for the property, a case number will not be assigned. The mortgagee will receive notification that the case assignment has been placed in Holds Tracking. The mortgagee must review the Holds Tracking screen in FHAC to determine the necessary actions to obtain a case number.

##### (3) Canceling and Reinstating Case Numbers

###### (a) Canceling a Case Number

The mortgagee may request cancellation of a case number by submitting a request to HUD. A case number will be cancelled only if:

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- an appraisal has not been completed and the Borrower will not close the mortgage as an FHA-insured mortgage;
- the FHA mortgage insurance will not be sought; or
- the appraisal has already expired.

The mortgagee must submit a request for cancellation to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov) using the [Case Cancellation Request Form](#).

#### (b) Automatic Case Number Cancellations

Case numbers are automatically cancelled after six months if one of the following actions is not performed as a last action:

- appraisal information entered;
- Firm Commitment issued by FHA;
- insurance application received and subsequent updates; or
- Notices of Return (NOR) or resubmissions.

Updates to the Borrower's name and/or property address, an appraisal update, or a transmission of the Upfront Mortgage Insurance Premium (UFMIP) do not constitute Last Action Taken.

#### (c) Reinstatement of Case Numbers

The mortgagee may request reinstatement of cancelled case numbers by submitting a request to the FHA Resource Center using the [Case Reinstatement Request Form](#).

Case numbers that were automatically cancelled will be reinstated only if the mortgagee provides evidence that the subject mortgage closed prior to cancellation of the case number, such as a Settlement Statement or similar legal document.

### (4) Transferring Case Numbers

#### (a) Requirements for the Transferring Mortgagee

The original mortgagee must assign the case number to the new mortgagee using the Case Transfer function in [FHAC](#) immediately upon the Borrower's request.

The original mortgagee may provide processing documents but is not required to do so.

The original mortgagee may not charge the Borrower for the transfer of any documents, but the original mortgagee may negotiate a fee with the new mortgagee for providing the processing documents. The original mortgagee is

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never entitled to a fee for the transfer of processing documents for a Streamline Refinance.

#### **(b) Case Number Transfer Involving a Rejected Mortgage**

If the transfer involves a rejected mortgage, the original mortgagee must complete the Mortgage Credit Reject function in [FHAC](#) prior to transferring the mortgage.

#### **(c) Case Number Transfer Involving a Sponsored Originator**

Where a case number is transferred to a new approved mortgagee or sponsored TPO, the original mortgagee, its authorized agent, or sponsored TPO that is also an FHA-approved mortgagee must complete the appropriate sections in [FHAC](#) as described in the [FHAC Guide – Case Processing Support Functions](#).

#### **(5) Ordering Title Commitments**

The mortgagee must order a title commitment to ensure the property will be properly titled and the mortgage secured in accordance with FHA requirements.

#### **(6) Ordering Appraisals**

The mortgagee must order a new appraisal for each mortgage or refinance case number assignment and may not reuse an appraisal that was performed under another case number, even if the prior appraisal is not yet more than 120 Days old.

##### **(a) Appraisal Integrity**

The mortgagee is responsible for identifying any problems or potential problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

Appraisers must comply with the [Uniform Standards of Professional Appraisal Practice \(USPAP\)](#), including the Competency Rule, when conducting appraisals of properties intended as security for FHA-insured financing. In appraising any property for the purpose of obtaining FHA mortgage insurance, the appraiser must certify that they are capable of performing the appraisal because they have the necessary qualifications and access to all necessary data.

The mortgagee must ensure that FHA is listed on the appraisal report as an Intended User of the appraisal.

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#### **(b) Selection of a Qualified Appraiser**

The mortgagee must order an appraisal from an appraiser who is listed on the [FHA Appraiser Roster](#) and is qualified and knowledgeable in the specific market area in which the property is located. The mortgagee must evaluate the appraiser's education, training and actual field experience to determine whether the appraiser has sufficient qualification to perform the appraisal before assignment.

The mortgagee may not discriminate on the basis of race, color, religion, national origin, sex, age, disability, or actual or perceived sexual orientation and gender identity in the selection of an appraiser.

#### **(c) Use of Appraisal Management Company or Third-Party Contractors**

The mortgagee may engage an Appraisal Management Company (AMC) to perform services related to the obtaining of an appraisal. The mortgagee remains responsible for the acts of its AMC or third-party contractors.

The mortgagee may not pay AMC and other third-party contractors fees in excess of what is customary and reasonable for such services in the market area where the property being appraised is located. Any management fees must be for actual services related to the ordering process, or review of appraisal for FHA financing.

#### **(d) Appraiser Independence**

The mortgagee must ensure it does not compromise the appraiser's independence.

The mortgagee may not allow the appraiser to be selected, retained, managed, or compensated by a mortgage broker or any member of a mortgagee's staff who is compensated on a commission basis tied to the successful completion of a mortgage or who is not independent of the mortgagee's mortgage production staff or processes.

The mortgagee must ensure that it does not:

- compensate the appraiser at a rate that is not commensurate in the market area of the property being appraised with the assignment type, complexity and scope of work required for the appraisal services performed;
- withhold or threaten to withhold timely payment or partial payment for an appraisal report;
- prohibit the appraiser from recording the fee paid for the performance of the appraisal in the appraisal report;
- condition the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion or valuation

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to be reached, or on a preliminary value estimate requested from an appraiser;

- provide to the appraiser, appraisal company, AMC or any Entity or person related to the appraiser, appraisal company or AMC, stock or other financial or non-financial benefits;
- order, obtain, use, or pay for a second or subsequent appraisal or Automated Valuation Model (AVM) in connection with a mortgage financing transaction unless:
  - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such belief is clearly and appropriately noted in the mortgage file; or
  - such appraisal or AVM was completed pursuant to written, pre-established bona fide pre- or post-Disbursement appraisal review or quality control process or underwriting guidelines and the mortgagee adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value;
- withhold or threaten to withhold future business from an appraiser, or demote or terminate or threaten to demote or terminate an appraiser;
- make expressed or implied promises of future business, promotions or increased compensation for an appraiser;
- allow the removal of an appraiser from a list of qualified appraisers or the addition of an appraiser to an exclusionary list of qualified appraisers, used by any Entity, without prompt written notice to such appraiser. The notice must include written evidence of the appraiser's illegal conduct, violation of [USPAP](#) or state licensing standards, improper or unprofessional behavior or other substantive reason for removal;
- request that an appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of the appraisal report, or request that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report;
- provide to the appraiser an anticipated, estimated, encouraged or desired value for a subject property or a proposed, or target amount to be loaned to the Borrower, except that a copy of the sales contract for purchase and any addendum must be provided; or
- perform any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality, or that violates any applicable law, regulation, or requirement.

#### **(e) Additional Requirements When Ordering an Appraisal**

The mortgagee must provide to the selected appraiser a complete copy of the subject sales contract including all addendums, land lease, surveys and other legal documents contained in the mortgage file necessary to analyze the property.

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The mortgagee must disclose all known information regarding any environmental hazard that is in or on the subject property, or in the vicinity of the property, whether obtained from the Borrower, the real estate broker, or any other party to the transaction.

#### **(7) Transferring Existing Appraisals**

In cases where a Borrower has switched mortgagees, the first mortgagee must, at the Borrower's request, transfer the appraisal to the second mortgagee within five business days. The appraiser is not required to provide the appraisal to the new mortgagee. The client name on the appraisal does not need to reflect the new mortgagee. If the original mortgagee has not been reimbursed for the cost of the appraisal, the mortgagee is not required to transfer the appraisal until it is reimbursed.

The second mortgagee may not request the appraiser to re-address the appraisal. If the second mortgagee finds deficiencies in the appraisal, the mortgagee must order a new appraisal.

Where a mortgagee uses an existing appraisal for a different Borrower, the mortgagee must enter the new Borrower's information in [FHAC](#). The mortgagee must collect an appraisal fee from the new Borrower and refund the fee to the original Borrower.

If a [Case Transfer](#) is involved, the new mortgagee must enter the Borrower's information in [FHAC](#). The new mortgagee must collect an appraisal fee from the Borrower, and send the fee to the original mortgagee, who, in turn, must refund the fee to the original Borrower.

#### **(8) Ordering Second Appraisal**

The mortgagee is prohibited from ordering an additional appraisal to achieve an increase in value for the property and/or the elimination or reduction of deficiencies and/or repairs required.

The mortgagee may order a second appraisal for mortgages that are in accordance with requirements on [Property Flipping](#).

##### **(a) Second Appraisal by Original Mortgagee**

A second appraisal may only be ordered if the Direct Endorsement (DE) underwriter (underwriter) determines the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency. The mortgagee must fully document the deficiency and status of the appraisal in the mortgage file. The mortgagee must pay for the second appraisal.

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Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. Material deficiencies include, but are not limited to:

- failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house;
- reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- fraudulent statements or conclusions when the appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy and/or thoroughness of the appraisal submitted to the client.

#### **(b) Second Appraisal by Second Mortgagee**

A second appraisal may only be ordered by the second mortgagee under the following limited circumstances:

- the first appraisal contains material deficiencies as determined by the underwriter for the second mortgagee;
- the appraiser performing the first appraisal is prohibited from performing appraisals for the second mortgagee; or
- the first mortgagee fails to provide a copy of the appraisal to the second mortgagee in a timely manner, and the failure would cause a delay in closing and harm to the Borrower, including loss of interest rate lock, violation of purchase contract deadline, occurrence of foreclosure proceedings and imposition of late fees.

#### **(c) Use of Second Appraisal**

For the first two cases outlined above, the mortgagee must rely only on the second appraisal and ensure that copies of both appraisals are retained in the case binder. For the third case above, the first appraisal must be added to the case binder if it is received.

#### **(d) Required Documentation**

The mortgagee must document why a second appraisal was ordered and retain the explanation and all appraisal reports in the case binder.

### **(9) Ordering an Update to an Appraisal**

The mortgagee may only order an update if (1) it is a mortgagee listed as an Intended User of the original appraisal or (2) it has received permission from the original client and the appraiser. The appraiser incorporates the original report being updated by attachment rather than by reference per Advisory Opinion 3 of the [USPAP](#).

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The mortgagee may use an update of appraisal only if:

- it is performed by the FHA appraiser who performed the original appraisal, who is currently in good standing on the FHA Appraiser Roster;
- the property has not declined in value;
- the building improvements that contribute value to the property can be observed from the street or a public way;
- the exterior inspection of the property reveals no deficiencies or other significant changes;
- the update of appraisal was ordered by the mortgagee and completed by the appraiser prior to the expiration of the initial 120-Day period; and
- the original appraisal report was not previously updated.

#### b. General Mortgage Insurance Eligibility

##### i. Mortgage Purpose

FHA offers various mortgage insurance programs which insure approved mortgagees against losses on mortgages. FHA-insured mortgages may be used to purchase housing, improve housing, or refinance existing mortgages.

##### (A) Purchase/Construction to Permanent

The Borrower may finance the purchase of an existing one- to four-unit residence, and may also finance construction of a one- to four-unit residence through a [Construction to Permanent](#) mortgage.

Properties to be acquired through an unrecorded land contract must be treated as a purchase.

##### (B) Rehabilitation

##### (1) 203(k) Standard and Streamlined Rehabilitation Mortgages

The [Section 203\(k\) Rehabilitation Home Mortgage Insurance](#) is used to:

- rehabilitate an existing one- to four-unit Structure, which will be used primarily for residential purposes;
- rehabilitate such a Structure and refinance the outstanding indebtedness on the Structure and the real property on which the Structure is located; or
- purchase and rehabilitate the Structure and purchase the real property on which the Structure is located.

##### (2) 203(h) and 203(k) for Disaster Victims

The [Section 203\(h\) Home Mortgage Insurance for Disaster Victims](#) program allows FHA to insure mortgages made by qualified mortgagees to victims of a Presidentially-Declared Major Disaster Area (PDMDA) who have lost their

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housing, or whose housing was damaged and are in the process of rebuilding or buying another house.

#### (C) Refinance

A refinance transaction is a new mortgage for a Borrower with legal title on the same property with the proceeds used to pay off any existing liens.

#### Types of Refinances

FHA insures several different types of [refinance transactions](#):

1. No cash-out refinances of FHA-insured and non FHA-insured mortgages are designed to pay existing liens. These include: Rate and Term refinance, Simple Refinance, and Streamline Refinance.
2. Cash-out refinances are designed to pull equity out of the property.
3. Refinances of non FHA-insured mortgages are available for qualified Borrowers in negative equity positions ([Short Refi](#)).
4. Refinances for rehabilitation or repair (Section 203(k)).

#### ii. Borrower Eligibility

##### (A) General Borrower Eligibility Requirements

In order to obtain FHA-insured financing, all Borrowers must meet the eligibility criteria in this section.

A party who has a financial interest in the mortgage transaction, such as the seller, builder or real estate agent, may not be a co-Borrower or a cosigner. Exceptions may be granted when the party with the financial interest is a Family Member.

##### (1) Social Security Number

###### (a) Standard

Each Borrower must provide evidence of their valid SSN to the mortgagee.

###### Exception

State and local government agencies, instrumentalities of government and HUD-approved Nonprofit organizations are not required to provide an SSN.

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#### (b) Required Documentation

The mortgagee must:

- validate and document an SSN for each Borrower, co-Borrower, or cosigner on the mortgage by:
  - entering the Borrower's name, date of birth, and SSN in the Borrower/address validation screen through [FHAC](#); and
  - examining the Borrower's original pay stubs, W-2 forms, valid tax returns obtained directly from the IRS, or other document relied upon to underwrite the mortgage; and
- resolve any inconsistencies or multiple SSNs for individual Borrowers that are revealed during mortgage processing and underwriting using a service provider to verify the SSN with the SSA.

#### (2) Borrower Age Limits

The Borrower must be old enough to enter into a mortgage Note that can be legally enforced in the state, or other jurisdiction, where the property is located ("State Law"). There is no maximum age limit for a Borrower.

#### (3) Borrower Minimum Decision Credit Score

##### (a) Definition

The Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower's credit report when all reported scores are the same. Where two differing scores are reported, the MDCS is the lowest score. Where three differing scores are reported, the middle score is the MDCS.

An MDCS is determined for each Borrower. Where the mortgage involves multiple Borrowers, the mortgagee must determine the MDCS for each Borrower, and then select the lowest MDCS for all Borrowers.

Where the mortgage involves multiple Borrowers and one or more of the Borrowers do not have a credit score (non-traditional or insufficient credit), the mortgagee must select the lowest MDCS of the Borrower(s) with credit score(s).

##### (b) Eligibility Standard

The Borrower is not eligible for FHA-insured financing if the MDCS is less than 500.

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#### **(4) Borrower and Co-Borrower Ownership and Obligation Requirements**

To be eligible, all occupying and non-occupying Borrowers and co-Borrowers must take title to the property in their own name or a [Living Trust](#) at settlement, be obligated on the Note or credit instrument, and sign all security instruments.

In community property states, the Borrower's spouse is not required to be a Borrower. However, the mortgage must be executed by all parties necessary to make the lien valid and enforceable under State Law.

#### **(5) Cosigner Requirements**

Cosigners are liable for the debt and therefore, must sign the Note. Cosigners do not hold an ownership interest in the subject property and therefore, do not sign the security instrument.

#### **(6) Principal Residence in the United States**

Non-occupying co-Borrowers or cosigners must either be United States (U.S.) citizens or have a Principal Residence in the U.S.

#### **(7) Military Personnel Eligibility**

##### **(a) Standard**

Borrowers who are military personnel, who cannot physically reside in a property because they are on Active Duty are still considered owner occupants and are eligible for maximum financing if a Family Member of the Borrower will occupy the subject property as their Principal Residence, or the Borrower intends to occupy the subject property upon discharge from military service.

##### **(b) Required Documentation**

The mortgagee must obtain a copy of the Borrower's military orders evidencing the Borrower's Active Duty status and that the duty station is more than 100 miles from the subject property.

The mortgagee must obtain the Borrower's intent to occupy the subject property upon discharge from military service.

#### **(8) Citizenship and Immigration Status**

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

#### **(9) Residency Requirements**

The mortgagee must determine the residency status of the Borrower based on information provided on the mortgage application and other applicable

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documentation. In no case is a Social Security card sufficient to prove immigration or work status.

#### (a) Lawful Permanent Resident Aliens

##### (i) Standard

A Borrower with lawful permanent resident alien status may be eligible for FHA-insured financing provided the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

##### (ii) Required Documentation

The mortgage file must include evidence of the permanent residency and indicate that the Borrower is a lawful permanent resident alien on the *URLA*.

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

#### (b) Non-Permanent Resident Aliens

A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided:

- the property will be the Borrower's Principal Residence;
- the Borrower has a valid SSN, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
- the Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document (EAD) issued by the USCIS; and
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

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

A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The EAD is not required, but documentation substantiating the refugee or asylee status must be obtained.

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#### (c) Non-U.S. Citizens without Lawful Residency

Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured mortgages.

#### (10) Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt

##### (a) Standard

Mortgagees are prohibited from processing an application for an FHA-insured mortgage for Borrowers with delinquent federal non-tax debt, including deficiencies and other debt associated with past FHA-insured mortgages. Mortgagees are required to determine whether the Borrowers have delinquent federal non-tax debt. Mortgagees may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the [Credit Alert Verification Reporting System \(CAIVRS\)](#).

##### (b) Verification

If a delinquent Federal Debt is reflected in a public record, credit report or equivalent, or CAIVRS or an Equivalent System, the mortgagee must verify the validity and delinquency status of the debt by contacting the creditor agency to whom the debt is owed. If the debt was identified through CAIVRS, the mortgagee must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

If the creditor agency confirms that the debt is valid and in delinquent status as defined by the [Debt Collection Improvement Act](#), then the Borrower is ineligible for an FHA-insured mortgage until the Borrower resolves the debt with the creditor agency.

The mortgagee may not deny a mortgage solely on the basis of CAIVRS information that has not been verified by the mortgagee. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the mortgagee may continue to process the mortgage application.

##### (c) Resolution

In order for a Borrower with verified delinquent Federal Debt to become eligible, the Borrower must resolve their federal non-tax debt in accordance with the [Debt Collection Improvement Act](#).

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act.

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#### **(d) Required Documentation**

The mortgagee must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, the mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report.

#### **(11) Eligibility Period for Borrowers Delinquent on FHA-Insured Mortgages**

If a Borrower is currently delinquent on an FHA-insured mortgage, they are ineligible for a new FHA-insured mortgage unless the delinquency is resolved.

#### **(12) Delinquent Federal Tax Debt**

##### **(a) Standard**

Borrowers with delinquent Federal Tax Debt are ineligible.

Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

The mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

##### **(b) Verification**

Mortgagees must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their property for a debt owed to the federal government.

##### **(c) Required Documentation**

The mortgagee must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable.

#### **(13) Valid First Liens**

The mortgagee must ensure that the mortgaged property will be free and clear of all liens, except the insured mortgage and any secondary liens permitted by FHA regulations at [24 CFR §§ 203.32 and 203.41](#).

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#### (a) Consent of Non-Borrowing Spouses

If necessary to perfect a valid first lien under state law, the mortgagee must require a non-borrowing spouse to execute either the security instrument or documentation indicating that they are relinquishing all rights to the property.

#### (b) Tax Liens

Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the lien holder to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The lien holder must subordinate the tax lien to the FHA-insured mortgage.

### (14) Additional Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies

#### (a) Eligibility Criteria for a Mortgage for Nonprofit Organizations

##### (i) Standard

HUD-approved Nonprofit organizations may be eligible for FHA-insured mortgages. Nonprofits are not eligible for cash-out refinances.

HUD-approved Nonprofit organizations are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence.

HUD-approved Nonprofit organizations may only obtain FHA-insured fixed rate mortgages.

##### (ii) Required Documentation

A HUD-approved Nonprofit must be listed on the [HUD Nonprofit Agency Roster](#) and intend to sell or lease the property to low or moderate income families.

#### (b) Eligibility Criteria for a Mortgage for State and Local Government Agencies

##### (i) Standard

State and local government agencies and instrumentalities of government may obtain FHA-insured financing provided:

- the agency has the legal authority to become the Borrower;
- the particular state or local government is not in bankruptcy; and

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- there is no legal prohibition on obtaining a deficiency Judgment based solely on its status as a state and local government.

State and local government agencies are eligible for the same percentage of financing that is available to an owner-occupant on their Principal Residence. State and local government agencies are not eligible for cash-out refinances.

State and local government agencies may only obtain FHA-insured fixed rate mortgages.

#### **(ii) Required Documentation**

The mortgagee must obtain an opinion from counsel verifying the legal status requirements of the agency.

State and local government agencies are not required to be listed on the HUD-approved Nonprofit roster.

### **(15) Eligibility Requirements for Living Trusts**

#### **(a) Property Held in Living Trusts**

The mortgagee may originate a mortgage for a living trust for a property held by the living trust, provided the beneficiary of the living trust is a cosigner and will occupy the property as their Principal Residence, and the trust provides reasonable means to assure that the mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the property.

#### **(b) Living Trusts and Security Instruments**

##### **(i) Standard**

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

The name of the individual Borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other Borrowers, if any, must also appear on the Note with the trust.

The name of the individual Borrower is not required to appear on the property deed or title.

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#### **(ii) Required Documentation**

The mortgagee must obtain a copy of the trust documentation.

#### **(B) Excluded Parties**

The mortgagee must establish that no participants are Excluded Parties and document the determination on form [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*.

#### **(1) Borrower**

##### **(a) Standard**

A Borrower is not eligible to participate in FHA-insured mortgage transactions if they are suspended, debarred, or otherwise excluded from participating in HUD programs.

##### **(b) Required Documentation**

The mortgagee must check the HUD [LDP](#) list to confirm the Borrower's eligibility to participate in an FHA-insured mortgage transaction.

The mortgagee must check [SAM](#) and follow appropriate procedures defined by that system to confirm eligibility for participation.

The mortgagee must check the "Yes" box on form [HUD-92900-LT](#) if the Borrower appears on either the LDP or SAM list.

#### **(2) Other Parties to the Transaction**

##### **(a) Standard**

A mortgage is not eligible for FHA insurance if anyone participating in the mortgage transaction is listed on HUD's LDP list or in SAM as being excluded from participation in HUD transactions. This may include but is not limited to:

- seller (except where selling the Principal Residence)
- listing and selling real estate agent
- loan officer
- loan processor
- underwriter
- appraiser
- 203(k) Consultant

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#### **(b) Required Documentation**

The mortgagee must check the HUD [LDP](#) list and [SAM](#) and follow appropriate procedures defined by that system to confirm eligibility for all participants involved in the transaction.

#### **iii. Occupancy Types**

##### **(A) Principal Residence**

###### **(1) Definition**

A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode, and which the Borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one Principal Residence at any one time.

###### **(2) Standard**

###### **(a) FHA Requirement for Owner Occupancy**

At least one Borrower must occupy the property within 60 Days of signing the security instrument and intend to continue occupancy for at least one year.

[203\(k\) Rehabilitation products](#) may have different requirements for the length of time to occupy the property.

###### **(b) FHA-Insured Mortgages on Principal Residences**

FHA will not insure more than one property as a Principal Residence for any Borrower, except as noted below. 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.

Properties previously acquired as Investment Properties are not subject to these restrictions.

###### **(c) Exceptions to the FHA Policy Limiting the Number of Mortgages per Borrower**

The table below describes the only circumstances in which a Borrower with an existing FHA-insured mortgage for a Principal Residence may obtain an additional FHA-insured mortgage on a new Principal Residence.

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Policy Exceptions	Eligibility Requirements
Relocation	<p>A Borrower may be eligible to obtain another FHA-insured mortgage without being required to sell an existing property covered by an FHA-insured mortgage if the Borrower is:</p> <ul style="list-style-type: none"><li>• relocating or has relocated for an employment-related reason; and</li><li>• establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower's current Principal Residence.</li></ul> <p>If the Borrower moves back to the original area, the Borrower is not required to live in the original house and may obtain a new FHA-insured mortgage on a new Principal Residence, provided the relocation meets the two requirements above.</p>
Increase in family size	<p>A Borrower may be eligible for another house with an FHA-insured mortgage if the Borrower provides satisfactory evidence that:</p> <ul style="list-style-type: none"><li>• the Borrower has had an increase in legal dependents and the property now fails to meet family needs; and</li><li>• the Loan-to-Value (LTV) ratio on the current Principal Residence is equal to or less than 75% or is paid down to that amount, based on the outstanding mortgage balance and a current residential appraisal.</li></ul>
Vacating a jointly-owned property	<p>A Borrower may be eligible for another FHA-insured mortgage if the Borrower is vacating (with no intent to return) the Principal Residence which will remain occupied by an existing co-Borrower.</p>
Non-occupying co-Borrower	<p>A non-occupying co-Borrower on an existing FHA-insured mortgage may qualify for an FHA-insured mortgage on a new property to be their own Principal Residence.</p>

### (3) Required Documentation

The Borrower must indicate on the *URLA* ([Fannie Mae Form 1003](#)/ [Freddie Mac Form 65](#)) that the property will be the Borrower's Principal Residence and certify to that fact on form [HUD-92900-A](#), *HUD/VA Addendum to URLA*.

### (B) Secondary Residence

#### (1) Definition

Secondary Residence refers to a dwelling that a Borrower occupies, in addition to their Principal Residence, but less than a majority of the calendar year. A Secondary Residence does not include a Vacation Home.

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#### (2) Standard

Secondary Residences are only permitted with written approval from the Jurisdictional HOC after a determination that:

- the Borrower has no other Secondary Residence;
- the Secondary Residence will not be a Vacation Home or be otherwise used primarily for recreational purposes;
- the commuting distance to the Borrower's workplace creates an undue hardship on the Borrower and there is no affordable rental housing meeting the Borrower's needs within 100 miles of the Borrower's workplace; and
- the maximum mortgage amount is 85 percent of the lesser of the appraised value or sales price.

#### (3) Required Documentation

The mortgagee must demonstrate the lack of affordable rental housing, and include:

- a satisfactory explanation of the need for 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.

### (C) Investment Property

#### (1) Definition

An Investment Property refers to a property that is not occupied by the Borrower as a Principal or Secondary Residence.

#### (2) Standard

Investors are not eligible except for HUD-approved [Nonprofit Borrower](#), state and local government agencies and instrumentalities of government, and HUD REO borrowers.

### iv. Property Eligibility and Acceptability Criteria

#### (A) General Property Eligibility

The property must be located within the U.S., Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa.

#### (1) Special Flood Hazard Areas

The mortgagee must determine if a property is located in a Special Flood Hazard Area (SFHA) as designated by the Federal Emergency Management Agency

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(FEMA). The mortgagee must obtain flood zone determination services, independent of any assessment made by the appraiser to cover the Life of the Loan Flood Certification.

A property is not eligible for FHA insurance if:

- a residential building and related improvements to the property are located within SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- the improvements are, or are proposed to be, located within a Coastal Barrier Resource System (CBRS).

#### **(a) Eligibility for Proposed or New Construction in SFHAs**

If any portion of the dwelling, related Structures or equipment essential to the value of the property and subject to flood damage is located within an SFHA, the property is not eligible for FHA mortgage insurance unless the mortgagee:

- obtains from FEMA a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA; or
- obtains a FEMA National Flood Insurance Program Elevation Certificate ([FEMA Form 81-31](#)) prepared by a licensed engineer or surveyor. The elevation certificate must document that the lowest floor including the basement of the residential building, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria, and insurance under the NFIP is obtained.

#### **(b) Eligibility for Existing Construction in SFHAs**

When any portion of the residential improvements is determined to be located within an SFHA, insurance under the NFIP must be obtained.

#### **(c) Eligibility for Condominiums in SFHAs**

The mortgagee must ensure the Homeowners' Association (HOA) obtains insurance under the NFIP on buildings located within the SFHA. The flood insurance coverage must protect the interest of the Borrowers who hold title to an individual unit, as well as the common areas of the Condominium Project.

#### **(d) Eligibility for Manufactured Housing in SFHAs**

The finished grade level beneath the Manufactured House must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related Structures or equipment essential to the Property Value and subject to flood damage for both new and existing Manufactured Houses are located

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within an SFHA, the property is not eligible for FHA mortgage insurance unless the mortgagee obtains:

- a FEMA issued LOMA or LOMR that removes the property from the SFHA; or
- a FEMA National Flood Insurance Program (NFIP) Elevation Certificate ([FEMA Form 81-31](#)) prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured House is at or above the 100-year return frequency flood elevation, and insurance under the NFIP is obtained.

#### (e) Required Flood Insurance Amount

For properties located within an SFHA, flood insurance must be maintained for the life of the mortgage in an amount at least equal to the lesser of either:

- the outstanding balance of the mortgage, less estimated land costs; or
- the maximum amount of the NFIP insurance available with respect to the property improvements.

#### (f) Required Documentation

The mortgagee must obtain a Life of Loan Flood Certification for all properties. If applicable, the mortgagee must also obtain a:

- FEMA Letter of Map Amendment;
- FEMA Letter of Map Revision; or
- FEMA National Flood insurance Program Elevation Certificate ([FEMA 81-31](#)).

#### (g) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the [Coastal Barrier Resources Act](#), a property is not eligible for FHA mortgage insurance if the improvements are or are proposed to be located within the [Coastal Barrier Resources System](#).

### (2) Seller Must Be Owner of Record

#### (a) Standard

To be eligible for a mortgage insured by FHA, a property must be purchased from the owner of record. The transaction may not involve any sale or assignment of the sales contract.

#### (b) Required Documentation

The mortgagee must obtain documentation verifying that the seller is the owner of record.

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Such documentation may include, but is not limited to:

- a property sales history report;
- a copy of the recorded deed from the seller; or
- other documentation, such as a copy of a property tax bill, title commitment, or binder, demonstrating the seller's ownership of the property and the date it was acquired.

This requirement applies to all FHA purchase money mortgages, regardless of the time between resales.

### (3) Restrictions on Property Flipping

#### (a) Definition

Property Flipping refers to a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a mortgagee's collusion with an appraiser.

#### (b) Standard

##### (i) Time Restriction on Transfers of Title

The eligibility of a property for a mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the property and the date of execution of the sales contract that will result in the FHA-insured mortgage.

##### (ii) Restriction on Resales Occurring 90 Days or Fewer After Acquisition

For case numbers assigned on or after January 1, 2015, if a property is resold 90 Days or fewer following the date of acquisition by the seller, the property is not eligible for an FHA-insured mortgage.

FHA defines the seller's date of acquisition as the date of settlement on the seller's purchase of that property. FHA defines the resale date as the date of execution of the sales contract by all parties intending to finance the property with an FHA-insured mortgage.

##### (iii) Exceptions to the 90-Day Restriction for Case Numbers Assigned on or before December 31, 2014

Exceptions to the 90-Day resale restriction are:

- properties acquired by an employer or relocation agency in connection with the relocation of an employee;
- resales by HUD under its REO program;

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- sales by other U.S. Government agencies of Single Family properties pursuant to programs operated by these agencies;
- sales of properties by nonprofits approved to purchase HUD owned Single Family properties at a discount with resale restrictions;
- sales of properties that are acquired by the seller by inheritance;
- sales of properties by state and federally-chartered financial institutions and Government Sponsored Enterprises;
- sales of properties by local and state government agencies;
- sales of properties within PDMDAs, only upon issuance of a notice of an exception from HUD; and
- mortgages covered by the waiver in effect for all sales contracts executed on or before December 31, 2014 that meet the requirements of the Eligibility for Property Flipping Waiver section below.

The restrictions listed above and those in [24 CFR § 203.37a](#) do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

#### **(iv) Eligibility for Property Flipping Waiver**

##### **Definitions**

Seller's Acquisition Cost refers to the purchase price the seller paid for the property, including closing costs, prepaid costs, and commissions, if paid by the seller, but not including the cost of any repairs that the seller makes to the property.

Contract Execution Date refers to the date the contract has been executed by all parties.

##### **Borrower Eligibility**

The Borrower cannot have an Identity of Interest with the seller or other parties participating in the sales transaction and the transaction must be arms-length.

Identity of Interest refers to a transaction between Family Members, business partners or other business affiliates.

##### **Eligibility based on Sales Price**

1. If the sales price is no more than 20 percent higher than the Seller's Acquisition Cost the mortgage is eligible for the waiver.

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2. If the sales price of the property is more than 20 percent higher than the Seller's Acquisition Cost, then the mortgagee must:
  - justify the increase in value by retaining in the mortgage file a second appraisal and/or supporting documentation, which verifies that the seller has completed sufficient legitimate renovation, repair, and rehabilitation work on the subject property to substantiate the increase in value or, in cases where no such work is performed, the appraiser's appropriate explanation of the increase in the value of the property since the prior title transfer; and
  - order a property inspection and provide the inspection report to the borrower before closing. The Borrower, mortgagee, or third party originator (if one is involved in the transaction) may order the property inspection. The mortgagee or mortgage broker may charge the Borrower for this inspection. The use of FHA-approved inspectors or 203(k) Consultants is not required. The inspector must have no interest in the property or relationship with the seller, and must not receive compensation for the inspection from any party other than the mortgagee or Borrower. Additionally, the inspector may not compensate anyone for the referral of the inspection, receive any compensation for referring or recommending contractors to perform any repairs recommended by the inspection, or be involved with performing any repairs recommended by the inspection. At a minimum, the inspection must include:
    - the property Structure, including the foundation, floor, ceiling, walls and roof;
    - the exterior, including siding, doors, windows, appurtenant Structures such as decks and balconies, walkways and driveways;
    - the roofing, plumbing systems, electrical systems, heating and air conditioning systems;
    - all interiors; and
    - all insulation and ventilation systems, as well as fireplaces and solid fuel-burning appliances.

If the inspection report notes that repairs are required because of structural or "health and safety" issues, those repairs must be completed prior to closing. After completion of repairs to address structural or "health and safety" issues, the inspector must conduct a final inspection to determine if the repairs have been completed satisfactorily and eliminated the structural or "health and safety" issues. The Borrower, mortgagee, or mortgage broker may order the final inspection.

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3. If the mortgagee uses a second appraisal to document the increase in value, then:
  - an FHA Roster appraiser must perform the appraisal in compliance with all FHA appraisal reporting requirements;
  - the mortgagee must not use an appraisal done for a non FHA-insured mortgage even if it was completed by an FHA Roster appraiser;
  - the mortgagee must not charge the Borrower for that appraisal; and
  - the mortgagee must not use the second appraisal for case processing and must not enter it into [FHAC](#).

#### **Resales Occurring Between 91 Days and 180 Days After Acquisition**

A mortgagee must obtain a second appraisal by another appraiser if:

- the resale date of a property is between 91 and 180 Days following the acquisition of the property by the seller; and
- the resale price is 100 percent or more over the price paid by the seller to acquire the property.

If the second appraisal supports a value of the property that is more than 5 percent lower than the value of the first appraisal, the lower value must be used to determine the Adjusted Value.

The cost of the second appraisal may not be charged to the Borrower.

#### **(c) Required Documentation**

The mortgagee must obtain documentation of the compliance with time restrictions on resales.

#### **(4) Restriction on Investment Properties for Hotel and Transient Use**

##### **(a) Standard**

The mortgagee must obtain the Borrower's agreement that Investment Properties using FHA-insured financing will not be used for hotel or transient purposes, or otherwise rented for periods of less than 30 Days.

##### **(b) Required Documentation**

The mortgagee must obtain a completed form [HUD-92561](#), *Borrower's Contract with Respect to Hotel and Transient Use of Property*, for each mortgage where the Borrower owns:

- more than one Dwelling Unit (two to four); or
- a Single Family dwelling that is one of a group of five or more dwellings within a two block radius.

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#### (5) Mixed Use of Property

Mixed Use refers to a property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space. Mixed Use one- to four-unit Single Family properties are eligible for FHA insurance, provided:

- 51 percent of the entire building square footage is for residential use; and
- the commercial use will not affect the health and safety of the occupants of the residential property.

#### (B) Property Types

FHA's programs differ from one another primarily in terms of what types of properties and financing are eligible. Except as otherwise stated in this *SF Handbook*, FHA's Single Family programs are limited to one- to four-family properties that are owner-occupied Principal Residences. FHA insures mortgages on real property secured by:

- detached or semi-detached dwellings
- Manufactured Housing
- townhouses or row houses
- individual units within FHA-approved Condominium Projects

FHA will not insure Single Family mortgages secured by:

- commercial enterprises
- boarding houses
- hotels, motels and condotels
- tourist houses
- private clubs
- bed and breakfast establishments
- other transient housing
- Vacation Homes
- fraternity and sorority houses

#### (1) One Unit

A one-unit property is a one-family dwelling.

#### (2) Two Unit

A two-unit property is a Single Family residential property with two individual dwellings.

The mortgagee must obtain a completed form [HUD-92561](#), *Borrower's Contract with Respect to Hotel and Transient Use of Property*.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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#### (3) Three to Four Unit

A three- to four-unit property is a Single Family residential property with three to four individual dwellings.

The mortgagee must obtain a completed form [HUD-92561](#).

#### Self-Sufficiency Rental Income Eligibility

##### (a) Definition

Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject property over and above the [Principal, Interest, Taxes, and Insurance \(PITI\)](#).

##### (b) Standard

The PITI divided by the monthly Net Self-Sufficiency Rental Income may not exceed 100 percent for three- to four-unit properties.

##### (c) Calculation

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 the vacancy and maintenance factor used by the Jurisdictional HOC.

#### (4) Condominium Unit

A Condominium Unit is a property contained in 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 primarily residential in use.

##### (a) Standard

A condominium development 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 HOA that typically maintains the property and collects assessments or dues from each unit owner.

A [Condominium Project](#) must be FHA approved before a mortgage on an individual condominium unit can be insured.

The mortgagee must obtain a completed form [HUD-92561](#).

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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#### (b) Site Condominiums

Site Condominiums are Single Family detached dwellings encumbered by a declaration of condominium covenants or condominium form of ownership and do not need to be FHA-approved.

Manufactured Housing condominium units may not be processed as Site Condominiums.

#### (5) Manufactured Housing

Manufactured Housing is a Structure that is transportable in one or more sections. It may be part of a [Condominium Project](#), provided the project meets applicable FHA requirements.

To be eligible for FHA mortgage insurance as a Single Family Title II mortgage, all Manufactured Housing must:

- be designed as a one-family dwelling;
- have a floor area of not less than 400 square feet;
- have the certification label affixed or have obtained a [letter of label verification](#) issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the [Federal Manufactured Home Construction and Safety Standards](#);
- be classified as real estate (but need not be treated as real estate for purposes of state taxation);
- be built and remain on a permanent chassis;
- be designed to be used as a dwelling with a permanent foundation built in accordance with the [Permanent Foundations Guide for Manufactured Housing \(PFGMH\)](#); and
- have been directly transported from the manufacturer or the dealership to the site.

#### Required Documentation

##### HUD Certification Label

If the appraisal indicates the HUD certification label is missing from the Manufactured Housing unit, the mortgagee must obtain label verification from the [Institute for Building Technology and Safety \(IBTS\)](#).

##### PFGMH Certification

The mortgagee must obtain a certification by an engineer or architect, who is licensed/registered in the state where the Manufactured House is located, attesting to compliance with the PFGMH.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 1. Origination/Processing

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The mortgagee may obtain a copy of the foundation certification from a previous FHA-insured mortgage, showing that the foundation met the guidelines published in the PFGMH that were in effect at the time of certification, provided there are no alterations and/or observable damage to the foundation since the original certification.

If the appraiser notes additions or alterations to the Manufactured Housing unit, the mortgagee must ensure the addition was addressed in the foundation certification.

If the additions or alterations were not addressed in the foundation certification, the mortgagee must obtain:

- an inspection by the state administrative agency that inspects Manufactured Housing for compliance; or
- certification of the structural integrity from a licensed structural engineer if the state does not employ inspectors.

### (C) Property Valuation

The mortgagee is responsible for obtaining an appraisal to verify the value of the property and the property's compliance with HUD's [Minimum Property Standards \(MPS\)](#).

#### (1) Integrity of Valuation Process: Communications with Mortgagees

The mortgagee must ensure the integrity of the valuation process by ensuring the valuation process is free from conflicts of interest and the appearance of conflicts of interest.

##### (a) Standard

The mortgagee must prevent its staff, or any person who is compensated on a commission basis upon the successful completion of a mortgage, or who reports, ultimately, to any officer of the mortgagee not independent of the mortgage production staff and process, from having substantive communications with an appraiser relating to or having an impact on valuation, including ordering or managing an appraisal assignment. Normal communications necessary to processing of a case is permissible, but cannot attempt to influence the appraiser.

The underwriter who has responsibility for the quality of the appraisal report is allowed to request clarifications and discuss with the appraiser components of the appraisal that influence its quality.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 2. Allowable Mortgage Parameters

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#### (b) Exception for Smaller Mortgagees

When absolute lines of independence cannot be achieved because of the mortgagee's small size and limited staff, the mortgagee must clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its mortgage production process.

#### (2) Communications with Third Parties

The underwriter may request a clarification or reconsideration of value from the appraiser, following the requirements in [Reconsideration of Value](#). The mortgagee may not discuss the contents of an appraisal with anyone other than the Borrower.

#### (3) Verifying HUD's Minimum Property Standards/Minimum Property Requirements

As the on-site representative for the mortgagee, the appraiser provides preliminary verification that a property meets the Property Acceptability Criteria, which include HUD's Minimum Property Requirements (MPR) or Minimum Property Standards (MPS).

When examination of a property reveals noncompliance with the Property Acceptability Criteria, the appraiser must note all repairs necessary to make the property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure.

#### v. Legal Restrictions on Conveyance (Free Assumability)

The mortgagee must determine if there are any legal restrictions on conveyance in accordance with [24 CFR § 203.41](#).

### 2. Allowable Mortgage Parameters

This section provides the basic underwriting standards for Single Family (one- to four-units) mortgages insured under the National Housing Act. When underwriting a mortgage, the mortgagee must determine the Borrower's creditworthiness, capacity to repay, and available capital to support the mortgage. The mortgagee must also examine the property to ensure it provides sufficient collateral for the mortgage.

For each mortgage the Federal Housing Administration (FHA) insures, the mortgagee must fully comply with the following underwriting procedures.

#### a. Maximum Mortgage Amounts

A mortgage that is to be insured by FHA cannot exceed the [Nationwide Mortgage Limits](#), the nationwide area mortgage limit, or the maximum Loan-to-Value (LTV) ratio. The maximum

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 2. Allowable Mortgage Parameters

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[LTV](#) ratios vary depending upon the type of Borrower, type of transaction (purchase or refinance), program type, and stage of construction.

Under most programs, the maximum mortgage is the lesser of the [Nationwide Mortgage Limit](#) for the area, or a percentage of the Adjusted Value.

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

- purchase price less any inducements to purchase; or
- the Property Value.

For refinance transactions:

- For properties acquired by the Borrower within 12 months of the case assignment date the Adjusted Value is the lesser of:
  - the Borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
  - the Property Value.
- 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.
- For properties acquired by the Borrower greater than or equal to 12 months prior to the case assignment date the Adjusted Value is the Property Value.

#### i. National Housing Act's Statutory Limits

The National Housing Act establishes the maximum loan limits and the mortgage amounts for all FHA mortgage insurance programs.

#### ii. Nationwide Mortgage Limits

Mortgage limits are calculated based on the median house prices in accordance with the statute. FHA's Single Family mortgage limits are set by Metropolitan Statistical Area and county and will be published periodically. FHA's Single Family mortgage limits are available [by MSA and county](#), or by [downloading a complete listing](#).

These limits will be set at or between the low cost area and high cost area limits based on the median house prices for the area.

#### (A) Low Cost Area

The FHA national low cost area mortgage limits, which are currently set at 65 percent of the national conforming limit of \$417,000 for a one-unit property, are, by property unit number, as follows:

- One-unit: \$271,050
- Two-unit: \$347,000
- Three-unit: \$419,425
- Four-unit: \$521,250

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 2. Allowable Mortgage Parameters

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#### **(B) High Cost Area**

For areas designated as high cost areas, the maximum FHA-insured mortgage limits (ceiling) by property unit number are as follows:

- One-unit: \$ 625,500
- Two-unit: \$ 800,775
- Three-unit: \$ 967,950
- Four-unit: \$ 1,202,925

#### **(C) Special Exceptions for Alaska, Hawaii, Guam, and the Virgin Islands**

Mortgage limits for the special exception areas of Alaska (AK), Hawaii (HI), Guam (GU) and the Virgin Islands (VI) are adjusted by FHA to account for higher costs of construction. These four special exception areas have a higher ceiling as follows:

- One-unit: \$938,250
- Two-unit: \$1,201,150
- Three-unit: \$1,451,925
- Four-unit: \$1,804,375

#### **iii. Financing of Upfront Mortgage Insurance Premium**

Unless otherwise stated in this section (Origination through Post Closing/Endorsement), restrictions to mortgage amounts and LTVs are based upon the amount prior to the financing of the Upfront Mortgage Insurance Premium (UFMIP) (Base Loan Amount). The total mortgage amount may be increased by the financed UFMIP amount.

#### **iv. Calculating Maximum Mortgage Amounts on Purchases**

The maximum mortgage amount that FHA will insure on a specific purchase is calculated by multiplying the appropriate LTV percentage by the Adjusted Value.

In order for FHA to insure this maximum mortgage amount, the Borrower must make a Minimum Required Investment (MRI) of at least 3.5 percent of the Adjusted Value.

#### **v. Additions to the Mortgage Amount for Repair and Improvement**

##### **(A) Appraiser Required Repairs**

A mortgagee may add repair costs to the sales price before calculating the mortgage amount if:

- the repairs are required by the appraiser to meet HUD's MPR;
- the repairs are paid for by the Borrower; and
- the sales contract or addendum identifies the Borrower as the party responsible for payment and completion of the repairs.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 2. Allowable Mortgage Parameters

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The maximum amount of repair costs that may be added to the sales price is the lesser of:

- the amount by which the value of the property exceeds the sales price;
- the appraiser's estimate of repairs; or
- the amount of the contractor's bid.

#### **(B) Energy-Related Weatherization Repairs and Improvements**

A mortgagee may add energy-related weatherization costs, to be paid for by the Borrower, in accordance with [Weatherization](#) policies.

#### **(C) Solar Energy Systems**

A mortgagee may add the cost of a solar energy system (including active and passive solar- and wind-driven systems) to the mortgage in accordance with [Solar and Wind Technologies](#) policies.

When adding the cost of a solar energy system to the mortgage amount, the maximum insurable mortgage limit may be exceeded by up to 20 percent.

#### **b. Loan-to-Value Limits**

The determination of the maximum LTV percentage available is influenced by:

- the particular mortgage insurance program (See [Programs and Products](#)); and
- the transaction type.

The mortgagee must apply the lowest applicable LTV percentage as determined under the requirements in this section.

##### **i. Purchase**

For purchase transactions, the maximum LTV is 96.5 percent of the Adjusted Value.

For special programs and products including refinances, the maximum LTV is determined in accordance with requirements listed in this *SF Handbook's* [Programs and Products section](#).

#### **(A) LTV Limitations Based on Borrower's Credit Score**

The mortgagee must review the credit report to determine the Borrower's Minimum Decision Credit Score (MDCS), except for mortgages to be insured under Sections 247 and 248.

The MDCS will be used to determine the maximum insured financing available to a Borrower with traditional credit.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 2. Allowable Mortgage Parameters

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The table below describes the relationship between the Borrower's MDCS and the LTV ratio for which they are eligible. Borrowers with non-traditional or insufficient credit histories are eligible for maximum financing, but must be underwritten using the procedures in [Manual Underwriting](#).

<b>If the Borrower's Minimum Decision Credit Score is...</b>	<b>Then the Borrower is...</b>
at or above 580	eligible for maximum financing.
between 500 and 579	limited to a maximum LTV of 90%.

#### **(B) LTV Limitations Based on Identities of Interest**

##### **(1) Definitions**

An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members.

Business Relationship refers to an association between individuals or companies entered into for commercial purposes.

Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- child, parent, or grandparent;
  - a child is defined as a son, stepson, daughter, or stepdaughter;
  - a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent;
- spouse or domestic partner;
- legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption;
- foster child;
- brother, stepbrother;
- sister, stepsister;
- uncle;
- aunt; or
- son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.

##### **(2) Maximum LTV for Identity-of-Interest and Tenant/Landlord Transactions**

The maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85 percent.

The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85 percent.

**(3) Exceptions to the Maximum LTV**

The 85 percent maximum LTV restriction does not apply for Identity-of-Interest transactions under the following circumstances.

**(a) Family Member Transactions**

The 85 percent LTV restriction may be exceeded if a Borrower purchases as their Principal Residence:

- the Principal Residence of another Family Member; or
- a property owned by another Family Member in which the Borrower has been a tenant for at least six months immediately predating the sales contract. A lease or other written evidence to verify occupancy is required.

**(b) Builder's Employee Purchase**

The 85 percent LTV restriction may be exceeded if an employee of a builder, who is not a Family Member, purchases one of the builder's new houses or models as a Principal Residence.

**(c) Corporate Transfer**

The 85 percent LTV restriction may be exceeded if a corporation transfers an employee to another location, purchases the employee's house, and sells the house to another employee.

**(d) Tenant Purchase**

The 85 percent LTV restriction may be exceeded if the current tenant purchases the property where the tenant has rented the property for at least six months immediately predating the sales contract.

A lease or other written evidence to verify occupancy is required.

**(C) LTV Limitations Based on Non-Occupying Borrower Status**

**(1) Definition**

A Non-Occupying Borrower Transaction refers to a transaction involving two or more Borrowers in which one or more of the Borrower(s) will not occupy the property as their Principal Residence.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 2. Allowable Mortgage Parameters

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#### (2) Maximum LTV for Non-Occupying Borrower Transaction

For Non-Occupying Borrower Transactions, the maximum LTV is 75 percent. The LTV can be increased to a maximum of 96.5 percent if the Borrowers are Family Members, provided the transaction does not involve:

- a Family Member selling to a Family Member who will be a non-occupying co-Borrower; or
- a transaction on a two- to four-unit property.

#### ii. Refinance

For refinance transactions, the maximum LTV is determined in accordance with [Refinance](#) program specific requirements.

#### iii. New Construction

For New Construction transactions, the maximum LTV is determined in accordance with [New Construction](#) program specific requirements.

### c. Required Investment

#### i. Total Required Investment

Total Required Investment refers to the amount the Borrower must contribute to the transaction including the Borrower's downpayment and the Borrower-paid transaction costs. The Total Required Investment includes the Minimum Required Investment (MRI).

#### ii. Minimum Required Investment

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the property.

### d. Maximum Mortgage Term

The maximum mortgage term may not exceed 30 years from the date that amortization begins. FHA does not require that mortgage terms be in five year multiples.

### e. Mortgage Insurance Premiums

FHA collects a UFMIP, also referred to as the one-time Mortgage Insurance Premium (MIP), and an annual insurance premium, also referred to as the periodic or monthly MIP, which is collected in monthly installments.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 3. Underwriting the Property

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#### i. Upfront Mortgage Insurance Premium

##### (A) Upfront Mortgage Insurance Premium Amount

Most FHA mortgage insurance programs require the payment of UFMIP, which may be financed into the mortgage. The UFMIP is not considered when calculating the area-based [Nationwide Mortgage Limits](#) and LTV limits.

The UFMIP charged for all amortization terms is 175 basis points (bps), unless otherwise stated in the applicable [Programs and Products](#) or in the [MIP chart](#).

The UFMIP must be entirely financed into the mortgage or paid entirely in cash. Any UFMIP amounts paid in cash are added to the total cash settlement requirements. However, if the UFMIP is financed into the mortgage, the entire amount is to be financed except for any amount less than \$1.00.

The mortgage amount must be rounded down to the nearest whole dollar amount, regardless of whether the UFMIP is financed or paid in cash.

##### (B) Refund and Credit of Upfront Mortgage Insurance Premium

The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured mortgage. See the [Refinances](#) Section.

#### ii. Annual (or Periodic) Mortgage Insurance Premium

The periodic MIP is an annual MIP that is payable monthly. The amount of the annual MIP is based on the LTV ratio and the term of the mortgage.

##### Calculation of the MIP

The MIP rate and duration of the MIP assessment period vary by mortgage term, Base Loan Amount, and LTV ratio for the mortgage, as shown in the [MIP chart](#).

### 3. Underwriting the Property

The mortgagee must underwrite the completed appraisal report to determine if the property provides sufficient collateral for the FHA-insured mortgage. The appraisal and property must comply with the requirements in [Appraiser and Property Requirements for Title II Forward and Reverse Mortgages](#). The appraisal must be reported in accordance with [Acceptable Appraisal Reporting Forms and Protocols](#).

#### a. Property Acceptability Criteria

The mortgagee must evaluate the appraisal and any supporting documentation to determine if the property complies with HUD's Property Acceptability Criteria. Existing and New

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 3. Underwriting the Property

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Construction properties must comply with [Application of Minimum Property Requirements and Minimum Property Standards by Construction Status](#).

#### i. Defective Conditions

The mortgagee must evaluate the appraisal in accordance with [Defective Conditions](#) to determine if the property is eligible for an FHA-insured mortgage. If defective conditions exist and correction is not feasible, the mortgagee must reject the property.

#### ii. Minimum Property Requirements and Minimum Property Standards

The mortgagee must evaluate the appraisal in accordance with MPR to determine if the property is eligible for an FHA-insured mortgage.

If the appraiser cannot determine that a property meets HUD's MPR or MPS, the mortgagee may obtain an inspection from a qualified Entity to make the determination.

#### iii. Minimum Required Repairs

When the appraisal report or inspection from a qualified Entity indicates that repairs are required to make the property meet HUD's MPR or MPS, the mortgagee must comply with [Repair Requirements](#).

If repairs for Existing Construction cannot be completed prior to loan closing, the mortgagee may establish an escrow account in accordance with [Repair Completion Escrow Requirements](#).

#### b. Appraisal Review

The mortgagee must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the property.

##### i. Quality of Appraisal

The mortgagee must evaluate the appraisal and ensure it complies with the requirements in [Valuation and Reporting Protocols](#), and any additional appraisal requirements that are specific to the subject property.

##### ii. Chain of Title

The mortgagee must review the appraisal to determine if the subject property was sold within 12 months prior to the case number assignment date. If the subject property was sold within the previous 12 months the mortgagee must review evidence of prior ownership and determine if there are any undisclosed Identity-of-Interest transactions, and for compliance with [Restrictions on Property Flipping](#).

## **II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

### **4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)**

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#### **iii. Opinion of Market Value**

The mortgagee must ensure the Market Value of the property is sufficient to adequately secure the FHA-insured mortgage.

#### **iv. Reconsideration of Value**

The underwriter may request a reconsideration of value when the appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the appraiser with all relevant data that is necessary for a reconsideration of value.

The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the Borrower, the Borrower must not be held responsible for the additional costs. The effective date of the appraisal is the date the appraiser inspected the property.

#### **c. Required Documentation for Underwriting the Property**

If additional inspections, repairs or certifications are noted by the appraisal or are required to demonstrate compliance with Property Acceptability Criteria, the mortgagee must obtain evidence of completion of such inspections, repairs or certifications.

### **4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)**

#### **a. Underwriting with an Automated Underwriting System**

FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard is not an Automated Underwriting System (AUS) but a scorecard that must interface through a system-to-system connection with an AUS.

Each AUS using TOTAL Mortgage Scorecard provides a Feedback Certificate/Finding Report, which documents results of the credit risk evaluation, and identifies the credit report utilized for the scoring event. The Feedback Certificate/Finding Report upon which the mortgagee makes its underwriting decision prior to endorsement must be included in the case binder.

#### **i. Use of TOTAL Mortgage Scorecard**

All transactions must be scored through TOTAL Mortgage Scorecard, except Streamline Refinance transactions and assumptions.

If the mortgage involves a HUD employee, the mortgagee must score the transaction through TOTAL. If the file receives an Accept, the mortgagee must underwrite the transaction in accordance with the guidance in this Underwriting the Borrower Using the TOTAL Mortgage Scorecard section. The mortgagee must submit the underwritten mortgage application to the Processing and Underwriting Division Director at the

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)**

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[Jurisdictional HOC](#) for final underwriting approval.

Mortgagees using TOTAL remain solely responsible for prudent underwriting practices and the [Final Underwriting Decision](#).

**ii. Requirements for the Submission of Data through TOTAL Mortgage Scorecard**

The mortgagee must submit data to TOTAL Mortgage Scorecard through an approved [AUS vendor](#) in a data format acceptable to FHA, as described in the [TOTAL Mortgage Scorecard Developer's Guide](#).

**iii. Function of TOTAL Mortgage Scorecard**

TOTAL Mortgage Scorecard evaluates the overall credit risk posed by the Borrower, based on a number of credit variables, when combined with the functionalities of an AUS.

The mortgagee may not accept or deny an FHA-insured mortgage based solely on a risk assessment generated by TOTAL Mortgage Scorecard.

The mortgagee must ensure full compliance with all FHA eligibility requirements, and all requirements of this section. The mortgagee must verify the information used to score the mortgage through TOTAL but does not need to analyze the credit history, unless otherwise stated in this section, if an Accept or Approve recommendation is received.

The underwriter must still underwrite all appraisals according to standard FHA requirements.

The underwriter must fully underwrite those applications where the AUS issues a Refer.

**(A) Automated Underwriting System Data Entry Requirements**

**(1) Mortgagees**

The mortgagee must verify the integrity of all data elements entered into the AUS to ensure the outcome of the mortgage credit risk evaluation is valid including:

- Borrower's Credit Report
- Borrower's Liabilities/Debt
- Borrower's Effective Income
- Borrower's Assets/Reserves
- Adjusted Value
- Borrower's Total Mortgage Payment including Principal, Interest, Taxes, and Insurance (PITI)

The Borrower's total Mortgage Payment includes:

- principal and interest;

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)

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- real estate taxes;
- hazard insurance;
- flood insurance as applicable;
- Mortgage Insurance Premium;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

The mortgagee may deduct the amount of the Mortgage Credit Certificate or Section 8 Homeownership Voucher if it is paid directly to the servicer.

#### (2) Third-Party Originators

The mortgagee may permit a sponsored Third-Party Originator (TPO) to enter data into the AUS. Both the mortgagee and its TPO must ensure and verify all data entered into the AUS. The mortgagee remains ultimately responsible for ensuring the data entered into the AUS is correct.

The mortgagee must ensure the Employer Identification Number (EIN) of its TPO is entered into the AUS. If the mortgagee is using an AUS that is unable to transmit the TPO EIN, the mortgagee must enter “6999609996” in the Lender ID field.

#### (B) New Versions of TOTAL Mortgage Scorecard

From time to time, FHA will release new versions of TOTAL Mortgage Scorecard. FHA will announce the date that the new version will be available and from that date forward all new, first-time risk assessments will be based on the new scorecard.

Unless otherwise specifically announced with the release, mortgage applications that were scored with a case number under the previous version will be “grandfathered” and eligible for rescoring under the earlier version for 90 Days. Once that period has elapsed, all rescoring will be subject to the new version of TOTAL Mortgage Scorecard. Mortgagees are also advised that the version number must be passed back to TOTAL to allow this grandfathering feature to operate.

#### iv. Feedback Certificates: Risk Classification and Related Responsibilities (TOTAL)

If the Feedback Certificate/Finding Report shows an Accept or Approve, it will be referred to as Accept.

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)**

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**(A) Accept/Eligible**

If the Feedback Certificate/Finding Report shows an Accept/Eligible recommendation, the mortgage may be eligible for FHA's insurance endorsement provided the mortgagee verified that data entered into the AUS is accurate and complete and that the entire mortgage application complies with all FHA requirements.

The mortgagee must verify that all supporting documentation and information entered into TOTAL Mortgage Scorecard is consistent with the final underwriting decision if the mortgage receives an Accept/Eligible.

**(B) Accept/Ineligible**

If the Feedback Certification/Finding Report shows an Accept/Ineligible recommendation, the Borrower's credit and capacity would meet the threshold for approval, but the mortgage does not fully comply with FHA's eligibility requirements. The Feedback Certificate will identify the specific eligibility requirement that the mortgage does not meet.

The mortgagee must analyze the Feedback Certificate and determine if the reason for the ineligibility is one that can be resolved in a manner that complies with FHA underwriting requirements. If the mortgagee can correct the reason for ineligibility, the mortgagee may rescore the mortgage in the AUS.

When the reason for ineligibility cannot be corrected in the AUS, the mortgagee may underwrite the mortgage using the following requirements for an Accept mortgage, but must resolve the reason for ineligibility in accordance with FHA requirements and must provide an explanation of the resolution in the remarks section of form [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*,.

**(C) Refer**

The underwriter must manually underwrite any mortgage application for which the Feedback Certificate shows a Refer recommendation or any result other than those described above.

**v. Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL)**

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;
- additional information, not considered in the AUS recommendation affects the overall insurability of the mortgage;

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL)

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- the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts;
- the date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- the case number assignment date is within three years of the date of the transfer of title through a pre-foreclosure sale (short sale);
- the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- 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;
- only the non-occupying co-Borrower has a credit score;
- the Mortgage Payment history requires a downgrade as defined in [Housing Obligations/Mortgage Payment History](#);
- the Borrower has undisclosed mortgage debt; or
- business income shows a greater than 20 percent decline over the analysis period.

#### vi. Applicability of Automated Underwriting System Rules (TOTAL)

If a determination is made that the mortgage must be manually downgraded, the mortgagee must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded mortgage.

#### vii. TOTAL Mortgage Scorecard Tolerance Levels for Rescoring

The mortgagee must rescore a mortgage when any data element of the mortgage change and/or new Borrower information becomes available.

The mortgagee is not required to rescore a mortgage if the following data elements change from the last scoring event within the described tolerance levels:

<b>When assessing...</b>	<b>Rescore is not required if:</b>
Cash Reserves	Cash Reserves verified are not less than 10% below the previously scored amount
Income	Income verified is not less than 5% below the previously scored amount
Tax and Insurance Escrow	The cumulative monthly tax and insurance escrow does not result in more than a 2% increase in the Total Mortgage Payment to Effective Income ratio (PTI)

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**b. Credit Requirements (TOTAL)**

**i. General Credit Review Requirements (TOTAL)**

The mortgagee must obtain a credit report for each Borrower who will be obligated on the mortgage Note. The mortgagee may obtain a joint report for individuals with joint accounts.

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.

**ii. Credit Reports (TOTAL)**

The mortgagee must use a traditional credit report. If a traditional credit report is not available or the traditional credit report is insufficient, the Feedback Certificate will show a Refer recommendation, and the mortgagee must manually underwrite the mortgage.

The mortgagee must obtain a Tri-Merged Credit Report (TRMCR) from an independent consumer reporting agency.

**(A) Requirements for the Credit Report (TOTAL)**

Credit reports must contain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The mortgagee must retain copies of all credit reports.

The credit report must include:

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

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full nine-digit SSN.

The credit report must also 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

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- foreclosures
- tax liens
- for each Borrower debt listed:
  - the date the account was opened
  - high credit amount
  - required payment amount
  - unpaid balance
  - payment history

#### **(B) Updated Credit Report (TOTAL)**

The mortgagee must obtain an updated credit report and rescore the mortgage through TOTAL if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

#### **iii. Evaluating Credit History (TOTAL)**

The mortgagee must analyze the Borrower's credit history in accordance with the [Accept Risk Classifications Requiring a Downgrade to Manual Underwriting](#) section.

If a determination is made that the mortgage must be manually downgraded, the mortgagee must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded mortgage.

#### **(A) Collection Accounts, Charge Off Accounts, Accounts with Late Payments in the Previous 24 Months, and Judgments (TOTAL)**

The mortgagee is not required to obtain an explanation of collection accounts, charge off accounts, accounts with late payments, Judgments or other derogatory information.

#### **(B) Disputed Derogatory Credit Accounts (TOTAL)**

##### **(1) Definition**

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

Exclusions from cumulative balance include:

- disputed 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.

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**(2) Standard**

If the 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.

**(C) Non-Derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (TOTAL)**

**(1) Definition**

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
- disputed accounts that are current and paid as agreed

**(2) Required Documentation and Standard**

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the mortgagee is not required to downgrade the application to a Refer. However, the mortgagee must analyze the effect of the disputed accounts on the Borrower's ability to repay the mortgage. If 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, the Borrower must provide documentation of the lower payments.

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

**(D) Judgments (TOTAL)**

**(1) Definition**

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.

**(2) Standard**

The mortgagee must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

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Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.

**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, the Borrower 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.

The mortgagee must include the payment amount in the agreement in the Borrower's monthly liabilities and debt.

The mortgagee must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

**(3) Required Documentation**

The mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

**(E) Inaccuracy in Debt Considered (TOTAL)**

When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS, 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 the additional debt was not/will not be used for the Borrower's Minimum Required Investment (MRI).

**(F) Bankruptcy (TOTAL)**

**(1) Standard**

The mortgagee must document the passage of two years since the discharge date of any bankruptcy. If the bankruptcy was discharged within two years from the date of case number assignment, the mortgage must be downgraded to a Refer and manually underwritten.

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**(2) Required Documentation**

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the mortgagee must obtain the bankruptcy and discharge documents.

**(G) Pre-Foreclosure Sales (Short Sales) (TOTAL)**

**(1) Standard**

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 mortgagee must be downgraded to a Refer and manually underwritten.

This three-year period begins on the date of transfer of title by short sale.

**(2) Required Documentation**

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.

**(H) Foreclosure (TOTAL)**

**(1) Standard**

The mortgagee must manually downgrade to a Refer if the Borrower had a foreclosure in which title transferred from the Borrower within three years of case number assignment.

**(2) Required Documentation**

If the credit report does not verify the date of the transfer of title through the foreclosure, the mortgagee must obtain the foreclosure documents.

**(I) Deed-in-Lieu of Foreclosure (TOTAL)**

**(1) Standard**

The mortgagee must manually downgrade to a Refer if the Borrower had a DIL of foreclosure in which title transferred from the Borrower within three years of case number assignment.

**(2) Required Documentation**

If the credit report does not verify the date of the transfer of title by DIL of foreclosure, the mortgagee must obtain a copy of the DIL of foreclosure.

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**(J) Credit Counseling/Payment Plan (TOTAL)**

Participating in a consumer credit counseling program does not require a downgrade to a manual underwriting.

No explanation or other documentation is needed.

**(K) Housing Obligations/Mortgage Payment History (TOTAL)**

**(1) Definition**

A Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or properties owned.

A Mortgage Payment is considered delinquent if not paid within the month due.

**(2) Late Mortgage Payments for Purchase and No Cash-Out Refinance**

The mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months reflects:

- three or more late payments of greater than 30 Days;
- one or more late payments of 60 Days plus one or more 30-Day late payments; or
- one payment greater than 90 Days late.

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.

**(3) Cash-Out Refinance Transactions**

The mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, reflects:

- a current delinquency; or
- any delinquency within 12 months of the case assignment date.

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.

**iv. Evaluating Liabilities and Debts (TOTAL)**

The mortgagee must review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios. The mortgagee must also determine that any recent debts

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were not incurred to obtain any part of the borrower's required funds to close on the property being purchased.

Material Inquiries refer to inquiries which may potentially result in obligations incurred by the mortgage Borrowers for other mortgages, auto loans, leases, or other Installment Loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

**(A) General Liabilities and Debts (TOTAL)**

The mortgagee must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, *Uniform Residential Loan Application (URLA)*, and required documentation.

All applicable monthly liabilities must be included in the qualifying ratio. 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.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the mortgagee can document that the Borrower is not making payments on the account.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

The mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.

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

**(B) Undisclosed Debt Other Than a Mortgage (TOTAL)**

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.

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**(C) Undisclosed Mortgage Debt (TOTAL)**

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.

**(D) Federal Debt (TOTAL)**

**(1) Definition**

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

**(2) Standard**

The mortgagee must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total debt to income.

**(3) Required Documentation**

The mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

**(E) Alimony or Child Support, or Other Maintenance (TOTAL)**

**(1) Definition**

Alimony, Child Support, and Other Maintenance are court-ordered or otherwise agreed upon payments.

**(2) Standard**

For alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the mortgagee's calculation of the Borrower's gross income, the mortgagee must include the monthly obligation in the calculation of the Borrower's debt.

Child support and other maintenance are to be treated as a recurring liability and the mortgagee must include the monthly obligation in the Borrower's liabilities and debt.

**(3) Required Documentation**

The mortgagee must verify and document the monthly obligation by obtaining the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

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The mortgagee must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.

#### **(4) Calculation of Monthly Obligation**

The mortgagee must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

#### **(F) Non-Borrowing Spouse Debt in Community Property States (TOTAL)**

##### **(1) Definition**

Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower.

##### **(2) Standard**

If the Borrower resides in a community property state or the property being insured is located in a community property state, debts of the non-borrowing spouse must be included in the Borrower's qualifying ratios, except for obligations specifically excluded by state law.

The non-borrowing spouse's credit history is not considered a reason to deny a mortgage application.

##### **(3) Required Documentation**

The mortgagee must verify and document the debt of the non-borrowing spouse.

The mortgagee must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.

The mortgagee must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be included in the liabilities. The credit report for the non-borrowing spouse is for the purpose of establishing debt only, and is not submitted to TOTAL Mortgage Scorecard for the purpose of credit evaluation. The credit report for the non-borrowing spouse may be traditional or non-traditional.

**(G) Deferred Obligations (TOTAL)**

**(1) Definition**

Deferred Obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

**(2) Standard**

The mortgagee must include deferred obligations in the Borrower's liabilities.

**(3) Required Documentation**

The mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The mortgagee must obtain evidence of the anticipated monthly payment obligation, if available.

**(4) Calculation of Monthly Obligation**

The 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, the mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

For a student loan, if the actual monthly payment is zero or is not available, the mortgagee must utilize 2 percent of the outstanding balance to establish the monthly payment.

**(H) Installment Loans (TOTAL)**

**(1) Definition**

Installment Loans refer to loans, not secured by real estate, that require the periodic payment of principal and interest. A loan secured by an interest in a timeshare must be considered an Installment Loan.

**(2) Standard**

The mortgagee must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's debts.

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.

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**(3) Required Documentation**

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.

**(I) Revolving Charge Accounts (TOTAL)**

**(1) Definition**

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

**(2) Standard**

The mortgagee must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the mortgagee must use the payment shown on the current account statement or 5 percent of the outstanding balance.

**(3) Required Documentation**

The mortgagee must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, the mortgagee must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

**(J) 30-Day Accounts (TOTAL)**

**(1) Definition**

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay the outstanding balance on the account every month.

**(2) Standard**

The mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report

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reflects any late payments in the last 12 months, the mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

**(3) Required Documentation**

The mortgagee must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The mortgagee must use the credit report to document the balance, and must document sufficient funds are available to pay off the balance and close the loan.

**(K) Contingent Liabilities (TOTAL)**

**(1) Definition**

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.

**(2) Standard**

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.

**(3) Calculation of Monthly Obligation**

The mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

**(4) Required Documentation**

**(a) 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.

**(b) 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

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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.

**(c) Court Ordered Divorce Decree**

The mortgagee must obtain a copy of the divorce decree ordering the spouse to make payments.

**(L) Collection Accounts (TOTAL)**

**(1) Definition**

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

**(2) Standard**

If the credit reports used in the TOTAL Mortgage Scorecard analysis show 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 DTI; 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.

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 excluded by state law.

**(3) Required Documentation**

The mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- 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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**(M) Charge Off Accounts (TOTAL)**

**(1) Definition**

A Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

**(2) Standard**

Charge off accounts do not need to be included in the Borrower's liabilities or debt.

**(N) Private Savings Clubs (TOTAL)**

**(1) Definition**

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

**(2) Standard**

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrower's total debt.

The mortgagee must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

**(3) Required Documentation**

The mortgagee must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

**(O) Business Debt in Borrower's Name (TOTAL)**

**(1) Definition**

Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

**(2) Standard**

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the mortgagee can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash-flow analysis of the Borrower's business.

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**(3) Required Documentation**

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the mortgagee must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash-flow analysis of the Borrower's business.

**(P) Obligations Not Considered Debt (TOTAL)**

Obligations not considered debt include:

- medical collections
- federal, state, and local taxes, if not delinquent and no payments are required
- automatic deductions from savings, when not associated with another type of obligation
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- collateralized loans secured by depository accounts
- utilities
- child care
- commuting costs
- union dues
- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

**c. Income Requirements (TOTAL)**

**Definition of Effective Income (TOTAL)**

Effective Income refers to income that may be used to qualify a Borrower for a mortgage. Effective Income must be reasonably likely to continue through at least the first three years of the mortgage, and meet the specific requirements described below.

**i. General Income Requirements (TOTAL)**

The mortgagee must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

The mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns.

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

**ii. Employment Related Income (TOTAL)**

**(A) Definition**

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

**(B) Standard**

The mortgagee may use Employment related Income as Effective Income in accordance with the standards provided for each type of Employment related Income.

**(C) Required Documentation**

For all Employment related Income, the mortgagee must verify the Borrower's most recent two years of employment and income, and document using one of the following methods.

**(1) Traditional Current Employment Documentation**

The mortgagee must obtain the most recent pay stub and one of the following to verify current employment:

- a written Verification of Employment (VOE) covering two years; or
- an electronic verification acceptable to FHA.

Re-verification of employment must be completed within 10 Days prior to mortgage Disbursement. Verbal re-verification of employment is acceptable.

**(2) Alternative Current Employment Documentation**

If using alternative documentation, the mortgagee must:

- obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
- obtain copies of the original IRS W-2 forms from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Re-verification of employment must be completed within 10 Days prior to mortgage Disbursement. Verbal re-verification of employment is acceptable.

**(3) Past Employment Documentation**

Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:

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- The current employer confirms a two year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify (no Overtime or Bonus Income).
- 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.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the mortgagee must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- W-2(s)
- VOE(s)
- electronic verification acceptable to FHA
- evidence supporting enrollment in school or the military during the most recent two full years

**iii. Primary Employment (TOTAL)**

**(A) Definition**

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

**(B) Standard**

The mortgagee may use primary employment income as Effective Income.

**(C) Calculation of Effective Income**

**(1) Salary**

For employees who are salaried and whose income has been and will likely be consistently earned, the mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

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**iv. Part-Time Employment (TOTAL)**

**(A) Definition**

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

**(B) Standard**

The mortgagee may use Part-Time Employment income as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

**(C) Calculation of Effective Income**

The mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use a 12-month average of hours at the current pay rate.

**v. Overtime and Bonus Income (TOTAL)**

**(A) Definition**

Overtime and Bonus Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

**(B) Standard**

The mortgagee may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime and Bonus Income less than two years may be considered Effective Income if the mortgagee documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

**(C) Calculation of Effective Income**

For employees with Overtime or Bonus Income, the mortgagee must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, the mortgagee must use the current year's income.

**vi. Seasonal Employment (TOTAL)**

**(A) Definition**

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

**(B) Standard**

The mortgagee may consider Seasonal Employment income as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The mortgagee may consider unemployment income as Effective Income for those with effective Seasonal Employment income.

**(C) Required Documentation**

For seasonal employees with unemployment income, the mortgagee must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

**(D) Calculation of Effective Income**

For employees with Seasonal Employment income, the mortgagee must average the income earned over the previous two full years to calculate Effective Income.

**vii. Employer Housing Subsidy (TOTAL)**

**(A) Definition**

Employer Housing Subsidy refers to employer-provided mortgage assistance.

**(B) Standard**

The mortgagee may utilize Employer Housing Subsidy as Effective Income.

**(C) Required Documentation**

The mortgagee must verify and document the existence and the amount of the housing subsidy.

**(D) Calculation of Effective Income**

For employees receiving an Employer Housing Subsidy, the mortgagee may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

**viii. Employed by Family-Owned Business (TOTAL)**

**(A) Definition**

Family-Owned Business Income refers to employment income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

**(B) Standard**

The mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

**(C) Required Documentation**

The mortgagee must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or [Schedule K-1 \(IRS Form 1065\)](#), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the mortgagee must obtain copies of signed personal tax returns or tax transcripts.

**(D) Calculation of Effective Income**

**(1) Salary**

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

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**ix. Commission Income (TOTAL)**

**(A) Definition**

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

**(B) Standard**

The mortgagee may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

**(C) Required Documentation**

For Commission Income less than or equal to 25 percent of the Borrower's total earnings, the mortgagee must use traditional or alternative employment documentation.

For Commission Income greater than 25 percent of the Borrower's total earnings, the mortgagee must obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed 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.

**(D) Calculation of Effective Income**

The mortgagee must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. The mortgagee must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

The mortgagee must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review [Analyzing IRS Forms](#).

**x. Self-Employment Income (TOTAL)**

**(A) Definition**

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

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- sole proprietorships;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

#### (B) Standard

##### (1) Minimum Length of Self-Employment

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.

##### (2) Stability of Self-Employment Income

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 and manually underwrite.

#### (C) Required Documentation

##### (1) Individual and Business Tax Returns

The mortgagee must obtain complete individual federal income tax returns for the most recent two years, including all schedules.

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.

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.

##### (2) Profit & Loss Statements and Balance Sheets

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

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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.

#### **(D) Calculation of Effective Income**

The mortgagee must analyze the Borrower's tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in [Analyzing IRS Forms](#).

The mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self-Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

#### **xi. Additional Required Analysis of Stability of Employment Income (TOTAL)**

##### **(A) 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.

##### **(B) Addressing Gaps in Employment**

For Borrowers with gaps in employment of six months or more (an extended absence), the mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

##### **(C) Addressing 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;

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- 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.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the mortgagee may use the Borrower's pre-leave income.

For 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.

#### **Required 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, in accordance with [Sources of Funds](#), used to supplement the Borrower's income through intended date of return to work with current employer.

### **xii. Other Sources of Effective Income (TOTAL)**

#### **(A) Disability Benefits (TOTAL)**

##### **(1) Definition**

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.

##### **(2) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The mortgagee must obtain (1) a copy of the last Notice of Award letter which states the SSA's or private disability insurer's determination on the Borrower's eligibility for disability benefits, or (2) equivalent documentation that establishes the award of benefits to the Borrower.

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If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income.

If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee may consider the income effective and reasonably likely to continue. The mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

**(a) Social Security Disability**

For Social Security Disability income, including Supplemental Security Income (SSI), the mortgagee must obtain one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- a copy of the Borrower’s [Form SSA-1099/1042S](#), *Social Security Benefit Statement*.

**(b) VA Disability**

For VA disability benefits, the mortgagee must obtain [VA Form 26- 8937](#), *Verification of VA Benefits*, showing the amount of the assistance and the expiration date of the benefits, if any.

**(c) Private Disability**

For private disability benefits, the mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any.

**(3) Calculation of Effective Income**

The mortgagee must use the most recent amount of benefits received to calculate Effective Income.

**(B) Alimony, Child Support, or Maintenance Income (TOTAL)**

**(1) Definition**

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

**(2) Required Documentation**

The mortgagee must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the mortgagee must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The mortgagee must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

The mortgagee must provide evidence that the claimed income will continue for at least three years. The mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

**(3) Calculation of Effective Income**

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support or Other Maintenance payments for the most recent three months, the mortgagee may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent alimony, child support or other maintenance payments for the most recent six months, the mortgagee may use the current payment to calculate Effective Income.

If the 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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**(C) Military Income (TOTAL)**

**(1) Definition**

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The mortgagee may not use military education benefits as Effective Income.

**(2) Required Documentation**

The mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

**(3) Calculation of Effective Income**

The mortgagee must use the current amount of Military Income received to calculate Effective Income.

**(D) Mortgage Credit Certificates (TOTAL)**

**(1) Definition**

Mortgage Credit Certificates refer to government Mortgage Payment subsidies other than Section 8 Homeownership Vouchers.

**(2) Required Documentation**

The mortgagee must verify and document that the Governmental Entity subsidizes the Borrower's Mortgage Payments either through direct payments or tax rebates.

**(3) Calculating Effective Income**

Mortgage Credit Certificate income that is not used to directly offset the Mortgage Payment before calculating the qualifying ratios may be included as Effective Income. The mortgagee must use the current subsidy rate to calculate the Effective Income.

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**(E) Section 8 Homeownership Vouchers (TOTAL)**

**(1) Definition**

Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

**(2) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The mortgagee may consider that this income is reasonably likely to continue for three years.

**(3) Calculation of Effective Income**

The mortgagee may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The mortgagee must use the current subsidy rate to calculate the Effective Income.

**(F) Other Public Assistance (TOTAL)**

**(1) Definition**

Public Assistance refers to income received from government assistance programs.

**(2) Required Documentation**

Mortgagees must verify and document the income received from the government agency.

**(3) Calculation of Effective Income**

The mortgagee must use the current rate of Public Assistance received to calculate Effective Income.

**(G) Automobile Allowances (TOTAL)**

**(1) Definition**

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

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**(2) Required Documentation**

The mortgagee must verify and document the Automobile Allowance received from the employer for the previous two years.

The mortgagee must also obtain [IRS Form 2106](#), *Employee Business Expenses*, for the previous two years.

**(3) Calculation of Effective Income**

The mortgagee must determine the portion of the allowance that can be considered Effective Income.

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.

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.

**(H) Retirement Income (TOTAL)**

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

**(1) Social Security Income (TOTAL)**

**(a) Definition**

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

**(b) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, the mortgagee must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;

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- a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- a copy of the Borrower’s [Form SSA-1099/1042S](#), *Social Security Benefit Statement*.

In addition to verification of income, the mortgagee must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA’s determination on the Borrower’s eligibility for SSA income or (2) an equivalent document that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee must consider the income effective and reasonably likely to continue. The mortgagee may not request additional documentation from the Borrower to demonstrate continuance of Social Security Administration income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

#### **(c) Calculation of Effective Income**

The mortgagee must use the current amount of Social Security Income received to calculate Effective Income.

### **(2) Pension (TOTAL)**

#### **(a) Definition**

Pension refers to income received from the Borrower’s former employer(s).

#### **(b) Required Documentation**

The mortgagee must verify and document the Borrower’s receipt of periodic payments from the Borrower’s Pension and that the payments are likely to continue for at least three years.

The mortgagee must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the Borrower’s Pension/retirement letter from the former employer.

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**(c) Calculation of Effective Income**

The mortgagee must use the current amount of Pension income received to calculate Effective Income.

**(3) Individual Retirement Account and 401(k) (TOTAL)**

**(a) Definition**

Individual Retirement Account (IRA)/401(k) Income refers to income received from an individual retirement account.

**(b) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

The mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income.

**(c) Calculation of Effective Income**

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the mortgagee must use the average over the time of receipt.

**(I) Rental Income (TOTAL)**

**(1) Definition**

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

**(2) Rental Income Received from the Subject Property (TOTAL)**

**(a) Standard**

The mortgagee may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.

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Rental Income from the subject property may be considered Effective Income when the property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.

**(b) Required Documentation**

Documentation varies depending upon the length of time the Borrower has owned the property.

**(i) Limited or No History of Rental Income**

Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:

**Two- to Four-Units**

The mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form 1025/Freddie Mac Form 72](#), *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

**One Unit**

The mortgagee must verify and document the proposed Rental Income by obtaining a [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 and, if available, the prospective lease.

**(ii) History of Rental Income**

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, the mortgagee must verify and document the existing Rental Income by obtaining the Borrower's most recent tax returns, including Schedule E, from the previous two years.

For properties with less than two years of Rental Income history, the mortgagee must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.

**(c) Calculation of Effective Income**

The mortgagee must add the net subject property Rental Income to the Borrower's gross income. The mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

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**(i) Limited or No History of Rental Income**

To calculate the Effective Income from the subject property where the Borrower does not have a history of Rental Income from the subject property since the previous tax filing, the mortgagee must use 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.

**(ii) History of Rental Income**

The mortgagee must calculate the Rental Income by averaging the amount shown on Schedule E.

Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

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.

**(3) Rental Income from Other Real Estate Holdings (TOTAL)**

**(a) Standard**

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The mortgagee must obtain a lease agreement of at least one year's duration after the mortgage is closed and evidence of the payment of the security deposit or first month's rent.

**(b) Required Documentation**

**(i) Limited or No History of Rental Income**

Where the Borrower does not have a history of Rental Income since previous tax filing, including property being vacated by the Borrower, the mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the property. The appraisal is not required to be completed by an FHA Roster appraiser.

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**Two- to Four-Units**

The mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form 1025/Freddie Mac Form 72](#), *Small Residential Income Property Appraisal Report*) and, if available, the prospective leases.

**One Unit**

The mortgagee must verify and document the proposed Rental Income by obtaining a [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 and, if available, the prospective lease.

**(ii) History of Rental Income**

The mortgagee must obtain the Borrower's last two years' tax returns with Schedule E.

**(c) Calculation of Effective Net Rental Income**

**(i) Limited or No History of Rental Income**

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 Principal, Interest, Taxes, and Insurance (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.

**(ii) History of Net Rental Income**

The mortgagee must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all properties included on the Schedule E.

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

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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For properties with less than two years of Rental Income history, the mortgagee must document the date of acquisition by providing the deed, Settlement Statement or similar legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

**(4) Boarders of the Subject Property (TOTAL)**

**(a) Definition**

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

**(b) Standard**

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving Boarder income.

**(c) Required Documentation**

The mortgagee must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, the mortgagee must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

**(d) Calculation of Effective Income**

The mortgagee must calculate the Effective Income by using the lesser of the two year average or the current lease.

**(J) Investment Income (TOTAL)**

**(1) Definition**

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

**(2) Required Documentation**

The mortgagee must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

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**(3) Calculation of Effective Income**

The mortgagee must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The mortgagee must subtract any of the assets used for the borrower's required funds to close to purchase the subject property from the Borrower's liquid assets prior to calculating any interest or dividend income.

**(K) Capital Gains and Losses (TOTAL)**

**(1) Definition**

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

**(2) Standard**

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

**(3) Required Documentation**

Three years' tax returns are required to evaluate an earnings 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.

**(L) Expected Income (TOTAL)**

**(1) Definition**

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

**(2) Required Documentation**

The mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected Retirement Income, the mortgagee must

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verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

**(3) Calculation of Effective Income**

Income is calculated in accordance with the standards for the type of income being received. The mortgagee must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the beginning of the receipt of the income.

**(M) Trust Accounts (TOTAL)**

**(1) Definition**

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

**(2) Required Documentation**

The mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.

**(3) Calculation of Effective Income**

The mortgagee must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

**(N) Annuities or Similar (TOTAL)**

**(1) Definition**

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

**(2) Required Documentation**

The mortgagee must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the mortgage. The mortgagee must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

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**(3) Calculation of Effective Income**

The mortgagee must use the current rate of the annuity to calculate Effective Income.

The mortgagee must subtract any of the assets used for the borrower's required funds to close to purchase the subject property from the Borrower's liquid assets prior to calculating any Annuity Income.

**(O) Notes Receivable Income (TOTAL)**

**(1) Definition**

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

**(2) Required Documentation**

The mortgagee must verify and document the existence of the Note. The mortgagee must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the mortgage.

**(3) Calculation of Effective Income**

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the mortgagee must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the mortgagee must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

**(P) Non-Taxable Income (Grossing Up) (TOTAL)**

**(1) Definition**

Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- 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.

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**(2) Required Documentation**

The mortgagee must document and support the amount of income to be Grossed Up for any non-taxable income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

**(3) Calculation of Effective Income**

The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower's gross income.

The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the mortgagee may Gross Up the Non-Taxable Income by 15 percent.

The mortgagee may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

**d. Asset Requirements (TOTAL)**

**i. General Asset Requirements (TOTAL)**

The mortgagee may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

Closing costs, prepaid items and other fees may not be applied towards the Borrower's MRI.

**(A) Earnest Money Deposit (TOTAL)**

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 \(Personal and Equity\) \(TOTAL\)](#).

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**(B) Cash to Close (TOTAL)**

The mortgagee must document all funds that are used for the purpose of qualifying for or closing a mortgage, including those to satisfy debt or pay costs outside of closing.

The mortgagee must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

**(1) Determining the Amount Needed for Closing**

For a purchase transaction, 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 and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured mortgage is the difference between the total payoff requirements of the mortgage being refinanced and the total mortgage amount.

**(2) Mortgagee Responsibility for Estimating Settlement Requirements**

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

**(a) Origination Fees and Other Closing Costs**

The mortgagee or TPO may charge a reasonable origination fee.

The mortgagee or TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the mortgage. Charges may not exceed the actual costs.

The mortgagee must comply with HUD's Qualified Mortgage Rule at [24 CFR § 203.19](#).

**(b) Discount Points**

Discount Points refer to a charge from the mortgagee for the interest rate chosen. They are paid by the Borrower and become part of the total cash required to close.

**(c) Types of Prepaid Items (Including Per Diem Interest)**

Prepaid items may include flood and hazard insurance premiums, MIPs, real estate taxes, and per diem interest. They must comply with the requirements of the [CFPB](#).

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**(d) Non-Realty or Personal Property**

Non-Realty or Personal Property items (chattel) 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 mortgage.

**(e) Upfront Mortgage Insurance Premium Amounts**

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the mortgage or paid entirely in cash. However, if the UFMIP is financed into the mortgage, the entire amount is to be financed except for any amount less than \$1.00.

**(f) Real Estate Agent Fees**

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

**(g) 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.

**(h) Premium Pricing on FHA-Insured Mortgages**

Premium Pricing refers to a credit from a mortgagee for the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation.

The funds derived from a premium priced mortgage:

- must be disclosed in accordance with RESPA;
- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

**(i) Interested Party Contributions on the Settlement Statement**

The mortgagee may apply Interested Party credits to the closing costs and prepaid items including any items Paid Outside Closing (POC).

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The refund of the Borrower's POCs may be used toward the Borrower's MRI if the mortgagee documents that the POCs were paid with the Borrower's own funds.

The mortgagee must identify the total Interested Party credits on the front page of the Settlement Statement or similar legal document or in an addendum. The mortgagee must identify each item paid by Interested Party contributions.

**(j) 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 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.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

**(C) Reserves (TOTAL)**

The mortgagee must verify and document all assets submitted to the AUS.

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.

Reserves do not include:

- the amount of cash taken at settlement in cash-out transactions;
- incidental cash received at settlement in other loan transactions;
- gift funds;
- equity in another property; or
- borrowed funds from any source.

**Additional Reserves for Three- to Four-Unit Properties**

The mortgagee must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit properties.

**ii. Source Requirements for the Borrower's Minimum Required Investment (TOTAL)**

**(A) Definition**

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the property.

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**(B) Standard**

The mortgagee may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

- (1) the seller of the property;
- (2) any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- (3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

While additional funds to close may be provided by one of these sources if permitted under the relevant source of funds requirements above, none of the Borrower's MRI may come from these sources. The mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.

Additionally, in accordance with HUD's Interpretive Rule, Docket No. FR-5679-N-01, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities from providing the Borrower's MRI where the Governmental Entity is originating the insured mortgage through one of its homeownership programs.

**(C) Required Documentation**

Where the Borrower's MRI is provided by someone other than the Borrower, the mortgagee must also obtain documentation to support the permissible nature of the source of those funds.

To establish that the Governmental Entity provided the Borrower's MRI in a manner consistent with HUD's Interpretive Rule, the mortgagee must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the mortgagee for the use of funds legally belonging to the mortgagee to fund the Borrower's MRI.

The mortgagee must obtain:

- a cancelled check, evidence of wire transfer or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided towards the Borrower's MRI from the Governmental Entity's account; or
- a letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided towards the Borrower's MRI were funds legally belonging to the Governmental Entity at or before closing.

Where a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the Borrower's MRI

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legally belonged to the Governmental Entity at or before closing, by stating, for example:

- the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds towards the Borrower's MRI;
- the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds towards the Borrower's MRI; or
- the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds towards the Borrower's MRI.

While the mortgagee is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source.

#### iii. Sources of Funds (TOTAL)

The mortgagee must verify liquid assets for cash to close and Reserves as indicated.

##### (A) Checking and Savings Accounts (TOTAL)

###### (1) Definition

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

###### (2) Standard

The mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the mortgagee must obtain documentation of the deposits. The mortgagee must also verify that no debts were incurred to obtain part, or all, of the MRI.

###### (3) Required Documentation

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

###### (a) Traditional Documentation

The mortgagee must obtain a written VOD and the Borrower's most recent statement for each account.

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**(b) Alternative Documentation**

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the mortgagee must obtain statement(s) for the most recent two months.

**(B) Cash on Hand (TOTAL)**

**(1) Definition**

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

**(2) Standard**

The mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company.

**(3) Required Documentation**

The mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions.

**(C) Retirement Accounts (TOTAL)**

**(1) Definition**

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

**(2) Standard**

The mortgagee may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

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The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

**(3) Required Documentation**

The mortgagee must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

**(D) Stocks and Bonds (TOTAL)**

**(1) Definition**

Stocks and Bonds are investment assets accumulated by the Borrower.

**(2) Standard**

The mortgagee must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the mortgagee must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds are valued at the original purchase price, unless the mortgagee verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

**(3) Required Documentation**

The mortgagee must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account the mortgagee must obtain a copy of each stock or bond certificate.

**(E) Private Savings Clubs (TOTAL)**

**(1) Definition**

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

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**(2) Standard**

The mortgagee may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

The mortgagee must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.

**(3) Required Documentation**

The mortgagee must obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active.

**(F) Gifts (Personal and Equity) (TOTAL)**

**(1) Definition**

Gifts refer to the contributions of cash or equity with no expectation of repayment.

**(2) Standards for Gifts**

**(a) Acceptable Sources of Gifts Funds**

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;
- a governmental agency or public Entity that has a program providing homeownership assistance to:
  - low or moderate income families; or
  - first-time homebuyers.

Any gift of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

**(b) Reserves**

Surplus gift funds may not be considered as cash Reserves.

**(c) Donor's Source of Funds**

Cash on Hand is not an acceptable source of donor gift funds.

### **(3) Required Documentation**

The mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

### **Documenting the Transfer of Gifts**

The mortgagee must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.

- a.* 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.
- b.* If the gift funds 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.

If the gift funds 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.

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, including the mortgagee.

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.

### **(4) Standards for Gifts of Equity**

#### **(a) Who May Provide Gifts of Equity**

Only Family Members may provide equity credit as a gift on property being sold to other Family Members.

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**(b) Required Documentation**

The mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, and telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

**(G) Interested Party Contributions (TOTAL)**

**(1) Definition**

Interested Parties refer to sellers, real estate agents, builders, developers or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and discount points.

**(2) Standard**

Interested Parties may contribute up to 6 percent of the Adjusted Value toward the Borrower's origination fees, other closing costs and discount points. The 6 percent limit also includes:

- Interested 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 UFMIP.

Interested Party contributions that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. Interested Party contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party contributions may not be used for the Borrower's MRI.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution.

**(3) Required Documentation**

The mortgagee must document the total Interested Party Contributions on Form [HUD-92900-LT](#), Settlement Statement or similar legal document, and the sales contract.

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**(H) Inducements to Purchase (TOTAL)**

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the Adjusted Value;
- contributions exceeding the origination fees, other closing costs and discount points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and
- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

**(1) Personal Property (TOTAL)**

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

**(2) Sales Commission (TOTAL)**

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

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An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the property being purchased by the Borrower that exceeds what is typical for the area.

#### **(3) Rent Below Fair Market (TOTAL)**

Rent may be an inducement to purchase when 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.

Rent below fair Market Value is not considered an inducement to purchase when a builder fails to deliver a property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

#### **(I) Downpayment Assistance Programs (TOTAL)**

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
- similar debts

The mortgagee must ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

#### **(1) 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;
- the gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization’s tax-exempt status is terminated.

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#### (2) Mortgagee Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization

The mortgagee 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 the [IRS Exempt Organization Select Check](#), which contains a list of organizations eligible to receive tax-deductible charitable contributions.

#### (J) Secondary Financing (TOTAL)

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.

#### (1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (TOTAL)

##### (a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an instrumentality of the government, the 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). HUD deems Section 115 Entities to be instrumentalities of government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an Entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

##### (b) Standard

FHA will insure a first mortgage on a property that has a second mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the insured first mortgage does not exceed the FHA [Nationwide Mortgage Limit](#) for the area in which the property is located;

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- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#);
- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- the functions performed are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the Mortgagee.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

The mortgagee must enter information on HUD-approved Nonprofits into [FHA Connection \(FHAC\)](#), as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

#### **(c) Required Documentation**

The mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the loan instruments; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured mortgage, signed by an authorized official and containing the following information:

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- the FHA case number for the first mortgage;
- the complete property address;
- the name, address and Tax ID for the nonprofit;
- the name of the Borrower(s) to whom the nonprofit is providing secondary financing;
- the amount and purpose for the secondary financing provided to the Borrower; and
- a statement indicating whether the secondary financing:
  - will close in the name of the Governmental Entity; or
  - will be closed in the name of the nonprofit and held by the Governmental Entity.

Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved Nonprofit, a documented agreement must be provided that:

- the functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the mortgagee.

#### (2) Secondary Financing Provided by HUD-Approved Nonprofits (TOTAL)

##### (a) Definition

HUD-approved Nonprofit refers to nonprofits on the [HUD Nonprofit Roster](#).

##### (b) Standard

FHA will insure a first mortgage on a property that has a second mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- the second lien may not provide for a balloon payment within 10 years from the date of execution.

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Secondary financing provided by Section 115 Entities must follow the guidance in [Secondary Financing Provided by Governmental Entities and HOPE Grantees](#).

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

**(c) Required Documentation**

The mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

The mortgagee must enter information into [FHAC](#) on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

**(3) Family Members (TOTAL)**

**(a) Standard**

FHA will insure a first mortgage on a property that has a second mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly;
- there is no prepayment penalty;
- 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;

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- mortgage companies with retail banking Affiliates may have the Affiliate lend 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;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another Entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

#### **(b) Required Documentation**

The mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the loan instruments.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the mortgagee must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the mortgagee.

#### **(4) Private Individuals and Other Organizations (TOTAL)**

##### **(a) Definition**

Private Individuals and Other Organizations refer to any individuals or Entities providing secondary financing which are not covered elsewhere in the Secondary Financing section.

##### **(b) Standard**

FHA will insure a first mortgage on a property that has a second mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;

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- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA [LTV](#) limit;
- the Base Loan Amount and secondary financing amount must not exceed the [Nationwide Mortgage Limits](#);
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving the mortgagee 30 Days advance notice.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

#### (c) Required Documentation

The mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

#### (K) Loans (TOTAL)

A Loan refers to an arrangement in which a lender gives money or property to a Borrower and the Borrower agrees to return the property or repay the money.

#### (1) Collateralized Loans (TOTAL)

##### (a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or real property. These assets may include stocks, bonds, and real estate other than the property being purchased.

##### (b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The mortgagee must reduce the amount of the corresponding asset by the amount of the collateralized loan.

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**(c) Who May Provide Collateralized Loans**

Only an independent third party may 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.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

**(d) Required Documentation**

The mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

**(2) Retirement Account Loans (TOTAL)**

**(a) Definition**

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

**(b) Standard**

The mortgagee must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement account loan.

**(c) Required Documentation**

The mortgagee must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

**(3) Disaster Relief Loans (TOTAL)**

**(a) Definition**

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

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**(b) Standard**

Secured or unsecured disaster relief loans administered by the Small Business Administration (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, and meet the requirements for [Secondary Financing provided by Governmental Entities](#).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

**(c) Required Documentation**

The mortgagee must verify and document the promissory Note.

**(L) Grants (TOTAL)**

**(1) Disaster Relief Grants (TOTAL)**

**(a) Definition**

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

**(b) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

**(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (TOTAL)**

**(a) Definition**

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. Secondary financing that creates a lien against the property is not considered a gift or grant even if it does not require regular payments or has other features forgiving the debt.

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**(b) Standard**

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

**(c) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

The mortgagee must also verify and document that the Retention Agreement required by the FHLB is recorded against the property and results in a deed restriction, and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;
- include language terminating the legal restrictions on conveyance if title to the property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

**(M) Employer Assistance (TOTAL)**

**(1) Definition**

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

**(2) Standard**

**(a) Relocation Guaranteed Purchase**

The mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

**(b) Employer Assistance Plans**

The amount received under Employer Assistance Plans may be used as cash to close.

**(3) Required Documentation**

**(a) Relocation Guaranteed Purchase**

If the Borrower is being transferred by their company under a guaranteed sales plan, the mortgagee must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

The mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

**(b) Employer Assistance Plans**

The mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the mortgagee must verify and document that the Borrower has sufficient cash for closing.

**(N) Sale of Personal Property (TOTAL)**

**(1) Definition**

Personal Property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins or other collectibles.

**(2) Standard**

The mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

**(3) Required Documentation**

Borrowers may sell Personal Property to obtain cash for closing.

The mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the mortgage transaction.

**(O) Trade-In of Manufactured Housing (TOTAL)**

**(1) Definition**

Trade-In of Manufactured Housing refers to the Borrower's sale or trade-in of another Manufactured House that is not considered real estate to a Manufactured Housing dealer or an independent third party.

**(2) Standard**

The net proceeds from the Trade-In of a Manufactured House may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

**(3) Required Documentation**

The mortgagee must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. The mortgagee must obtain documentation to support the Trade Equity.

**(P) Sale of Real Property (TOTAL)**

**(1) Definition**

The Sale of Real Property refers to the sale of property currently owned by the Borrower.

**(2) Standard**

Net proceeds from the Sale of Real Property may be used as acceptable source of funds.

**(3) Required Documentation**

The mortgagee must verify and document the actual sale and the net sales proceeds by obtaining a fully executed Settlement Statement or similar legal document.

The mortgagee must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the net sales proceeds.

**(Q) Real Estate Commission from Sale of a Subject Property (TOTAL)**

**(1) Definition**

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the property being purchased.

**(2) Standard**

Mortgagees may consider Real Estate Commissions from the Sale of the Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a gift, in compliance with standard gift requirements.

**(3) Required Documentation**

The mortgagee must verify and document that the Borrower, or Family Member giving the commission as a gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from the Sale of the Subject Property being purchased.

**(R) Sweat Equity (TOTAL)**

**(1) Definition**

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the property being purchased.

**(2) Standard**

The mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.

Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the [Source Requirements for the Borrower's MRI](#).

The mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount. The mortgagee may not consider clean up, debris removal, and other general maintenance, and work to be performed using repair escrow as Sweat Equity.

Cash back to the Borrower is not permitted in Sweat Equity transactions.

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**(3) Required Documentation**

For materials furnished, the mortgagee must obtain evidence of the source of funds and the Market Value of the materials.

For labor, the mortgagee must verify and document that the work will be completed in a satisfactory manner. The mortgagee must also obtain evidence of Contributory Value of the labor either through an appraiser's estimate, or a cost-estimating service.

- For labor on Existing Construction, the mortgagee must also obtain an appraisal indicating the repairs or improvements to be performed. (Any work completed or materials provided before the appraisal are not eligible)
- For labor on Proposed Construction, the mortgagee must also obtain the sales contract indicating the tasks to be performed by the Borrower during construction.

**(S) Trade Equity (TOTAL)**

**(1) Definition**

Trade Equity refers to when a Borrower trades their real property to the seller as part of the cash investment.

**(2) Standard**

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.

If the property being traded has an FHA-insured mortgage, assumption processing requirements and restrictions apply.

**(3) Required Documentation**

The mortgagee must obtain a residential appraisal report complying with [FHA appraisal policy](#) to determine the property's value. The mortgagee must also obtain the Settlement Statement or similar legal document to document the sale of the property.

**(T) Rent Credits (TOTAL)**

**(1) Definition**

Rent Credits refer to the amount of the rental payment that exceeds the appraiser's estimate of fair market rent.

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**(2) Standard**

The mortgagee may use the cumulative amount of rental payments that exceeds the appraiser's estimate of fair market rent towards the MRI.

**(3) Required Documentation**

The mortgagee must obtain the rent with option to purchase agreement, the appraiser's estimate of market rent, and evidence of receipt of payments.

**e. Final Underwriting Decision (TOTAL)**

The mortgagee may approve the mortgage as eligible for FHA insurance endorsement if:

- TOTAL Mortgage Scorecard rated the mortgage application as Accept;
- the underwriter underwrote the appraisal according to standard FHA requirements;
- the mortgagee reviewed the TOTAL Mortgage Scorecard findings, and verified that all information entered into TOTAL Mortgage Scorecard is consistent with mortgage documentation, and is true, complete, and accurate; and
- the mortgage meets all FHA requirements applicable to mortgages receiving a rating of Accept from TOTAL Mortgage Scorecard.

While TOTAL Mortgage Scorecard is available for mortgagees to use in their pre-qualification process of mortgage applicants, the mortgagee must score the mortgage at least once after assignment of an FHA case number. FHA will not recognize the risk assessment nor will information be carried from TOTAL Mortgage Scorecard to [FHAC](#) for endorsement processing, without an FHA case number. It is imperative that the mortgagees make certain that they enter the FHA case number into their Loan Origination System or AUS as soon as it is known. This will ensure a more efficient endorsement process.

**i. Documentation of Final Underwriting Review Decision (TOTAL)**

The mortgagee must complete the following documents to evidence their final underwriting decision.

**(A) Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary**

On form [HUD-92900-LT](#), the mortgagee must:

- indicate the CHUMS ID of the underwriter who reviewed the appraisal;
- complete the Risk Assessment; and
- enter the identification of "ZFHA" in the CHUMS ID.

When the Feedback Certificate indicates "Accept/Ineligible," the mortgagee must document the circumstances or other reasons that were evaluated in making the decision to approve the mortgage in the Remarks section.

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#### **(B) Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value**

The underwriter must complete form [HUD-92800.5B](#) as directed in the form instructions.

#### **(C) Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application**

The mortgagee must complete form [HUD-92900-A](#) as directed in the form instructions.

The underwriter, an authorized officer of the mortgagee and Borrower must execute form HUD-92900-A, as indicated in the instructions.

#### **ii. Conditional Approval (TOTAL)**

The mortgagee must condition the approval of the Borrower on the completion of the final *URLA* ([Fannie Mae Form 1003/Freddie Mac Form 65](#)) and form [HUD-92900-A](#).

#### **iii. HUD Employee Mortgages (TOTAL)**

If the mortgage involves a HUD employee, the mortgagee must condition the loan on the approval of the mortgage by HUD. The mortgagee must submit the case binder to the Processing and Underwriting Division Director at the [Jurisdictional HOC](#) for final underwriting approval.

#### **iv. Notification of Borrower of Approval and Term of the Approval (TOTAL)**

The mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the property, as indicated on form [HUD-92800.5B](#).

### 5. Manual Underwriting of the Borrower

The mortgagee must manually underwrite those applications where the AUS issues a Refer or applications which were downgraded to a manual underwrite.

If the mortgage involves a HUD employee, the mortgagee must underwrite the transaction in accordance with the guidance in this Manual Underwriting section. The mortgagee must submit the underwritten mortgage application to the Processing and Underwriting Division Director at the [Jurisdictional HOC](#) for final underwriting approval.

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### 5. Manual Underwriting of the Borrower

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#### a. Credit Requirements (Manual)

##### i. General Credit Requirements (Manual)

FHA's general credit policy requires mortgagees to analyze the Borrower's credit history, liabilities, and debts to determine creditworthiness.

The mortgagee must either obtain a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

The mortgagee must utilize the same credit report and credit scores sent to TOTAL.

The mortgagee must obtain a credit report for each Borrower who will be obligated on the mortgage Note. The mortgagee may obtain a joint report for individuals with joint accounts.

The mortgagee must obtain a credit report for non-borrowing spouses who reside in community property states, or if the property being purchased is in a community property state.

The mortgagee is not required to obtain a credit report for non-credit qualifying Streamline Refinance transactions.

##### ii. Types of Credit History (Manual)

If a traditional credit report is available, the mortgagee must use a traditional credit report. However, if a traditional credit report is not available, the mortgagee must develop the Borrower's credit history using the requirements for [Non-Traditional and Insufficient Credit](#).

#### (A) Traditional Credit (Manual)

If the TRMCR or RMCR generates a credit score, the mortgagee must utilize traditional credit history.

##### (1) Requirements for the Credit Report

Credit reports must obtain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The mortgagee must retain copies of all credit reports.

The credit report must include:

- the name of the mortgagee ordering the report;
- the name, address, and telephone number of the consumer-reporting agency;

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- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full nine-digit SSN.

The credit report must also 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 monthly payment amount;
  - unpaid balance; and
  - payment history.

#### **(2) Updated Credit Report or Supplement to the Credit Report**

The mortgagee must obtain an updated credit report or supplement if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report.

#### **(3) Credit Information Not Listed on Credit Report**

A mortgagee must develop credit information separately for any open debt listed on the mortgage application but not referenced in the credit report by using the procedures for [Independent Verification of Non-Traditional Credit History](#).

#### **(4) Specific Requirements for Residential Mortgage Credit Report**

In addition to meeting the general credit report requirements, the RMCR must:

- provide a detailed account of the Borrower's employment history;
- verify each Borrower's current employment and income through an interview with the Borrower's employer or explain why such an interview was not completed;
- contain a statement attesting to the certification of employment for each Borrower and the date the information was verified; and

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- report a credit history for each trade line within 90 Days of the credit report for each account with a balance.

#### **(B) Non-Traditional and Insufficient Credit (Manual)**

For Borrowers without a credit score, the mortgagee must either obtain a Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the Borrower's credit history using the requirements outlined below.

#### **(1) Non-Traditional Mortgage Credit Report**

##### **(a) Definition**

A Non-Traditional Mortgage Credit Report (NTMCR) is designed to access the credit history of a Borrower who does 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
- a supplement to a traditional credit report that has an insufficient number of trade items reported.

##### **(b) Standard**

Mortgagees may use a NTMCR developed by a credit reporting agency that verifies the following information for all non-traditional credit references:

- 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.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references, and provide the:

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

#### **(2) Independent Verification of Non-Traditional Credit Providers**

The mortgagee may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

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- a. To verify the existence of each credit provider, the mortgagee must review public records from the state, county, or city or other documents providing a similar level of objective information.
- b. To verify credit information, the mortgagee must:
  - use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
  - obtain the most recent 12 months of cancelled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.
- c. To verify the Borrower's rental payment history, the mortgagee must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of cancelled checks or equivalent proof of payment.

#### (3) Sufficiency of Credit References

To be sufficient to establish the Borrower's credit, the credit history must include three credit references, including at least one of the following:

- rental housing payments (subject to independent verification if the Borrower is a renter);
- telephone service; or
- utility company reference (if not included in the rental housing payment), including:
  - gas;
  - electricity;
  - water;
  - television service; or
  - Internet service.

If the mortgagee cannot obtain all three credit references from the list above, the mortgagee may use the following sources of unreported recurring debt:

- 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 store 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;
- 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;

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- caused no insufficient funds (NSF) checks;
- automobile lease; or
- a personal loan from an individual with repayment terms in writing and supported by cancelled checks to document the payments.

#### **iii. Evaluating Credit History (Manual)**

##### **(A) General Credit (Manual)**

The underwriter must examine the Borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the Borrower's creditworthiness.

The mortgagee must not consider the credit history of a non-borrowing spouse.

##### **(B) Types of Payment Histories (Manual)**

The underwriter must evaluate the Borrower's payment histories in the following order: (1) previous housing expenses and related expenses, including utilities; (2) installment debts; and (3) revolving accounts.

###### **(1) Satisfactory Credit**

The underwriter may consider a Borrower to have an acceptable payment history if the Borrower has made all housing and installment debt payments on time for the previous 12 months and no more than two 30-day late mortgage or installment payments in the previous 24 months.

The underwriter may approve the Borrower with an acceptable payment history if the Borrower has no major derogatory credit on revolving accounts in the previous 12 months.

Major derogatory credit on revolving accounts must include any payments made more than 90 Days after the due date, or three or more payments more than 60 Days after the due date.

###### **(2) Payment History Requiring Additional Analysis**

If a Borrower's credit history does not reflect satisfactory credit as stated above, the Borrower's payment history requires additional analysis.

The mortgagee must analyze the Borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The mortgagee must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

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The underwriter may only approve a Borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

#### **(C) Payment History on Housing Obligations (Manual)**

The mortgagee 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
- a review of canceled checks that cover the most recent 12-month period.

The mortgagee must verify and document the previous 12 months' housing history. For Borrowers who indicate they are living rent-free, the mortgagee must obtain verification from the property owner where they are residing that the Borrower has been living rent-free and the amount of time the Borrower has been living rent free.

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.

#### **(D) Collection Accounts (Manual)**

##### **(1) Definition**

A Collection Account is a Borrower's loan or debt that has been submitted to a collection agency through a creditor.

##### **(2) Standard**

The mortgagee must determine if collection accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

##### **(3) Required Documentation**

The mortgagee must document reasons for approving a mortgage when the Borrower has any collection accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding collection account. The explanation and supporting documentation must be consistent with other credit information in the file.

**(E) Charge Off Accounts (Manual)**

**(1) Definition**

A Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

**(2) Standard**

The mortgagee must determine if charge off accounts were a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

**(3) Required Documentation**

The mortgagee must document reasons for approving a mortgage when the Borrower has any charge off accounts.

The Borrower must provide a letter of explanation, which is supported by documentation, for each outstanding charge off account. The explanation and supporting documentation must be consistent with other credit information in the file.

**(F) Disputed Derogatory Credit Accounts (Manual)**

**(1) Definition**

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

**(2) Standard**

The mortgagee must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the underwriting analysis.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use provided the mortgagee includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

**(3) Required Documentation**

If the credit report indicates that the Borrower is disputing derogatory credit accounts, the Borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.

**(G) Judgments (Manual)**

**(1) Definition**

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.

**(2) Standard**

The mortgagee must verify that court-ordered Judgments are resolved or paid off prior to or at closing.

Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.

Regardless of the amount of outstanding Judgments, the mortgagee must determine if the Judgment was a result of:

- the Borrower's disregard for financial obligations;
- the Borrower's inability to manage debt; or
- extenuating circumstances.

**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, the Borrower 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.

The mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

The mortgagee must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement.

**(3) Required Documentation**

The mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- the payoff statement, if paid at settlement; or
- the payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title.

**(H) Bankruptcy (Manual)**

**(1) Standard: Chapter 7**

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower from obtaining an FHA-insured mortgage if, at the time of case number assignment, at least two years have elapsed since the date of the bankruptcy discharge. 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, 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.

**(2) Standard: Chapter 13**

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.

**(3) Required Documentation**

If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the mortgagee must obtain the bankruptcy and discharge documents.

The mortgagee must also document that the Borrower's current situation indicates that the events which led to the bankruptcy are not likely to recur.

**(I) Foreclosure and Deed-in-Lieu of Foreclosure (Manual)**

**(1) Standard**

A Borrower is generally not eligible for a new FHA-insured mortgage if the Borrower had a foreclosure or a DIL of foreclosure in the three-year period prior to the date of case number assignment.

This three-year period begins on the date of the DIL or the date that the Borrower transferred ownership of the property to the foreclosing Entity/designee.

**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. An exception may, however, be granted where a Borrower's mortgage was current at the time of the Borrower's divorce, the ex-spouse received the property, and the mortgage was later foreclosed.

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

**(2) Required 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.

**(J) Pre-Foreclosure Sales (Short Sales) (Manual)**

**(1) Standard**

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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**(a) Exception for Borrower Current at the Time of Short Sale**

A Borrower is considered eligible for a new FHA-insured mortgage if, from the date of case number assignment 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.

**(b) Exception for Extenuating Circumstances**

The mortgagee may grant an exception to the three-year requirement if the short sale was the result of documented extenuating circumstances that were beyond the control of the Borrower, such as a serious illness or death of a wage earner, and the Borrower has re-established good credit since the short sale.

Divorce is not considered an extenuating circumstance. An exception may, however, be granted where a Borrower's mortgage was current at the time of the Borrower's divorce, the ex-spouse received the property, and there was a subsequent short sale.

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

**(2) Required Documentation**

If the credit report does not indicate the date of the short sale, the mortgagee must obtain the Settlement Statement, deed or other legal documents evidencing the date of property transfer.

If the short sale 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.

**(K) Credit Counseling/Payment Plan**

Participating in a consumer credit counseling program does not disqualify a Borrower from obtaining an FHA-insured mortgage, provided the mortgagee 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.

**iv. Evaluating Liabilities and Debts (Manual)**

**(A) General Liabilities and Debts (Manual)**

**(1) Standard**

The mortgagee must determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, *URLA*, and required documentation.

All applicable monthly liabilities must be included in the qualifying ratio. 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.

Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the mortgagee can document that the Borrower is not making payments on the account.

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

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes.

**(2) Required Documentation**

The mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio.

**(B) Undisclosed Debt and Inquiries (Manual)**

**(1) Standard**

When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the mortgagee must:

- verify the actual monthly payment amount;
- include the payment amount in the agreement in the Borrower's monthly liabilities and debt; and
- determine that any unsecured funds borrowed were not/will not be used for the Borrower's MRI.

The mortgagee must obtain a written explanation from the Borrower for all inquiries shown on the credit report that were made in the last 90 Days.

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**(2) Required Documentation**

The mortgagee must document all undisclosed debt and support for its analysis of the Borrower's debt.

**(C) Federal Debt (Manual)**

**(1) Definition**

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

**(2) Standard**

The mortgagee must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total debt to income.

**(3) Required Documentation**

The mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

**(D) Alimony, Child Support, or Other Maintenance (Manual)**

**(1) Definition**

Alimony, Child Support, and Other Maintenance are court-ordered or otherwise agreed upon payments.

**(2) Standard**

For alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the mortgagee's calculation of the Borrower's gross income, the mortgagee must verify and include the monthly obligation in its calculation of the Borrower's debt.

Child support and other maintenance are to be treated as a recurring liability and the mortgagee must include the monthly obligation in the Borrower's liabilities and debt.

**(3) Required Documentation**

The mortgagee must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order.

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The mortgagee must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.

#### **(4) Calculation of Monthly Obligation**

The mortgagee must calculate the Borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or
- the monthly amount of the garnishment.

#### **(E) Non-Borrowing Spouse Debt in Community Property States (Manual)**

##### **(1) Definition**

Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower.

##### **(2) Standard**

If the Borrower resides in a community property state or the property being insured is located in a community property state, debts of the non-borrowing spouse must be included in the Borrower's qualifying ratios, except for obligations specifically excluded by state law.

The non-borrowing spouse's credit history is not considered a reason to deny a mortgage application.

##### **(3) Required Documentation**

The mortgagee must verify and document the debt of the non-borrowing spouse.

The mortgagee must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration.

The mortgagee must obtain a credit report for the non-borrowing spouse in order to determine the debts that must be counted in the DTI ratio.

#### **(F) Deferred Obligations (Manual)**

##### **(1) Definition**

Deferred Obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance.

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**(2) Standard**

The mortgagee must verify and include deferred obligations in the calculation of the Borrower's debt.

**(3) Required Documentation**

The mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The mortgagee must obtain evidence of the anticipated monthly payment obligation, if available.

**(4) Calculation of Monthly Obligation**

The 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, the mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.

For a student loan, if the actual monthly payment is zero or is not available, the mortgagee must utilize 2 percent of the outstanding balance to establish the monthly payment.

**(G) Installment Loans (Manual)**

**(1) Definition**

Installment Loans refer to loans, not secured by real estate, that require the periodic payment of principal and interest. A loan secured by an interest in a timeshare must be considered an Installment Loan.

**(2) Standard**

The mortgagee must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's debts.

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.

**(3) Required Documentation**

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

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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.

#### **(H) Revolving Charge Accounts (Manual)**

##### **(1) Definition**

Revolving Charge Accounts refer to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

##### **(2) Standard**

The mortgagee must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the mortgagee must use the payment shown on the current account statement or 5 percent of the outstanding balance.

##### **(3) Required Documentation**

The mortgagee must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, the mortgagee must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

##### **(4) Calculation**

The mortgagee must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does not include a monthly payment for the account, the mortgagee must use the payment shown on the current account statement.

#### **(I) 30-Day Accounts (Manual)**

##### **(1) Definition**

30-Day Accounts refer to a credit arrangement that requires the Borrower to pay the outstanding balance on the account every month.

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**(2) Standard**

The mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, the mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI.

**(3) Required Documentation**

The mortgagee must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The mortgagee must use the credit report to document the balance, and must document sufficient funds are available to pay off the balance and close the loan.

**(J) Business Debt in Borrower's Name (Manual)**

**(1) Definition**

Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

**(2) Standard**

When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the mortgagee can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash-flow analysis of the Borrower's business.

**(3) Required Documentation**

When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the mortgagee must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash-flow analysis of the Borrower's business.

**(K) Disputed Derogatory Credit Accounts (Manual)**

**(1) Definition**

Disputed Derogatory Credit Accounts refer to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

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**(2) Standard**

If the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the mortgagee must include a monthly payment in the Borrower's debt calculation.

The following items are excluded from the cumulative balance:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance.

**(L) Non-derogatory Disputed Account and Disputed Accounts Not Indicated on the Credit Report (Manual)**

**(1) Definition**

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; or
- disputed accounts that are current and paid as agreed.

**(2) Standard**

If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the mortgagee must analyze the effect of the disputed accounts on the Borrower's ability to repay the loan. If the dispute results in the Borrower's monthly debt payments utilized in computing the DTI ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

**(M) Contingent Liabilities (Manual)**

**(1) Definition**

A Contingent Liability is a liability that may result in the obligation to repay only where 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.

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**(2) Standard**

The mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the mortgagee verifies 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.

**(3) Required Documentation**

**(a) 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.

**(b) 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.

**(c) Court Ordered Divorce Decree**

The mortgagee must obtain a copy of the divorce decree ordering the spouse to make payments.

**(4) Calculation of Monthly Obligation**

The mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

**(N) Collection Accounts (Manual)**

**(1) Definition**

A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor.

**(2) Standard**

If the credit reports used in the analysis show 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; or

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- 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 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.

#### **(3) Required Documentation**

The mortgagee must provide the following documentation:

- evidence of payment in full, if paid prior to settlement;
- 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.

#### **(O) Charge Off Accounts (Manual)**

##### **(1) Definition**

A Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor.

##### **(2) Standard**

Charge Off Accounts do not need to be included in the Borrower's liabilities or debt.

#### **(P) Private Savings Clubs (Manual)**

##### **(1) Definition**

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

##### **(2) Standard**

If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrowers' total debt.

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The mortgagee must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club.

#### **(3) Required Documentation**

The mortgagee must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active.

#### **(Q) Obligations Not Considered Debt**

Obligations not considered debt include:

- medical collections
- federal, state, and local taxes, if not delinquent and no payments required
- automatic deductions from savings, when not associated with another type of obligation
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- collateralized loans secured by depository accounts
- utilities
- child care
- commuting costs
- union dues
- insurance, other than property insurance
- open accounts with zero balances
- voluntary deductions, when not associated with another type of obligation

#### **b. Income Requirements (Manual)**

##### **Effective Income Definition**

Effective Income refers to income that may be used to qualify a Borrower for a mortgage. Effective Income must be reasonably likely to continue through at least the first three years of the mortgage, and meet the specific requirements described below.

##### **i. General Income Requirements (Manual)**

The mortgagee must document the Borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as Effective Income in accordance with the requirements listed below.

The mortgagee may only consider income if it is legally derived and, when required, properly reported as income on the Borrower's tax returns.

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

**ii. Employment Related Income (Manual)**

**(A) Definition**

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

**(B) Standard**

The mortgagee may use Employment related Income as Effective Income in accordance with the standards provided for each type of Employment related Income.

**(C) Required Documentation**

For all Employment related Income, the mortgagee must verify the Borrower's most recent two years of employment and income, and document using one of the following methods.

**(1) Traditional Current Employment Documentation**

The mortgagee must obtain the most recent pay stubs covering a minimum of 30 consecutive Days that show the Borrower's year-to-date earnings, and one of the following to verify current employment:

- a written Verification of Employment (VOE) covering two years; or
- an electronic verification acceptable to FHA.

Re-verification of employment must be completed within 10 Days prior to mortgage Disbursement. Verbal re-verification of employment is acceptable.

**(2) Alternative Current Employment Documentation**

If using alternative documentation, the mortgagee must:

- obtain copies of the pay stubs covering the most recent 30 consecutive day period (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings;
- obtain copies of the original IRS W-2 forms from the previous two years; and
- document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.

Re-verification of employment must be completed within 10 Days prior to mortgage Disbursement. Verbal re-verification of employment is acceptable.

**(3) Past Employment Documentation**

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.
- Only base pay is used to qualify (no Overtime or Bonus Income).
- 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.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the mortgagee must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:

- W-2(s)
- VOE(s)
- electronic verification acceptable to FHA
- evidence supporting enrollment in school or the military during the most recent two full years

**iii. Primary Employment (Manual)**

**(A) Definition**

Primary Employment is the Borrower's principal employment, unless the income falls within a specific category identified below. Primary employment is generally full-time employment and may be either salaried or hourly.

**(B) Standard**

The mortgagee may use primary employment income as Effective Income.

**(C) Calculation of Effective Income**

**(1) Salary**

For employees who are salaried and whose income has been and will likely be consistently earned, the mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

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For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

**iv. Part-Time Employment (Manual)**

**(A) Definition**

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

**(B) Standard**

The mortgagee may use Part-Time Employment income as Effective Income if the Borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

**(C) Calculation of Effective Income**

The mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use a 12-month average of hours at the current pay rate.

**v. Overtime and Bonus Income (Manual)**

**(A) Definition**

Overtime and Bonus Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

**(B) Standard**

The mortgagee may use Overtime and Bonus Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of Overtime and Bonus Income less than two years may be considered Effective Income if the mortgagee documents that the Overtime and Bonus Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

**(C) Calculation of Effective Income**

For employees with Overtime or Bonus Income, the mortgagee must average the income earned over the previous two years to calculate Effective Income. However, if the Overtime or Bonus Income from the current year decreases by 20 percent or more from the previous year, the mortgagee must use the current year's income.

**vi. Seasonal Employment (Manual)**

**(A) Definition**

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

**(B) Standard**

The mortgagee may consider Seasonal Employment income as Effective Income if the Borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season. The mortgagee may consider unemployment income as Effective Income for those with effective Seasonal Employment income.

**(C) Required Documentation**

For seasonal employees with unemployment income, the mortgagee must document the unemployment income for two full years and there must be reasonable assurance that this income will continue.

**(D) Calculation of Effective Income**

For employees with Seasonal Employment income, the mortgagee must average the income earned over the previous two full years to calculate Effective Income.

**vii. Employer Housing Subsidy (Manual)**

**(A) Definition**

Employer Housing Subsidy refers to employer-provided mortgage assistance.

**(B) Standard**

The mortgagee may utilize Employer Housing Subsidy as Effective Income.

**(C) Required Documentation**

The mortgagee must verify and document the existence and the amount of the housing subsidy.

**(D) Calculation of Effective Income**

For employees receiving an Employer Housing Subsidy, the mortgagee may add the Employer Housing Subsidy to the total Effective Income, but may not use it to offset the Mortgage Payment.

**viii. Employed by Family-Owned Business (Manual)**

**(A) Definition**

Family-Owned Business Income refers to employment income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

**(B) Standard**

The mortgagee may consider Family-Owned Business Income as Effective Income if the Borrower is not an owner in the family-owned business.

**(C) Required Documentation**

The mortgagee must verify and document that the Borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or [Schedule K-1 \(IRS Form 1065\)](#), *U.S. Return of Partnership Income*, or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the mortgagee must obtain copies of signed personal tax returns or tax transcripts.

**(D) Calculation of Effective Income**

**(1) Salary**

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the mortgagee must use the current salary to calculate Effective Income.

**(2) Hourly**

For employees who are paid hourly, and whose hours do not vary, the mortgagee must consider the Borrower's current hourly rate to calculate Effective Income.

For employees who are paid hourly and whose hours vary, the mortgagee must average the income over the previous two years. If the mortgagee can document an increase in pay rate the mortgagee may use the most recent 12-month average of hours at the current pay rate.

**ix. Commission Income (Manual)**

**(A) Definition**

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

**(B) Standard**

The mortgagee may use Commission Income as Effective Income if the Borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue.

**(C) Required Documentation**

For Commission Income less than or equal to 25 percent of the Borrower's total earnings, the mortgagee must use traditional or alternative employment documentation.

For Commission Income greater than 25 percent of the Borrower's total earnings, the mortgagee must obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed 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.

**(D) Calculation of Effective Income**

The mortgagee must calculate Effective Income for commission by using the lesser of (a) the average net Commission Income earned over the previous two years, or the length of time Commission Income has been earned if less than two years; or (b) the average net Commission Income earned over the previous one year. The mortgagee must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.

The mortgagee must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review [Analyzing IRS Forms](#).

**x. Self-Employment Income (Manual)**

**(A) Definition**

Self-Employment Income refers to income generated by a business in which the Borrower has a 25 percent or greater ownership interest.

There are four basic types of business structures. They include:

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- sole proprietorship;
- corporations;
- limited liability or “S” corporations; and
- partnerships.

#### (B) Standard

##### (1) Minimum Length of Self-Employment

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.

##### (2) Stability of Self-Employment Income

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 document that the business income is now stable.

A mortgagee may consider income as stable after a 20 percent reduction if the mortgagee can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

#### (C) Required Documentation

##### (1) 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.

##### (2) Profit & Loss Statements and Balance Sheets

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

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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 obtained from the IRS is required.

#### **(3) Business Credit Reports**

The mortgagee must obtain a business credit report for all corporations and “S” corporations.

#### **(D) Calculation of Effective Income**

The mortgagee must analyze the Borrower’s tax returns to determine gross Self-Employment Income. Requirements for analyzing self-employment documentation are found in [Analyzing IRS Forms](#).

The mortgagee must calculate gross Self-Employment Income by using the lesser of:

- the average gross Self- Employment Income earned over the previous two years; or
- the average gross Self-Employment Income earned over the previous one year.

### **xi. Additional Required Analysis of Stability of Employment Income**

#### **(A) 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.

#### **(B) Addressing Gaps in Employment**

For Borrowers with gaps in employment of six months or more (an extended absence), the mortgagee may consider the Borrower’s current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

**(C) Addressing 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.

For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the mortgagee may use the Borrower's pre-leave income.

For 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.

**Required 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, in accordance with [Sources of Funds](#), used to supplement the Borrower's income through intended date of return to work with current employer.

**xii. Other Sources of Effective Income (Manual)**

**(A) Disability Benefits (Manual)**

**(1) Definition**

Disability Benefits refer to benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), or a private disability insurance provider.

**(2) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. The mortgagee must obtain:

- a copy of the last Notice of Award letter which states the SSA's or private disability insurer's determination on the Borrower's eligibility for disability benefits; or
- equivalent documentation that establishes award benefits to the Borrower.

If any disability income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee may consider the income effective and reasonably likely to continue. The mortgagee may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

**(a) Social Security Disability (Manual)**

For Social Security Disability income, including Supplemental Security Income (SSI), the mortgagee must obtain one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the Borrower's [Form SSA-1099/1042S](#), *Social Security Benefit Statement*.

**(b) VA Disability**

For VA disability benefits, the mortgagee must obtain [VA Form 26- 8937](#), *Verification of VA Benefits*, showing the amount of the assistance and the expiration date of the benefits, if any.

**(c) Private Disability**

For private disability benefits, the mortgagee must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any.

**(3) Calculation of Effective Income**

The mortgagee must use the most recent amount of benefits received to calculate Effective Income.

**(B) Alimony, Child Support, or Maintenance Income (Manual)**

**(1) Definition**

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

**(2) Required Documentation**

The mortgagee must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the mortgagee must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.

The mortgagee must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.

The mortgagee must provide evidence that the claimed income will continue for at least three years. The mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.

**(3) Calculation of Effective Income**

When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support or Other Maintenance payments for the most recent three months, the mortgagee may use the current payment to calculate Effective Income.

When using evidence of voluntary payments, if the Borrower has received consistent alimony, child support or other maintenance payments for the most recent six months, the mortgagee may use the current payment to calculate Effective Income.

If the 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

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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.

**(C) Military Income (Manual)**

**(1) Definition**

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

The mortgagee may not use education benefits as Effective Income.

**(2) Required Documentation**

The mortgagee must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The mortgagee must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.

**(3) Calculation of Effective Income**

The mortgagee must use the current amount of Military Income received to calculate Effective Income.

**(D) Mortgage Credit Certificates (Manual)**

**(1) Definition**

Mortgage Credit Certificates refer to government Mortgage Payment subsidies other than Section 8 Homeownership Vouchers.

**(2) Required Documentation**

The mortgagee must verify and document that the Governmental Entity subsidizes the Borrower's Mortgage Payments either through direct payments or tax rebates.

**(3) Calculating Effective Income**

Mortgage Credit Certificate income that is not used to directly offset the Mortgage Payment before calculating the qualifying ratios may be included as

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Effective Income. The mortgagee must use the current subsidy rate to calculate the Effective Income.

**(E) Section 8 Homeownership Vouchers (Manual)**

**(1) Definition**

Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

**(2) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The mortgagee may consider that this income is reasonably likely to continue for three years.

**(3) Calculation of Effective Income**

The mortgagee may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The mortgagee must use the current subsidy rate to calculate the Effective Income.

**(F) Other Public Assistance (Manual)**

**(1) Definition**

Public Assistance refers to income received from government assistance programs.

**(2) Required Documentation**

Mortgagees must verify and document the income received from the government agency.

**(3) Calculation of Effective Income**

The mortgagee must use the current rate of Public Assistance received to calculate Effective Income.

**(G) Automobile Allowances (Manual)**

**(1) Definition**

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

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#### (2) Required Documentation

The mortgagee must verify and document the Automobile Allowance received from the employer for the previous two years.

The mortgagee must also obtain [IRS Form 2106](#), *Employee Business Expenses*, for the previous two years.

#### (3) Calculation of Effective Income

The mortgagee must determine the portion of the allowance that can be considered Effective Income.

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.

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.

Automobile Allowance refers to the amount of the Automobile Allowance that exceeds the Borrower's actual automobile expenditures.

#### (H) Retirement Income (Manual)

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

##### (1) Social Security Income (Manual)

###### (a) Definition

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

###### (b) Required Documentation

The mortgagee must verify and document the Borrower's receipt of income from the SSA and that it is likely to continue for at least a three year period from the date of case number assignment.

For SSI, the mortgagee must obtain any one of the following documents:

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- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or
- a copy of the Borrower’s [SSA Form-1099/1042S](#), *Social Security Benefit Statement*.

In addition to verification of income, the mortgagee must document the continuance of this income by obtaining from the Borrower (1) a copy of the last Notice of Award letter which states the SSA’s determination on the Borrower’s eligibility for SSA income, or (2) equivalent documentation that establishes award benefits to the Borrower (equivalent document). If any income from the SSA is due to expire within three years from the date of case number assignment, that income may not be used for qualifying.

If the Notice of Award or equivalent document does not have a defined expiration date, the mortgagee must consider the income effective and reasonably likely to continue. The mortgagee may not request additional documentation from the Borrower to demonstrate continuance of Social Security Income.

If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

#### **(c) Calculation of Effective Income**

The mortgagee must use the current amount of Social Security Income received to calculate Effective Income.

### **(2) Pension (Manual)**

#### **(a) Definition**

Pension refers to income received from the Borrower’s former employer(s).

#### **(b) Required Documentation**

The mortgagee must verify and document the Borrower’s receipt of periodic payments from the Borrower’s Pension and that the payments are likely to continue for at least three years.

The mortgagee must obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or

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- a copy of the Borrower's Pension/retirement letter from the former employer.

#### (c) Calculation of Effective Income

The mortgagee must use the current amount of Pension income received to calculate Effective Income.

### (3) Individual Retirement Account and 401(k) (Manual)

#### (a) Definition

Individual Retirement Account (IRA)/401(k) Income refers to income received from an individual retirement account.

#### (b) Required Documentation

The mortgagee must verify and document the Borrower's receipt of recurring IRA/401(k) distribution Income and that it is reasonably likely to continue for three years.

The mortgagee must obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income.

#### (c) Calculation of Effective Income

For Borrowers with IRA/401(k) Income that has been and will be consistently received, the mortgagee must use the current amount of IRA Income received to calculate Effective Income. For Borrowers with fluctuating IRA/401(k) Income, the mortgagee must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income. If IRA/401(k) Income has been received for less than two years, the Mortgagee must use the average over the time of receipt.

### (I) Rental Income (Manual)

#### (1) Definition

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

**(2) Rental Income Received from the Subject Property (Manual)**

**(a) Standard**

The mortgagee may consider Rental Income from existing and prospective tenants if documented in accordance with the following requirements.

Rental Income from the subject property may be considered Effective Income when the property is a two- to four-unit dwelling, or an acceptable one- to four-unit Investment Property.

**(b) Required Documentation**

Required documentation varies depending upon the length of time the Borrower has owned the property.

**(i) Limited or No History of Rental Income**

Where the Borrower does not have a history of Rental Income from the subject since the previous tax filing:

**Two- to Four-Units**

The mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form 1025/Freddie Mac Form 72](#), *Small Residential Income Property Appraisal Report*) and the prospective leases if available.

**One Unit**

The mortgagee must verify and document the proposed Rental Income by obtaining a [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 and, if available, the prospective lease.

**(ii) History of Rental Income**

Where the Borrower has a history of Rental Income from the subject since the previous tax filing, the mortgagee must verify and document the existing Rental Income by obtaining the existing lease, 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), and the Borrower's most recent tax returns, including Schedule E, from the previous two years.

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For properties with less than two years of Rental Income history, the mortgagee must document the date of acquisition by providing the deed, Settlement Statement or other legal document.

#### (c) Calculation of Effective Income

The mortgagee must add the net subject property Rental Income to the Borrower's gross income. The mortgagee may not reduce the Borrower's total Mortgage Payment by the net subject property Rental Income.

##### (i) Limited or No History of Rental Income

To calculate the Effective Income from the subject property where the Borrower does not have a history of Rental Income from the subject property since the previous tax filing, the mortgagee must use 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.

##### (ii) History of Rental Income

The mortgagee must calculate the Rental Income by averaging the amount shown on the Schedule E.

Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

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.

#### (3) Rental Income from Other Real Estate Holdings (Manual)

##### (a) Standard

Rental Income from other real estate holdings may be considered Effective Income if the documentation requirements listed below are met. If Rental Income is being derived from the property being vacated by the Borrower, the Borrower must be relocating to an area more than 100 miles from the Borrower's current Principal Residence. The mortgagee must obtain a lease agreement of at least one year's duration after the mortgage is closed and evidence of the payment of the security deposit or first month's rent.

**(b) Required Documentation**

**(i) Limited or No History of Rental Income**

Where the Borrower does not have a history of Rental Income since the previous tax filing, including property being vacated by the Borrower, the mortgagee must obtain an appraisal evidencing market rent and that the Borrower has at least 25 percent equity in the property. The appraisal is not required to be completed by an FHA Roster appraiser.

**Two- to Four-Units**

The mortgagee must verify and document the proposed Rental Income by obtaining an appraisal showing fair market rent (use [Fannie Mae Form 1025/Freddie Mac Form 72](#), *Small Residential Income Property Appraisal Report*) and the prospective leases if available.

**One Unit**

The mortgagee must verify and document the proposed Rental Income by obtaining a [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 and, if available, the prospective lease.

**(ii) History of Rental Income**

The mortgagee must obtain the Borrower's last two years' tax returns with Schedule E.

**(c) Calculation of Effective Net Rental Income**

**(i) Limited or No History of Rental Income**

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.

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#### **(ii) History of Net Rental Income**

The mortgagee must calculate the net Rental Income by averaging the amount shown on the Schedule E provided the Borrower continues to own all properties included on the Schedule E.

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

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.

For properties with less than two years of Rental Income history, the mortgagee must document the date of acquisition by providing the deed, Settlement Statement or other legal document.

Positive net Rental Income must be added to the Borrower's Effective Income. Negative net Rental Income must be included as a debt/liability.

#### **(4) Boarders of the Subject Property (Manual)**

##### **(a) Definition**

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

##### **(b) Standard**

Rental Income from Boarders is only acceptable if the Borrower has a two-year history of receiving income from Boarders that is shown on the tax return and the Borrower is currently receiving Boarder income.

##### **(c) Required Documentation**

The mortgagee must obtain two years of the Borrower's tax returns evidencing income from Boarders and the current lease.

For purchase transactions, the mortgagee must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower.

##### **(d) Calculation of Effective Income**

The mortgagee must calculate the Effective Income by using the lesser of the two-year average or the current lease.

**(J) Investment Income (Manual)**

**(1) Definition**

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

**(2) Required Documentation**

The mortgagee must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

**(3) Calculation of Effective Income**

The mortgagee must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two years; or
- the average Investment Income earned over the previous one year.

The mortgagee must subtract any of the assets used for the borrower's required funds to close to purchase the subject property from the Borrower's liquid assets prior to calculating any interest or dividend income.

**(K) Capital Gains and Losses (Manual)**

**(1) Definition**

Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

**(2) Standard**

Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.

**(3) Required Documentation**

Three years' tax returns are required to evaluate an earnings 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.

**(L) Expected Income (Manual)**

**(1) Definition**

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

**(2) Standard**

The mortgagee may consider Expected Income as Effective Income except when Expected Income is to be derived from a family-owned business.

**(3) Required Documentation**

The mortgagee must verify and document the existence and amount of Expected Income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected Retirement Income, the mortgagee must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

**(4) Calculation of Effective Income**

Income is calculated in accordance with the standards for the type of income being received. The mortgagee must also verify that the Borrower will have sufficient income or cash Reserves to support the Mortgage Payment and any other obligations between mortgage closing and the start of employment.

**(M) Trust Accounts (Manual)**

**(1) Definition**

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

**(2) Required Documentation**

The mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

The mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.

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**(3) Calculation of Effective Income**

The mortgagee must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate Effective Income.

**(N) Annuities or Similar (Manual)**

**(1) Definition**

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

**(2) Required Documentation**

The mortgagee must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the mortgage. The mortgagee must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

**(3) Calculation of Effective Income**

The mortgagee must use the current rate of the annuity to calculate Effective Income.

The mortgagee must subtract any of the assets used for the borrower's required funds to close to purchase the subject property from the Borrower's liquid assets prior to calculating any Annuity Income.

**(O) Notes Receivable Income (Manual)**

**(1) Definition**

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

**(2) Required Documentation**

The mortgagee must verify and document the existence of the Note. The mortgagee must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the mortgage.

**(3) Calculation of Effective Income**

For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the mortgagee must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income

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fluctuates, the mortgagee must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

**(P) Non-Taxable Income (Grossing Up) (Manual)**

**(1) Definition**

Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- 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.

**(2) Required Documentation**

The mortgagee must document and support the amount of income to be Grossed Up for any non-taxable income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.

**(3) Calculation of Effective Income**

The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower's gross income.

The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the mortgagee may Gross Up the Non-Taxable Income by 15 percent.

The mortgagee may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

**c. Asset Requirements (Manual)**

**i. General Asset Requirements (Manual)**

The mortgagee may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

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Closing costs, prepaid items and other fees may not be applied towards the Borrower's MRI.

#### **(A) Earnest Money Deposit (Manual)**

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 \(Personal and Equity\)](#).

#### **(B) Cash to Close (Manual)**

The mortgagee must document all funds that are used for the purpose of qualifying for or closing a mortgage, including those to satisfy debt or pay costs outside of closing.

The mortgagee must verify and document that the Borrower has sufficient funds from an acceptable source to facilitate the closing.

##### **(1) Determining the Amount Needed for Closing**

For a purchase transaction, 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 and the total mortgage amount.

For a refinance transaction, the amount of cash needed by the Borrower to close an FHA-insured mortgage is the difference between the total payoff requirements of the mortgage being refinanced and the total mortgage amount.

##### **(2) Mortgagee Responsibility for Estimating Settlement Requirements**

In addition to the MRI, additional Borrower expenses must be included in the total amount of cash that the Borrower must provide at mortgage settlement.

###### **(a) Origination Fees and Other Closing Costs**

The mortgagee or TPO may charge a reasonable origination fee.

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The mortgagee or TPO may charge and collect from Borrowers those customary and reasonable closing costs necessary to close the mortgage. Charges may not exceed the actual costs.

The mortgagee must comply with HUD's Qualified Mortgage Rule at [24 CFR § 203.19](#).

#### **(b) Discount Points**

Discount Points refer to a charge from the mortgagee for the interest rate chosen. They are paid by the Borrower and become part of the total cash required to close.

#### **(c) Types of Prepaid Items (Including Per Diem Interest)**

Prepaid items may include flood and hazard insurance premiums, MIP, real estate taxes, and per diem interest. They must comply with the requirements of the [CFPB](#).

#### **(d) Non-Realty or Personal Property**

Non-Realty or Personal Property items (chattel) 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 mortgage.

#### **(e) Upfront Mortgage Insurance Premium Amounts**

Any UFMIP amounts paid in cash are added to the total cash settlement requirements. The UFMIP must be entirely financed into the mortgage or paid entirely in cash. However, if the UFMIP is financed into the mortgage, the entire amount is to be financed except for any amount less than \$1.00.

#### **(f) Real Estate Agent Fees**

If a Borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the Borrower's settlement requirements.

#### **(g) 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.

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#### **(h) Premium Pricing on FHA-Insured Mortgages**

Premium Pricing refers to a credit from a mortgagee for the interest rate chosen.

Premium Pricing may be used to pay a Borrower's actual closing costs and/or prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation.

The funds derived from a premium priced mortgage:

- must be disclosed in accordance with RESPA;
- must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses; and
- may not be used for payment of debts, collection accounts, escrow shortages or missed Mortgage Payments, or Judgments.

#### **(i) Interested Party Contributions on the Settlement Statement**

The mortgagee may apply Interested Party credits to the origination fees, other closing costs and discount points including any items Paid Outside Closing (POC).

The refund of the Borrower's POCs may be used toward the Borrower's MRI if the mortgagee documents that the POCs were paid with the Borrower's own funds.

The mortgagee must identify the total Interested Party credits on the front page of the Settlement Statement or similar legal document or in an addendum. The mortgagee must identify each item paid by Interested Party contributions.

#### **(j) 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 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.

This permits the Borrower to bring a portion of their MRI to the closing and combine that portion with the real estate tax credit for their total MRI.

#### **(C) Reserves (Manual)**

The mortgagee must verify and document all assets submitted to the AUS.

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.

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Reserves do not include:

- the amount of cash taken at settlement in cash-out transactions;
- incidental cash received at settlement in other loan transactions;
- gift funds;
- equity in another property; or
- borrowed funds from any source.

**Additional Reserves for Three- to Four-Unit Properties**

The mortgagee must verify and document Reserves equivalent to three months' PITI after closing for three- to four-unit properties.

**ii. Source Requirements for the Borrower's Minimum Required Investment (Manual)**

**(A) Definition**

Minimum Required Investment (MRI) refers to the Borrower's contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the property.

**(B) Standard**

The mortgagee may only permit the Borrower's MRI to be provided by a source permissible under Section 203(b)(9)(C) of the National Housing Act, which means the funds for the Borrower's MRI must not come from:

- (1) the seller of the property;
- (2) any other person or Entity who financially benefits from the transaction (directly or indirectly); or
- (3) anyone who is or will be reimbursed, directly or indirectly, by any party included in (1) or (2) above.

While additional funds to close may be provided by one of these sources if permitted under the relevant source of funds requirements above, none of the Borrower's MRI may come from these sources. The mortgagee must document permissible sources for the full MRI in accordance with special requirements noted above.

Additionally, in accordance with HUD's Interpretive Rule, Docket No. FR-5679-N-01, HUD does not interpret Section 203(b)(9)(C) of the National Housing Act to prohibit Governmental Entities from providing the Borrower's MRI where the Governmental Entity is originating the insured mortgage through one of its homeownership programs.

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**(C) Required Documentation**

Where the Borrower's MRI is provided by someone other than the Borrower, the mortgagee must also obtain documentation to support the permissible nature of the source of those funds.

To establish that the Governmental Entity provided the Borrower's MRI in a manner consistent with HUD's Interpretive Rule, the mortgagee must document that the Governmental Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the Borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the mortgagee for the use of funds legally belonging to the mortgagee to fund the Borrower's MRI.

The mortgagee must obtain:

- a cancelled check, evidence of wire transfer or other draw request showing that prior to or at the time of closing the Governmental Entity had authorized a draw of the funds provided towards the Borrower's MRI from the Governmental Entity's account; or
- a letter from the Governmental Entity, signed by an authorized official, establishing that the funds provided towards the Borrower's MRI were funds legally belonging to the Governmental Entity at or before closing.

Where a letter from the Governmental Entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the Borrower's MRI legally belonged to the Governmental Entity at or before closing, by stating, for example:

- the Governmental Entity has, at or before closing, incurred a legally enforceable liability as a result of its agreement to provide the funds towards the Borrower's MRI;
- the Governmental Entity has, at or before closing, incurred a legally enforceable obligation to provide the funds towards the Borrower's MRI; or
- the Governmental Entity has, at or before closing, authorized a draw on its account to provide the funds towards the Borrower's MRI.

While the mortgagee is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the Governmental Entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source.

**iii. Sources of Funds (Manual)**

The mortgagee must verify liquid assets for cash to close and Reserves as indicated.

**(A) Checking and Savings Accounts (Manual)**

**(1) Definition**

Checking and Savings Accounts refer to funds from Borrower-held accounts in a financial institution that allows for withdrawals and deposits.

**(2) Standard**

The mortgagee must verify and document the existence of and amounts in the Borrower's checking and savings accounts.

For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the mortgagee must obtain documentation of the deposits. The mortgagee must also verify that no debts were incurred to obtain part, or all, of the MRI.

**(3) Required Documentation**

If the Borrower does not hold the deposit account solely, all non-Borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

**(a) Traditional Documentation**

The mortgagee must obtain a written VOD and the Borrower's most recent statement for each account.

**(b) Alternative Documentation**

If a VOD is not obtained, a statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the mortgagee must obtain statement(s) for the most recent two months.

**(B) Cash on Hand (Manual)**

**(1) Definition**

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

**(2) Standard**

The mortgagee must verify that the Borrower's Cash on Hand is deposited in a financial institution or held by the escrow/title company.

**(3) Required Documentation**

The mortgagee must verify and document the Borrower's Cash on Hand by obtaining an explanation from the Borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

The mortgagee must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the Borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions.

**(C) Retirement Accounts (Manual)**

**(1) Definition**

Retirement Accounts refer to assets accumulated by the Borrower for the purpose of retirement.

**(2) Standard**

The mortgagee may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.

**(3) Required Documentation**

The mortgagee must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

If any portion of the asset is required for funds to close, evidence of liquidation is required.

**(D) Stocks and Bonds (Manual)**

**(1) Definition**

Stocks and Bonds are investment assets accumulated by the Borrower.

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**(2) Standard**

The mortgagee must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, the mortgagee must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds are valued at the original purchase price, unless the mortgagee verifies and documents that the bonds are eligible for redemption when cash to close is calculated.

**(3) Required Documentation**

The mortgagee must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account the mortgagee must obtain a copy of each stock or bond certificate.

**(E) Private Savings Clubs (Manual)**

**(1) Definition**

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

**(2) Standard**

The mortgagee may consider Private Savings Club funds that are distributed to and received by the Borrower as an acceptable source of funds.

The mortgagee must verify and document the establishment and duration of the club, and the Borrower's receipt of funds from the club. The mortgagee must also determine that the received funds were reasonably accumulated, and not borrowed.

**(3) Required Documentation**

The mortgagee must obtain the club's account ledgers and receipts, and a verification from the club treasurer that the club is still active.

**(F) Gifts (Personal and Equity) (Manual)**

**(1) Definition**

Gifts refer to the contributions of cash or equity with no expectation of repayment.

## **(2) Standards for Gifts**

### **(a) Acceptable Sources of Gifts Funds**

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;
- a governmental agency or public Entity that has a program providing homeownership assistance to:
  - low or moderate income families; or
  - first-time homebuyers.

Any gift of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

### **(b) Reserves**

Surplus gift funds may not be considered as cash Reserves.

### **(c) Donor's Source of Funds**

Cash on Hand is not an acceptable source of donor gift funds.

## **(3) Required Documentation**

The mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

### **Documenting the Transfer of Gifts**

The mortgagee must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.

- a. 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.
- b. If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other

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official check, and a bank statement showing the withdrawal from the donor's account.

If the gift funds 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.

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, including the mortgagee.

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.

#### **(4) Standards for Gifts of Equity**

##### **(a) Who May Provide Gifts of Equity**

Only Family Members may provide equity credit as a gift on property being sold to other Family Members.

##### **(b) Required Documentation**

The mortgagee must obtain a gift letter signed and dated by the donor and Borrower that includes the following:

- the donor's name, address, telephone number;
- the donor's relationship to the Borrower;
- the dollar amount of the gift; and
- a statement that no repayment is required.

#### **(G) Interested Party Contributions (Manual)**

##### **(1) Definition**

Interested Parties refer to sellers, real estate agents, builders, developers or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an Interested Party, or combination of parties, toward the Borrower's origination fees, other closing costs and discount points.

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#### (2) Standard

Interested Parties may contribute up to 6 percent of the Adjusted Value toward the Borrower's origination fees, other closing costs and discount points. The 6 percent limit also includes:

- Interested 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 UFMIP.

Interested Party contributions that exceed actual origination fees, other closing costs, and discount points are considered an inducement to purchase. Interested Party contributions exceeding 6 percent are considered an inducement to purchase.

Interested Party contributions may not be used for the Borrower's MRI.

Payment of real estate agent commissions or fees, typically paid by the seller under local or state law, or local custom, is not considered an Interested Party Contribution.

#### (3) Required Documentation

The mortgagee must document the total Interested Party contributions on form [HUD-92900-LT](#), Settlement Statement or similar legal document, and the sales contract.

#### (H) Inducements to Purchase (Manual)

Inducements to Purchase refer to certain expenses paid by the seller and/or another Interested Party on behalf of the Borrower and result in a dollar-for-dollar reduction to the Adjusted Value of the property before applying the appropriate Loan-to-Value (LTV) percentage.

These inducements include, but are not limited to:

- contributions exceeding 6 percent of the Adjusted Value;
- contributions exceeding the origination fees, other closing costs and discount points;
- decorating allowances;
- repair allowances;
- excess rent credit;
- moving costs;
- paying off consumer debt;
- Personal Property;
- sales commission on the Borrower's present residence; and

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- below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members.

#### (1) Personal Property (Manual)

Replacement of existing Personal Property items listed below are not considered an inducement to purchase, provided the replacement is made prior to settlement and no cash allowance is given to the Borrower. The inclusion of the items below in the sales agreement is also not considered an inducement to purchase if inclusion of the item is customary for the area:

- range
- refrigerator
- dishwasher
- washer
- dryer
- carpeting
- window treatment
- other items determined appropriate by the HOC

#### (2) Sales Commission (Manual)

An inducement to purchase exists when the seller and/or Interested Party agrees to pay any portion of the Borrower's sales commission on the sale of the Borrower's present residence.

An inducement to purchase also exists when a Borrower is not paying a real estate commission on the sale of their present residence, and the same real estate broker or agent is involved in both transactions, and the seller is paying a real estate commission on the property being purchased by the Borrower that exceeds what is typical for the area.

#### (3) Rent Below Fair Market (Manual)

Rent may be an inducement to purchase when 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.

Rent below fair Market Value is not considered an inducement to purchase when a builder fails to deliver a property at an agreed-upon time, and permits the Borrower to occupy an existing or other unit for less than market rent until construction is complete.

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#### **(I) Downpayment Assistance Programs (Manual)**

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
- similar debts

The mortgagee must ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

#### **(1) 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;
- the gift is properly documented; and
- the Borrower has entered into a contract of sale (including any amendments to purchase price) on or before the date the IRS officially announces that the charitable organization’s tax-exempt status is terminated.

#### **(2) Mortgagee Responsibility for Ensuring that Downpayment Assistance Provider is a Charitable Organization**

The mortgagee 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 the [IRS Exempt Organization Select Check](#), which contains a list of organizations eligible to receive tax-deductible charitable contributions.

#### **(J) Secondary Financing (Manual)**

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

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not considered a gift or a grant even if it does not require regular payments or has other features forgiving the debt.

#### (1) Secondary Financing Provided by Governmental Entities and HOPE Grantees (Manual)

##### (a) Definitions

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an instrumentality of the government, the 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). HUD deems Section 115 entities to be instrumentalities of government for the purpose of providing secondary financing.

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an Entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

##### (b) Standard

FHA will insure a first mortgage on a property that has a second mortgage or lien made or held by a Governmental Entity, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the insured first mortgage does not exceed the FHA [Nationwide Mortgage Limit](#) for the area in which the property is located;
- the secondary financing payments are included in the total Mortgage Payment;
- any secondary financing of the Borrower's MRI fully complies with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#);
- the secondary financing does not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing; and
- the second lien does not provide for a balloon payment within 10 years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- the functions performed are limited to the Governmental Entity's secondary financing program; and

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- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the Mortgagee.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved Nonprofit.

The mortgagee must enter information on HUD-approved Nonprofits into [FHAC](#), as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the Borrower's MRI. Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

There is no maximum Combined Loan-to-Value (CLTV) for secondary financing loans provided by Governmental Entities or HOPE grantees.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

#### (c) Required Documentation

The mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction;
- copies of the loan instruments; and
- a letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each FHA-insured mortgage, signed by an authorized official and containing the following information:
  - the FHA case number for the first mortgage;
  - the complete property address;
  - the name, address and Tax ID for the nonprofit;
  - the name of the Borrower(s) to whom the nonprofit is providing secondary financing;
  - the amount and purpose for the secondary financing provided to the Borrower; and
  - a statement indicating whether the secondary financing:
    - will close in the name of the Governmental Entity; or
    - will be closed in the name of the nonprofit and held by the Governmental Entity.

Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved Nonprofit, a documented agreement must be provided that:

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- the functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
- the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the mortgagee.

#### (2) Secondary Financing Provided by HUD-Approved Nonprofits (Manual)

##### (a) Definition

HUD-approved Nonprofit refers to nonprofits on the [HUD Nonprofit Roster](#).

##### (b) Standard

FHA will insure a first mortgage on a property that has a second mortgage or lien held by a HUD-approved Nonprofit, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- there is no maximum CLTV for secondary financing loans provided by HUD-approved Nonprofits; and
- the second lien may not provide for a balloon payment within 10 years from the date of execution.

Secondary financing provided by Section 115 Entities must follow the guidance in [Secondary Financing Provided by Governmental Entities and HOPE Grantees](#).

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

##### (c) Required Documentation

The mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

The mortgagee must enter information into [FHAC](#) on the nonprofit and the Governmental Entity as applicable. If there is more than one nonprofit, enter information on all nonprofits.

**(3) Family Members (Manual)**

**(a) Standard**

FHA will insure a first mortgage on a property that has a second mortgage or lien held by a Family Member, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed 100 percent of the Adjusted Value;
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly;
- there is no prepayment penalty;
- 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 lend 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;
- if funds loaned by the Family Member are borrowed from an acceptable source, the Borrower may not be a co-Obligor on the Note;
- if the loan from the Family Member is secured by the subject property, only the Family Member provider may be the Note holder; and
- the secondary financing provided by the Family Member must not be transferred to another Entity at or subsequent to closing.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

**(b) Required Documentation**

The mortgagee must obtain from the provider of any secondary financing:

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- documentation showing the amount of funds provided to the Borrower for each transaction and source of funds; and
- copies of the loan instruments.

If the secondary financing funds are being borrowed by the Family Member and documentation from the bank or other savings account is not available, the mortgagee must have the Family Member provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the mortgagee.

#### (4) Private Individuals and Other Organizations (Manual)

##### (a) Definition

Private individuals and other organizations refer to any individuals or Entities providing secondary financing which are not covered elsewhere in the Secondary Financing section.

##### (b) Standard

FHA will insure a first mortgage on a property that has a second mortgage or lien held by private individuals and other organizations, provided that:

- the secondary financing is disclosed at the time of application;
- no costs associated with the secondary financing are financed into the FHA-insured first mortgage;
- the secondary financing payments must be included in the total Mortgage Payment;
- the secondary financing must not result in cash back to the Borrower except for refund of earnest money deposit or other Borrower costs paid outside of closing;
- the secondary financing may not be used to meet the Borrower's MRI;
- the CLTV ratio of the Base Loan Amount and secondary financing amount must not exceed the applicable FHA [LTV](#) limit;
- the Base Loan Amount and secondary financing amount must not exceed the [Nationwide Mortgage Limits](#).
- the second lien may not provide for a balloon payment within 10 years from the date of execution;
- any periodic payments are level and monthly; and
- there is no prepayment penalty, after giving the mortgagee 30 Days advance notice.

Any secondary financing meeting this standard is deemed to have prior approval in accordance with [24 CFR § 203.32](#).

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#### (c) Required Documentation

The mortgagee must obtain from the provider of any secondary financing:

- documentation showing the amount of funds provided to the Borrower for each transaction; and
- copies of the loan instruments.

#### (K) Loans (Manual)

A Loan refers to an arrangement in which a lender gives money or property to a Borrower and the Borrower agrees to return the property or repay the money.

#### (1) Collateralized Loans (Manual)

##### (a) Definition

A Collateralized Loan is a loan that is fully secured by a financial asset of the Borrower, such as deposit accounts, certificates of deposit, investment accounts, or real property. These assets may include stocks, bonds, and real estate other than the property being purchased.

##### (b) Standard

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The mortgagee must reduce the amount of the corresponding asset by the amount of the collateralized loan.

##### (c) Who May Provide Collateralized Loans

Only an independent third party may 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.

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

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**(d) Required Documentation**

The mortgagee must verify and document the existence of the Borrower's assets used to collateralize the loan, the promissory Note securing the asset, and the loan proceeds.

**(2) Retirement Account Loans (Manual)**

**(a) Definition**

A Retirement Account Loan is a loan that is secured by the Borrower's retirement assets.

**(b) Standard**

The mortgagee must reduce the amount of the retirement account asset by the amount of the outstanding balance of the retirement **account loan**.

**(c) Required Documentation**

The mortgagee must verify and document the existence and amounts in the Borrower's retirement accounts and the outstanding loan balance.

**(3) Disaster Relief Loans (Manual)**

**(a) Definition**

Disaster Relief Loans refer to loans from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster.

**(b) Standard**

Secured or unsecured disaster relief loans administered by the Small Business Administration (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, and meet the requirements for [Secondary Financing Provided by Governmental Entities and HOPE Grantees](#).

Any loan of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

Any monthly payment arising from this type of loan must be included in the qualifying ratios.

**(c) Required Documentation**

The mortgagee must verify and document the promissory Note.

**(L) Grants (Manual)**

**(1) Disaster Relief Grants (Manual)**

**(a) Definition**

Disaster Relief Grants refer to grants from a Governmental Entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the Borrower's MRI.

**(b) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

Any grant of the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

**(2) Federal Home Loan Bank Homeownership Set-Aside Grant Program (Manual)**

**(a) Definition**

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. Secondary financing that creates a lien against the property is not considered a gift or grant even if it does not require regular payments or has other features forgiving the debt.

**(b) Standard**

Any AHP Set-Aside funds used for the Borrower's MRI must also comply with the additional requirements set forth in [Source Requirements for the Borrower's MRI](#).

**(c) Required Documentation**

The mortgagee must verify and document the Borrower's receipt of the grant and terms of use.

The mortgagee must also verify and document that the Retention Agreement required by the FHLB is recorded against the property and results in a deed restriction, and not a second lien. The Retention Agreement must:

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the Borrower;

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- include language terminating the legal restrictions on conveyance if title to the property is transferred by foreclosure or DIL, or assigned to the Secretary of HUD; and
- comply with all other FHA regulations.

#### **(M) Employer Assistance (Manual)**

##### **(1) Definition**

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.

A salary advance cannot be considered as assets to close.

##### **(2) Standard**

###### **(a) Relocation Guaranteed Purchase**

The mortgagee may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.

###### **(b) Employer Assistance Plans**

The amount received under Employer Assistance Plans may be used as cash to close.

##### **(3) Required Documentation**

###### **(a) Relocation Guaranteed Purchase**

If the Borrower is being transferred by their company under a guaranteed sales plan, the mortgagee must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.

The mortgagee must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.

###### **(b) Employer Assistance Plans**

The mortgagee must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the mortgagee must verify and document that the Borrower has sufficient cash for closing.

**(N) Sale of Personal Property (Manual)**

**(1) Definition**

Personal Property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins or other collectibles.

**(2) Standard**

The mortgagee must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.

**(3) Required Documentation**

Borrowers may sell Personal Property to obtain cash for closing.

The mortgagee must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the mortgage transaction.

**(O) Trade-In of Manufactured Housing (Manual)**

**(1) Definition**

Trade-In of Manufactured Housing refers to the Borrower's sale or trade-in of another Manufactured House that is not considered real estate to a Manufactured Housing dealer or an independent third party.

**(2) Standard**

The net proceeds from the Trade-In of a Manufactured House may be utilized as the Borrower's source of funds.

Trade-ins cannot result in cash back to the Borrower from the dealer or independent third party.

**(3) Required Documentation**

The mortgagee must verify and document the installment sales contract or other agreement evidencing a transaction and value of the trade-in or sale. The mortgagee must obtain documentation to support the Trade Equity.

**(P) Sale of Real Property (Manual)**

**(1) Definition**

The Sale of Real Property refers to the sale of property currently owned by the Borrower.

**(2) Standard**

Net proceeds from the Sale of Real Property may be used as acceptable source of funds.

**(3) Required Documentation**

The mortgagee must verify and document the actual sale and the net sales proceeds by obtaining a fully executed Settlement Statement or similar legal document.

The mortgagee must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the net sales proceeds.

**(Q) Real Estate Commission from Sale of a Subject Property (Manual)**

**(1) Definition**

Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's) portion of a real estate commission earned from the sale of the property being purchased.

**(2) Standard**

Mortgagees may consider Real Estate Commissions from the Sale of the Subject Property as part of the Borrower's acceptable source of funds if the Borrower is a licensed real estate agent.

A Family Member entitled to the commission may also provide it as a gift, in compliance with standard gift requirements.

**(3) Required Documentation**

The mortgagee must verify and document that the Borrower, or Family Member giving the commission as a gift, is a licensed real estate agent, and is entitled to a real estate commission from the sale of the property being purchased.

**(R) Sweat Equity (Manual)**

**(1) Definition**

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the property being purchased.

**(2) Standard**

The mortgagee may consider the reasonable estimated cost of the work or materials as an acceptable source of funds.

Sweat Equity provided by anyone other than the Borrower can only be used as an MRI if it meets the [Source Requirements for the Borrower's MRI](#).

The mortgagee may consider any amount as Sweat Equity that has not already been included in the mortgage amount. The mortgagee may not consider clean up, debris removal, and other general maintenance, and work to be performed using repair escrow as Sweat Equity.

Cash back to the Borrower is not permitted in Sweat Equity transactions.

**(3) Required Documentation**

For materials furnished, the mortgagee must obtain evidence of the source of funds and the Market Value of the materials.

For labor, the mortgagee must verify and document that the work will be completed in a satisfactory manner. The mortgagee must also obtain evidence of Contributory Value of the labor either through an appraiser's estimate, or a cost-estimating service.

- For labor on Existing Construction, the mortgagee must also obtain an appraisal indicating the repairs or improvements to be performed. (Any work completed or materials provided before the appraisal are not eligible)
- For labor on Proposed Construction, the mortgagee must also obtain the sales contract indicating the tasks to be performed by the Borrower during construction.

**(S) Trade Equity (Manual)**

**(1) Definition**

Trade Equity refers to when a Borrower trades their real property to the seller as part of the cash investment.

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#### (2) Standard

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.

If the property being traded has an FHA-insured mortgage, assumption processing requirements and restrictions apply.

#### (3) Required Documentation

The mortgagee must obtain a residential appraisal report complying with [FHA appraisal policy](#) to determine the property's value. The mortgagee must also obtain the Settlement Statement or similar legal document to document the sale of the property.

### (T) Rent Credits (Manual)

#### (1) Definition

Rent Credits refer to the amount of the rental payment that exceeds the appraiser's estimate of fair market rent.

#### (2) Standard

The mortgagee may use the cumulative amount of rental payments that exceeds the appraiser's estimate of fair market rent towards the MRI.

#### (3) Required Documentation

The mortgagee must obtain the rent with option to purchase agreement, the appraiser's estimate of market rent, and evidence of receipt of payments.

### d. Final Underwriting Decision (Manual)

The Direct Endorsement (DE) underwriter is ultimately responsible for making an underwriting decision on behalf of their DE mortgagee in compliance with HUD requirements.

#### i. Duty of Care/Due Diligence (Manual)

The underwriter must exercise the same level of care that would be used in underwriting a mortgage entirely dependent on the property as security. Compliance with FHA requirements is deemed to be the minimum standard of due diligence required in originating and underwriting an FHA-insured mortgage.

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#### ii. Specific Underwriter Responsibilities (Manual)

The underwriter must review each mortgage as a separate and unique transaction, recognizing that there may be multiple factors that demonstrate a Borrower's ability and willingness to make timely Mortgage Payments to make an underwriting decision on behalf of their DE mortgagee in compliance with HUD requirements. The underwriter must evaluate the totality of the Borrower's circumstances and the impact of layering risks on the probability that a Borrower will be able to repay the mortgage obligation according to the terms of the mortgage.

As the responsible party, the underwriter must:

- review appraisal reports, compliance inspections, and credit analyses to ensure reasonable conclusions, sound reports, and compliance with HUD requirements regardless of who prepared the documentation;
- determine the acceptability of the appraisal, the inspections, the Borrower's capacity to repay the mortgage, and the overall acceptability of the mortgage for FHA insurance;
- identify any inconsistencies in information obtained by the mortgagee in the course of reviewing the Borrower's application regardless of the materiality of such information to the origination and underwriting of a mortgage; and
- resolve all inconsistencies identified before approving the Borrower's application, and document the inconsistencies and their resolutions of the inconsistencies in the file.

The underwriter must identify and report any misrepresentations, violations of HUD requirements, and fraud to the appropriate party within their organization.

#### iii. Underwriting of Credit and Debt (Manual)

The underwriter must determine the creditworthiness of the Borrower, which includes analyzing the Borrower's overall pattern of credit behavior and the credit report (see [Credit Requirements](#) above).

The lack of traditional credit history or the Borrower's decision to not use credit may not be used as the sole basis for rejecting the mortgage application.

Compensating factors cannot be used to compensate for any derogatory credit.

The underwriter must ensure that there are no other unpaid obligations incurred in connection with the mortgage transaction or the purchase of the property.

#### iv. Underwriting of Income (Manual)

The underwriter must review the income of a Borrower and verify that it has been supported with the proper documentation (see [Income Requirements](#) above).

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#### v. Underwriting of Assets (Manual)

The underwriter must review the assets of a Borrower and verify that they have been supported with the proper documentation (see [Asset Requirements](#) above).

#### vi. Verifying Mortgage Insurance Premium and Mortgage Amount (Manual)

The underwriter must review the MIP and Mortgage Amount and verify that they have been supported with the proper documentation (see [Underwriting](#) above).

#### vii. Calculating Qualifying Ratios (Manual)

##### (A) General Information about Qualifying Ratios

For all transactions, except non-credit qualifying Streamline Refinances, the underwriter must calculate the Borrower's Total Mortgage Payment to Effective Income ratio (PTI) and the Total Fixed Payment to Effective Income ratio, or DTI, and verify compliance with the ratio requirements listed in the [Approvable Ratio Requirements Chart](#).

The mortgagee must exclude any obligation that is wholly secured by existing assets of the Borrower from the calculation of the Borrower's debts, provided the assets securing the debt are also not considered in qualifying the Borrower.

##### (B) Calculating Total Mortgage Payment (PITI)

The total Mortgage Payment includes:

- principal and interest;
- real estate taxes;
- hazard insurance;
- flood insurance as applicable;
- MIP;
- HOA or condominium association fees or expenses;
- Ground Rent;
- special assessments;
- payments for any acceptable secondary financing; and
- any other escrow payments.

The mortgagee may deduct the amount of the Mortgage Credit Certificate or Section 8 Homeownership Voucher if it is paid directly to the servicer.

##### (1) Estimating Real Estate Taxes

The mortgagee must use accurate estimates of monthly tax escrows when calculating the total Mortgage Payment.

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In New Construction cases, property tax estimates must be based on the land and improvements.

#### (2) Condominium Utility Expenses

The portion of a condominium fee that is clearly attributable to utilities may be subtracted from the HOA fees before computing qualifying ratios, provided the Borrower provides proper documentation, such as statements from the utility company.

#### (3) Temporary Interest Rate Buydowns

The mortgagee must use the Note rate when calculating principle and interest for mortgages that involve a temporary interest rate buydown.

#### (C) Calculating Total Fixed Payment

The Total Fixed Payment includes:

- the total Mortgage Payment; and
- monthly obligations on all debts and liabilities.

#### viii. Approvable Ratio Requirements (Manual)

The maximum Total Mortgage Payment to Effective Income (PTI) and Total Fixed Payments to Effective Income (DTI) ratios applicable to manually underwritten mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the property and obligated on the mortgage. Non-occupant co-Borrower income may not be included.

<b>Lowest Minimum Decision Credit Score</b>	<b>Maximum Qualifying Ratios (%)</b>	<b>Acceptable Compensating Factors</b>
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.

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Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
580 and above	37/47	<b>One</b> of the following: <ul style="list-style-type: none"><li>• verified and documented cash Reserves;</li><li>• minimal increase in housing payment; or</li><li>• residual income.</li></ul>
580 and above	40/40	No discretionary debt.
580 and above	40/50	<b>Two</b> of the following: <ul style="list-style-type: none"><li>• verified and documented cash Reserves;</li><li>• minimal increase in housing payment;</li><li>• significant additional income not reflected in Effective Income; and/or</li><li>• residual income.</li></ul>

#### ix. Documenting Acceptable Compensating Factors (Manual)

The following describes the compensating factors and required documentation that may be used to justify approval of manually underwritten mortgages with qualifying ratios as described above.

##### (A) Energy Efficient Homes

All properties meeting the 2000 International Energy Conservation Code (IECC) are Energy Efficient Homes (EEH) and eligible for the two percentage point increase in the EEH qualifying ratios (stretch ratios).

##### (B) Verified and Documented Cash Reserves

Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

- Reserves are equal to or exceed three total monthly Mortgage Payments (one and two units); or
- Reserves are equal to or exceed six total monthly Mortgage Payments (three and four units).

Reserves are calculated as the Borrower's total assets as described in [Asset Requirements](#) less:

- the total funds required to close the mortgage;
- gifts;

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- borrowed funds; and
- cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

#### **(C) Minimal Increase in Housing Payment**

A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

- the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than \$100 or 5 percent, whichever is less; and
- there is a documented 12 month housing payment history with no more than one 30 Day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months.
- If the Borrower has no current housing payment mortgagees may not cite this compensating factor.

The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

#### **(D) No Discretionary Debt**

No discretionary debt may be cited as a compensating factor subject to the following requirements:

- the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;
- the credit report shows established credit lines in the Borrower's name open for at least six months; and
- the Borrower can document that these accounts have been paid off in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

#### **(E) Significant Additional Income Not Reflected in Effective Income**

Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

- the mortgagee must verify and document that the Borrower has received this income for at least one year, and it will likely continue; and

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- the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

#### **(F) Residual Income**

Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) [Lenders Handbook - VA Pamphlet 26-7](#), Chapter 4.9 b and e.

#### **(1) Calculating Residual Income**

Residual income is calculated as total Effective Income of all occupying Borrowers less:

- state income taxes;
- federal income taxes;
- municipal or other income taxes;
- retirement or Social Security;
- proposed total Mortgage Payment;
- estimated maintenance and utilities;
- job related expenses (e.g., child care); and
- the amount of the Gross Up of any Non-Taxable Income.

If available, mortgagees must use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, mortgagees may rely upon current pay stubs.

For estimated maintenance and utilities, mortgagees must multiply the Gross Living Area of the property by the maintenance and utility factor found in the [Lenders Handbook - VA Pamphlet 26-7](#).

#### **(2) Using Residual Income as a Compensating Factor**

To use residual income as a compensating factor, the mortgagee must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine “family size.”

### **Exception**

The mortgagee may omit any individuals from “family size” who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception.

From the table provided in [Lenders Handbook - VA Pamphlet 26-7](#), select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.

### **x. Borrower Approval or Denial (Manual)**

#### **(A) Re-Underwriting**

The mortgagee must re-underwrite a mortgage when any data element of the mortgage changes and/or new Borrower information becomes available.

#### **(B) Documentation of Final Underwriting Review Decision**

The underwriter must complete the following documents to evidence their final underwriting decision. For cases involving mortgages to HUD employees and Test Cases, the mortgagee completes the following and then submits the complete underwritten mortgage application to FHA for review and issuance of a Firm Commitment or Rejection Notice prior to closing.

##### **(1) Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary**

The underwriter must record the following items on form [HUD-92900-LT](#):

- their decision;
- any compensating factors;
- any modification of the mortgage amount and approval conditions under “Underwriter Comments”; and
- their DE Identification Number and signature.

##### **(2) Form HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value**

The underwriter must complete form [HUD-92800.5B](#) as directed in the form instructions.

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#### **(3) Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application**

The underwriter must complete form [HUD-92900-A](#) as directed in the form instructions.

The underwriter, an authorized officer of the mortgagee and Borrower must execute form [HUD-92900-A](#), as indicated in the instructions.

#### **(C) Conditional Approval**

The underwriter must condition the approval of the Borrower on the completion of the final *URLA* ([Fannie Mae Form 1003/Freddie Mac Form 65](#)) and form [HUD-92900-A](#) at or before closing if the underwriter relied on an initial *URLA* and form HUD-92900-A in underwriting the mortgage.

#### **(D) HUD Employee Mortgages**

If the mortgage involves a HUD employee, the mortgagee must condition the loan on the approval of the mortgage by HUD. The mortgagee must submit the case binder to the Processing and Underwriting Division Director at the [Jurisdictional HOC](#) for final underwriting approval.

#### **(E) Notification of Borrower of Approval and Term of the Approval**

The mortgagee must timely notify the Borrower of their approval. The underwriter's approval or the Firm Commitment is valid for the greater of 90 Days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- the underwriter's approval date of the property, as indicated on form [HUD-92800.5B](#).

#### **(F) Responsibilities upon Denial**

When a mortgage is denied, the mortgagee must comply with all requirements of the Fair Credit Reporting Act ([FCRA](#)), and the Equal Credit Opportunity Act ([ECOA](#)), as implemented by Regulation B ([12 CFR Part 1002](#)). The mortgagee must complete the Mortgage Credit Reject in [FHAC](#).

### **xi. Back to Work - Extenuating Circumstances (Manual)**

The Back to Work – Extenuating Circumstances Policy guidance allows Borrowers who have experienced an Economic Event resulting in loss of employment and household income to use an alternative manner for credit qualification for purchase money mortgages.

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**(A) Definitions**

For the purpose of the Back to Work – Extenuating Circumstances Policy only:

Economic Event refers to any occurrence beyond the Borrower’s control that results in loss of employment, loss of income, or a combination of both, which causes a reduction in the Borrower’s household income of 20 percent or more for a period of at least six months.

Onset of an Economic Event refers to the month of loss of employment/income.

Recovery from an Economic Event refers to the re-establishment of Satisfactory Credit.

Satisfactory Credit refers to when a Borrower’s credit history is clear of late housing payments, installment debt payments, and major derogatory credit issues on revolving accounts for a period of 12 months. Any open mortgages must be current with a 12 month satisfactory payment history. Mortgages may have been brought current through a Loan Modification, “temporary” or “permanent,” as long as all payments are documented as being received in accordance with the modification agreement.

Borrower Household Income refers to the gross income of the Borrower and all household members.

Household Member refers to the Borrower and any individual residing at the Borrower’s Principal Residence at the time of the Economic Event, and who was a co-Borrower on the Borrower’s previous mortgage.

**(B) General Eligibility**

Mortgagees must use the Back to Work – Extenuating Circumstances guidance when manually underwriting a purchase money mortgage application from a Borrower who has experienced an Economic Event resulting in a foreclosure, short sale/pre-foreclosure sale, bankruptcy, or other negative impact on credit.

The mortgagee must verify and document the existence of an Economic Event that reduced household income by 20 percent or more for a period of at least six months.

The mortgagee must obtain the necessary authorization to verify the loss of income of the household member that experienced the Economic Event, even if the household member is not an applicant on the current mortgage.

**(C) Underwriting and Documentation Requirements**

**(1) Consideration of Derogatory Credit**

**(a) Standard**

The mortgagee must determine that the Borrower exhibited satisfactory credit prior to the Economic Event Onset, the Borrower's derogatory credit occurred after the Economic Event Onset, and the Borrower has re-established satisfactory credit for a minimum of 12 months as of the date of case number assignment.

The mortgagee must analyze and document all delinquent accounts and all derogatory credit, including collections and Judgments, bankruptcies, foreclosures, deeds-in-lieu, and short sales/pre-foreclosure sales, to determine whether credit deficiencies were the result of an Economic Event.

**(b) Required Documentation**

The Borrower's [credit](#) must be documented with their credit report per standard FHA requirements.

The Borrower's [income](#) must be documented in accordance with the general FHA requirements for household members.

The mortgagee must verify and document event-related collections and Judgments that were the result of the Economic Event. For Borrowers with open collection accounts or Judgments, the mortgagee must also meet the requirements for [Evaluating Liabilities and Debt](#) and [Evaluating Credit History](#).

**(c) Economic Event-Related Chapter 7 Bankruptcy**

The mortgagee must verify and document that the bankruptcy was the result of an Economic Event and a minimum of 12 months have elapsed since the date of discharge of the bankruptcy.

**(d) Economic Event-Related Chapter 13 Bankruptcy**

The mortgagee must verify and document that the bankruptcy was the result of an Economic Event and all required bankruptcy payments were made on time, or a minimum of 12 months of the pay-out period under the bankruptcy has elapsed at the time of case number assignment and all required bankruptcy payments were made on time.

If the Chapter 13 Bankruptcy was not discharged prior to mortgage application, the mortgagee must also verify and document that the Borrower

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has received written permission from the Bankruptcy Court to enter into the subject mortgage transaction.

**(e) Economic Event-Related Mortgage Foreclosure**

The mortgagee must verify and document that the foreclosure or DIL was the result of the Economic Event and a minimum of 12 months have elapsed since the date of foreclosure or DIL.

**(f) Economic Event-Related Pre-foreclosure Sale (Short Sale)**

The mortgagee must verify and document that the short sale was the result of the Economic Event and a minimum of 12 months have elapsed since the date of sale.

**(g) Evaluating Non-Traditional Credit**

The mortgagee may deem a Borrower to have satisfactory credit if the Borrower's non-traditional credit history covering at least 12 months in duration has 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 and/or identity theft).

**(2) Loss of Employment**

The mortgagee must verify and document the loss of employment by obtaining a written Verification of Employment (VOE) evidencing the termination date. In cases where the prior employer is no longer in business, the mortgagee must obtain a written termination notice or other publicly available documentation of the business closure. They must also document receipt of unemployment income.

**(3) Loss of Income**

The mortgagee must verify and document the Borrower's household income prior to loss of income by obtaining a written VOE evidencing prior income, or tax transcripts, or W-2s.

For a loss of income based on Seasonal Employment, the mortgagee must verify and document a two-year history of Seasonal Employment in the same field immediately prior to the loss of income, in addition to meeting the documentation requirement above.

For a loss of income based on Part-Time Employment, the mortgagee must verify and document a two-year history of continuous Part-Time Employment immediately prior to the loss of income in addition to meeting the [documentation requirements](#) above.

**(4) Post Economic Event Income**

Only the income of Borrowers who were household members at the time of the Economic Event may be used as Effective Income for the purpose of establishing a 20 percent reduction in income.

**(D) Housing Counseling**

To qualify for purposes of establishing satisfactory credit following the Economic Event, the Borrower must receive homeownership counseling or a combination of homeownership education and counseling.

Housing counseling may be conducted in person, via telephone, via Internet, or other methods approved by HUD, and mutually agreed upon by the Borrower and housing counseling agency as provided for in the [Housing Counseling Program Handbook](#).

A list of HUD-approved housing counseling agencies can be obtained online at <http://www.hud.gov/> or by calling 1-(800)-569-4287.

All housing counseling and education must be completed a minimum of 30 Days but no more than six months prior to the Borrower submitting a mortgage application to a mortgagee.

**(1) One-on-One Counseling**

Each Borrower must receive one hour of one-on-one counseling from a HUD-approved counseling agency. The counseling must address the cause of the Economic Event and the actions taken to overcome the Economic Event to reduce the likelihood of reoccurrence.

**(2) Housing Education**

The housing education may be provided by HUD-approved housing counseling agencies, state housing finance agencies, approved intermediaries or their sub-grantees, or through an online course.

**(3) Required Documentation**

The mortgagee must obtain a copy of the Borrower's letter from the housing counseling agency evidencing completion of the required pre-purchase counseling. The letter must be on the housing counseling agency's letterhead, must display the agency's Tax Identification Number (TIN), must state that counseling was delivered in accordance with Back to Work requirements, verify the date counseling was completed, and signed by the Borrower and authorized official of the agency.

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The mortgagee must also obtain copies of all required housing counseling disclosures as follows:

- an explicit description of any financial relationships between the agency and the mortgagee;
- a statement that the Borrower is not obligated to pursue a mortgage with a mortgagee; and
- a statement that “Completion of this housing counseling program and receipt of a letter of completion of counseling do not qualify you (the Borrower) for an FHA-insured mortgage. A mortgagee will have to determine if you (the Borrower) qualify for a mortgage. You understand that you may not be approved for a mortgage.”

The mortgagee must place the documentation of the pre-purchase housing counseling and housing counseling agency disclosures in the FHA case binder immediately after the Borrower’s credit report.

#### **(E) Insurance Application Processing**

The mortgagee must indicate the application has been underwritten in accordance with Back to Work – Extenuating Circumstances in the insurance application screen on FHA Connection ([FHAC](#)).

The mortgagee must also complete the housing counseling information in the insurance application screen on FHAC.

#### **(F) Expiration of Guidance**

This guidance expires on September 30, 2016.

### **xii. Underwriting Nonprofit Borrowers (Manual)**

#### **(A) General Eligibility**

Nonprofit agencies must be HUD-approved as a borrower prior to case number assignment. The Jurisdictional HOC approves or denies the nonprofit agency’s participation in FHA activities. The approval is valid for a two year period.

#### **(B) Borrower Eligibility**

The mortgagee must review the Nonprofit List in [FHAC](#), and ensure the maximum case load limitation is not exceeded for nonprofit Borrowers.

The mortgagee must ensure that [Additional Eligibility Requirements for Nonprofit Organizations and State and Local Government Agencies](#) are met.

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The mortgagee must verify that the nonprofit organization remains eligible under Section 501(c)(3) as exempt from taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended.

#### **(1) Employer Identification Number (EIN)**

The mortgagee must obtain the Employer Identification Number (EIN) of the nonprofit Borrower and enter it into the SSN field in [FHAC](#).

#### **(2) Credit Alert and Limited Denial of Participation Screening**

The mortgagee must screen nonprofit Borrowers through the Credit Alert Verification Reporting System (CAIVRS) and the Limited Denial of Participation List using the nonprofit Borrower's EIN.

### **(C) Dwelling Unit Limitations**

#### **(1) Standard**

Nonprofit Borrowers may not have a financial interest, regardless of the ownership or financing type in more than seven Dwelling Units within a two block radius. In determining the number of Dwelling Units owned by the Borrower, the mortgagee must count each Dwelling Unit in a two-, three-, and four-family property.

#### **(2) Required Documentation**

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.

### **(D) Program and Product Limitations**

Nonprofit Borrowers are eligible only for fixed rate mortgages.

Nonprofit Borrowers are eligible only for FHA-to-FHA refinances.

### **(E) Maximum Loan-to-Value Limits**

Mortgages for nonprofit Borrowers are subject to the same LTV limitations as mortgages secured by a Principal Residence.

### **(F) Underwriting**

The mortgagee must underwrite nonprofit Borrowers in accordance with the guidance provided in this section. The Underwriting the Borrower Using the TOTAL Mortgage Scorecard and Manual Underwriting of the Borrower sections are not applicable to nonprofit Borrowers.

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The mortgagee must obtain documentation to determine the nonprofit Borrower's actual financial capacity and demonstrate that it has stability and proper cash management.

**(1) Standard**

**(a) Funding Stream Analysis**

The mortgagee must consider the reliability and duration of the funding stream, and whether the primary sources of funding are competitive, whether the nonprofit Borrower's funding stream is from a mix of private and public sources, or only from public funds, and if other sources of funding are available should one or more be curtailed.

The mortgagee must also consider whether those funding sources permit overhead and administrative allowances as well as the amount of the nonprofit Borrower's assets that will be encumbered by the downpayments on the mortgages.

**(b) Financial Capacity Analysis**

The mortgagee must analyze the year-to-date and previous two years' financial statements, balance sheets, statements of activity and statements of cash flow to determine the financial stability and capacity of the nonprofit Borrower, including all mortgage applications in process.

**(i) Unrestricted Cash Balance**

The mortgagee must determine if the nonprofit Borrower has an unrestricted cash balance exclusive of lines of credit and Rental Income from the financed properties that is stable or increasing and supports a six month reserve meeting the greater of:

- 10 percent of the total Mortgage Payments due each month on all mortgages; or
- total Mortgage Payments for the single largest mortgage.

**(ii) Liquidity Ratio**

The mortgagee must determine if the nonprofit Borrower has a liquidity ratio (current assets divided by current liabilities) of 2.00 or greater. Lines of credit are not to be considered in this ratio.

**(iii) Total Net Assets (Equity)**

The mortgagee must determine that the total net assets are:

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- stable or increasing; and
- equal to or greater than 25 percent of the proposed mortgage debt.

#### **(iv) Unrestricted Net Assets**

The mortgagee must determine that the unrestricted net assets are stable or increasing.

#### **(v) Total Assets and Liabilities**

The mortgagee must determine that:

- the total assets are stable or increasing; and
- the trend of liabilities is stable or increasing at the same rate as the total assets.

#### **(vi) Support and Revenue Accounts**

##### **Definition**

Support and Revenue Accounts refer to operating income and other non-debt income sources.

##### **Standard**

The mortgagee must determine that:

- the support and revenue accounts are stable or increasing; and
- the trend of operating expenses is stable or increasing at the same rate as the support and revenue accounts.

#### **(vii) Cash Flow**

The mortgagee must determine that the trend of cash flow from operating activities is positive.

#### **(viii) Working Capital**

##### **Definition**

Working Capital refers to the liquid assets less short-term liabilities.

##### **Standard**

The mortgagee must determine that the trend of working capital is stable or increasing.

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#### (2) Required Documentation

The mortgagee must obtain:

- the two most recent years':
  - audited financial statements (balance sheet, statement of activity, statement of cash flow); and
  - Form IRS 990, *Return of Organization Exempt from Income Tax*;
- most recent audited 90-day year-to-date financial statement;
- credit reports on the nonprofit agency; and
- corporate resolution delegating signatory authority.

#### (G) Final Underwriting Decision

The mortgagee must analyze the nonprofit Borrower's financial capacity for each mortgage being considered in accordance with the standards above.

If the nonprofit Borrower does not meet all of the standards above, the mortgagee must document acceptable compensating factors.

The mortgagee must describe how it arrived at the conclusion that the nonprofit Borrower was an acceptable mortgage risk and met FHA's eligibility criteria. The analysis must consider the effect of the proposed mortgage debt(s) on the nonprofit agency's financial condition.

### 6. Closing

#### a. Mortgagee Closing Requirements

The case binder must contain all documentation that has been relied upon in support of the mortgagee's decision to approve the mortgage.

##### i. Chain of Title

The mortgagee must obtain [evidence of prior ownership](#) when a property was sold within 12 months of the case number assignment date. The mortgagee must review the evidence of prior ownership to determine any undisclosed Identity-of-Interest transactions.

##### ii. Title

The mortgagee must ensure that all objections to title have been cleared and any discrepancies have been resolved to ensure that the FHA-insured mortgage is in [first lien position](#).

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#### (A) Good and Marketable Title

The mortgagee must determine if there are any exceptions to good and marketable title not covered by the General Waiver (see Section [General Eligibility](#) and [24 CFR § 203.389](#)).

The mortgagee must review any exceptions discovered during the title search and decide whether such title exceptions affect the property's value and/or marketability.

If the mortgagee determines that any exception affects the property's value and/or marketability, the mortgagee must request a waiver.

#### (B) Requests for Title Exceptions Not Covered by the General Waiver

The mortgagee must submit a request for a waiver when the Title Exception is not covered by the General Waiver, to the attention of the Processing and Underwriting Division Director at the Jurisdictional HOC prior to endorsement. The request must include the case number, the specific guideline and the reason the mortgagee is asking for the waiver. If the Jurisdictional HOC grants the requested waiver, the HOC will notify the mortgagee in writing. The mortgagee must place the notice of approval in the mortgage file.

If the waiver request is denied and good and marketable title is not obtained, the mortgage is not eligible for FHA insurance.

#### (C) Manufactured Housing

Good and marketable title showing the Manufactured House and land are classified as real estate at the time of closing is required.

If there were two existing titles at the time the housing unit was purchased, the mortgagee must ensure that all state or local requirements for proper purging of the title (chattel or equivalent debt instrument) have been met, and the subject property is classified as real estate prior to endorsement. The Manufactured House need not be taxed as real property.

#### iii. Legal Restrictions on Conveyance (Free Assumability)

The mortgagee must determine if there are any legal restrictions on conveyance in accordance with [24 CFR § 203.41](#).

#### iv. Closing in Compliance with Mortgage Approval

The mortgagee must instruct the settlement agent to close the mortgage in the same manner in which it was underwritten and approved.

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The mortgagee must ensure that the conditions listed on form [HUD-92900-A](#) and/or form [HUD-92800.5B](#) are satisfied.

#### v. Closing in the Mortgagee's Name

A mortgage may close in the name of the mortgagee or the sponsoring mortgagee, the principal or the authorized agent. Third-Party Originators (TPO) that are not FHA-approved mortgagees may not close in their own names or perform any functions in FHA Connection ([FHAC](#)).

#### vi. Required Forms

The mortgagee must use the forms and/or language prescribed by FHA in the legal documents used for closing the mortgage.

#### vii. Certifications

##### (A) Borrower Certification

The Borrower must sign the certification on form [HUD-92900-A](#) and the Addendum to Settlement Statement in accordance with the instructions provided on the form.

##### (B) Seller Certification

The seller must sign the certification on the Addendum to Settlement Statement.

##### (C) Settlement Agent Certification

The Settlement agent must sign the certification on the Addendum to Settlement Statement.

##### (D) Lender Certification

The mortgagee must sign the certifications on the form [HUD-92900-A](#) in accordance with the instructions provided on the form.

#### viii. Projected Escrow

The mortgagee must establish the escrow account in accordance with the regulatory requirements in [24 CFR § 203.550](#) and RESPA.

##### (A) Monthly Escrow Obligations

The mortgagee must collect a monthly amount from the Borrower that will enable it to pay all escrow obligations in accordance with [24 CFR § 203.23](#). The escrow account must be sufficient to meet the following obligations when they become due:

- hazard insurance premiums;
- real estate taxes;

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- Mortgage Insurance Premiums (MIP);
- special assessments;
- flood insurance premiums if applicable;
- Ground Rents if applicable; and
- any item that would create liens on the property positioned ahead of the FHA-insured mortgage, other than condominium or Homeowners' Association (HOA) fees.

#### **(B) Repair Completion Escrow Requirement**

The mortgagee may establish a repair escrow for incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing, provided the housing is habitable and safe for occupancy at the time of loan closing.

Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account.

The mortgagee must execute form [HUD-92300](#), *Mortgagee's Assurance of Completion*, to indicate that the repair escrow has been established.

The mortgagee must certify on form [HUD-92051](#), *Compliance Inspection Report*, that the incomplete construction, alterations and repairs have been satisfactorily completed.

#### **ix. Temporary Interest Rate Buydown Escrow Requirements**

The mortgagee must establish an escrow for temporary interest rate buydowns.

The escrow agreement must not:

- permit reversion of undistributed escrow funds to the provider if the property is sold or the mortgage is prepaid in full; nor
- allow unexpended escrow funds to be provided to the Borrower in cash, unless the Borrower funds were used to establish the escrow account.

Payments must be made by the escrow agent to the mortgagee 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.

#### **x. Closing Costs and Fees**

The mortgagee must ensure that all fees charged to the Borrower comply with all applicable federal, state and local laws and disclosure requirements.

The mortgagee is not permitted to use closing costs to help the Borrower meet the Minimum Required Investment (MRI).

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#### **(A) Collecting Customary and Reasonable Fees**

The mortgagee may charge the Borrower reasonable and customary fees that do not exceed the actual cost of the service provided.

The mortgagee must ensure that the aggregate charges do not violate FHA's Tiered Pricing rules.

#### **(B) Other Fees and Charges**

The mortgagee or TPO may charge the Borrower discount points, and lock-in and rate lock fees consistent with FHA and CFPB requirements.

##### **(1) Origination Fees**

The mortgagee may charge an origination fee in accordance with RESPA.

##### **(2) Discount Points**

The mortgagee may charge the Borrower discount points.

##### **(3) Lock-in and Rate Lock Fees**

The mortgagee may charge the Borrower lock-in and rate lock fees only if the mortgagee provides a lock-in or commitment agreement guaranteeing the interest rate and/or discount points for a period of not less than 15 Days prior to the anticipated closing.

#### **(C) Qualified Mortgage**

The mortgagee must ensure the points and fees charged are in compliance with FHA's [Qualified Mortgage Rule](#).

#### **(D) Tiered Pricing**

The mortgagee must ensure that the aggregate fees and charges do not violate the following Tiered Pricing rule.

##### **(1) Definitions for Tiered Pricing**

Area refers to a metropolitan statistical area as established by the Office of Management and Budget.

Mortgage Charge refers to the interest rate, discount points, origination fee, and any other amount charged to the Borrower for an insured mortgage.

Mortgage Charge Rate refers to the total amount of Mortgage Charges for a mortgage expressed as a percentage of the initial principal of the mortgage.

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Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage points from the mortgagee's reasonable and customary rate for insured mortgages for dwellings located within the area.

#### (2) Required Documentation

The mortgagee must document that any variation in the Mortgage Charge Rate is based on actual variations in fees or costs to the mortgagee to make the mortgage.

#### (3) Standard

The mortgagee may not make a mortgage with a Mortgage Charge Rate that varies more than two percentage points from the mortgagee's reasonable and customary rate for insured mortgages for dwellings located within the area.

To determine whether a mortgage exceeds the two percentage point variation limit, the mortgagee must compare Mortgage Charge Rates for mortgages of the same type, from the same area, and made on the same day or during some other reasonably limited period.

See Section 203(u) of the National Housing Act (12 U.S.C. §1709(u)), [24 CFR § 200.12](#).

#### xi. Disbursement Date

Disbursement Date refers to the date proceeds of the mortgage are made available to the Borrower.

The Disbursement Date must occur before the expiration of the FHA-issued Firm Commitment or DE approval and credit documents.

#### xii. Signatures

The mortgagees must ensure that the mortgage, Note, and all closing documents are signed by all required parties in accordance with the [Borrower Eligibility](#).

The mortgagee must ensure that the signatures block on the mortgage follows the Fannie Mae/Freddie Mac format, with the following exceptions: witness signatures are only required if witnesses are required by state law, and the Borrower's Social Security Number (SSN) may be omitted.

#### (A) Use of Power of Attorney at Closing

A Borrower may designate an attorney-in-fact to use a Power of Attorney (POA) to sign documents on their behalf at closing, including page 4 of the final [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application* and the final [Fannie](#)

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[Mae Form 1003/Freddie Mac Form 65](#), *Uniform Residential Loan Application (URLA)*.

Unless required by applicable state law, or as stated in the Exception below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:

- mortgagee, or any employee or Affiliate;
- loan originator, or employer or employee;
- title insurance company providing the title insurance policy, the title agent closing the mortgage, or any of their affiliates; or
- any real estate agent or any person affiliated with such real estate agent.

#### **Exception**

Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA expressly authorizes the attorney-in-fact to execute the required documents on behalf of a Borrower, only if the Borrower, to the satisfaction of the attorney-in-fact in a recorded interactive session conducted via the Internet has:

- confirmed their identity; and
- reaffirmed, after an opportunity to review the required mortgage documents, their agreement to the terms and conditions of the required mortgage documents evidencing such transaction and to the execution of such required mortgage by such attorney-in-fact.

The mortgagee must obtain copies of the signed initial *URLA* and initial form HUD [92900-A](#) signed by the Borrower or POA in accordance with [Signature Requirements for all Application Forms](#).

#### **(B) Electronic signatures**

See [Policy on Use of Electronic Signatures](#).

#### **b. Mortgage and Note**

The mortgagee must develop or obtain a separate mortgage and Note that conforms generally to the Freddie Mac and Fannie Mae forms in both form and content, but that includes the specific modification required by FHA set forth in the applicable [Model Note and Mortgage](#).

The mortgagee must ensure that the mortgage and Note comply with all applicable state and local requirements for creating a recordable and enforceable mortgage, and an enforceable Note.

Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one- to four-family residential property, such as a deed of trust or security deed.

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Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a mortgage.

#### c. Disbursement of Loan Proceeds

##### i. Standard for Disbursement of Loan Proceeds

The mortgagee must verify that loan proceeds are disbursed in the proper amount to the Borrower and the seller, or in the case of a refinance transaction, to the debt holder. At loan closing, the mortgage proceeds disbursed by the mortgagee and the cash from the Borrower must equal the total cost of acquisition or refinance.

##### ii. Required Documentation for Disbursement of Loan Proceeds

The mortgagee must obtain the final Settlement Statement or similar legal document from the settlement agent.

### 7. Post-Closing and Endorsement

#### a. Pre-Endorsement Review

The mortgagee must complete a pre-endorsement review of the mortgage file to ensure all applicable documents as described in the Uniform Case Binder Stacking Order are included in the endorsement submission. The mortgagee must exercise due diligence in performing its pre-endorsement responsibilities. This review must be conducted by staff not involved in the originating, processing, or underwriting of the mortgage.

#### b. Mortgagee Pre-Endorsement Review Requirements

When conducting the pre-endorsement review, the mortgagee must review and verify the following items, as applicable. All documents must be legible.

##### i. [Late Submission Letter](#)

##### ii. Form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary

Confirm that the form is completed. The form must be signed and dated by the underwriter, as applicable.

##### iii. Note (Including Any Secondary Mortgage)

Confirm that the Note is the Authoritative Copy, the Borrower name on the Note matches form [HUD-92900-LT](#), and the required language from the [Model Note](#) is present. The mortgagee must also confirm that:

- the Note has been executed;
- the mortgage amount is not higher than approved by the underwriter on form [HUD-92900-LT](#) or form [HUD-92900-A](#);

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- the term of the mortgage is the same as on the *Uniform Residential Loan Application (URLA, [Fannie Mae Form 1003/Freddie Mac Form 65](#))*, and reflects the correct FHA case number and Automated Data Processing (ADP) Code; and
- all applicable allonges, agreements, and riders are properly executed.

For Test Cases and HUD employee mortgages, the mortgagee must ensure that the Borrower's name on the Note matches form [HUD-92900.4](#), *Firm Commitment*.

#### iv. Security Instrument

Confirm that the security instrument:

- is the Authoritative Copy;
- has been executed (along with all riders indicated on the last page of the security instrument);
- includes the principal balance that is not higher than, and maturity date that is not different than, that approved by the underwriter;
- contains the required uniform covenants including Paragraph 9 - *Grounds for Acceleration of Debt*, and Paragraph 18 - *Foreclosure Procedure*; and
- lists the same property address as the URAR ([Fannie Mae Form 1003/Freddie Mac Form 65](#)).

#### v. Settlement Statement and Settlement Statement Addendum

Confirm that the Settlement Statement or similar legal document and the Settlement Statement Addendum, if applicable, are complete and signed by the Borrower, seller (except in case of HUD Real Estate Owned (REO) Sales), and settlement agent.

#### vi. Final Uniform Residential Loan Application

Confirm the *URLA* ([Fannie Mae Form 1003/Freddie Mac Form 65](#)) is signed and dated by the mortgagee and all Borrowers. If the final *URLA* is not signed by the mortgagee, the initial application signed by the mortgagee is acceptable.

#### vii. Form HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application

Confirm that form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, is completed as instructed on the form.

#### viii. Credit Report(s)

Confirm that the mortgage file contains a credit report for each Borrower; if the property or the Borrower is located in a community property state confirm that the mortgage file contains a credit report for a non-borrowing spouse. If there are multiple credit reports, all credit reports must be submitted in the case binder.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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#### ix. CAIVRS Report

Confirm that the mortgage file contains a clear Credit Alert Verification Reporting System (CAIVRS) report or documentation from the creditor agency to support the verification and resolution of the debt.

#### x. Asset Verification

Confirm that the mortgage file contains the Verification of Deposit (VOD) and/or bank statements.

#### xi. Gift Letter

Confirm that the mortgage file contains a gift letter if a gift is shown on form [HUD-92900-LT](#).

#### xii. Secondary Financing Documentation

The mortgagee must confirm that the mortgage file contains a copy of the subordinate loan agreement (Note), if applicable.

#### xiii. Income Verification

Confirm that the mortgage file contains verification of the Borrower's income.

#### xiv. Evidence of the Social Security Number

Confirm that the mortgage file contains evidence of the Borrower's Social Security Number (SSN).

#### xv. Form HUD-92300, Mortgage's Assurance of Completion

Confirm that form [HUD-92300](#), *Mortgage's Assurance of Completion*, is completed and signed, if applicable.

#### xvi. Form HUD-92051, Compliance Inspection Report or Fannie Mae Form 1004D, Appraisal Update and/or Completion Report

Confirm that form [HUD-92051](#), *Compliance Inspection Report*, or [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report, Part B*, is countersigned by the underwriter, and completed, signed and dated by an approved inspector. Local government inspection with the Underwriter Certification may be accepted.

#### xvii. Form NPMA-33, Wood Destroying Insect Inspection Report

Confirm that the file contains form [NPMA-33](#), *Wood Destroying Insect Inspection Report*, or the state mandated infestation report, as applicable.

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**7. Post-Closing and Endorsement**

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**xviii. Local Health Authority's Approval for Individual Water and Sewer Systems**

Confirm that the file contains the Local Health Authority's approval for individual water and sewer systems, if applicable.

**xix. New Construction Exhibits**

For New Construction, confirm that the documentation requirements found in the [New Construction Product Sheet](#) are in the mortgage file.

**xx. Form HUD-92800.5b, Conditional Commitment and Direct Endorsement Statement of Appraised Value**

**xxi. Appraisal Report**

Confirm that the original [Fannie Mae Form 1004/Freddie Mac Form 70](#), *Uniform Residential Appraisal Report* (URAR), or other appropriate appraisal form, is complete and contains the appraiser's signature and date.

**xxii. Specialized Eligibility Documents**

Confirm that the mortgage file contains all required program-specific documents.

**xxiii. Purchase Contract and Addenda**

Confirm that the Sales/Purchase Contract, addenda, and the Amendatory Clause are signed by all Borrowers and sellers. The Amendatory Clause is not required on REO Sales, or 203(k) mortgages.

Confirm that Real Estate Certification is signed by Borrowers, sellers, and selling real estate agent or broker if their signature is not contained within the purchase agreement.

**c. Inspection and Repair Escrow Requirements for Mortgages Pending Closing or Endorsement in Presidentially-Declared Major Disaster Areas**

All properties with pending mortgages or endorsements in Presidentially-Declared Major Disaster Areas (PDMDA) must have a damage inspection report that identifies and quantifies any dwelling damage. The damage inspection report must be completed by an FHA Roster appraiser even if the inspection shows no damage to the property, and the report must be dated after the Incident Period (as defined by [FEMA](#)). FHA does not require a specific form for a damage inspection report.

Streamline Refinances are allowed to proceed to closing and/or endorsement without any additional requirements.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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FHA does not require the appraiser to ensure utilities are on at the time of this inspection if they have not yet been restored for the area.

Damage inspections should be completed by the original appraiser. However, if the original appraiser is not available, another FHA Roster appraiser in good standing with geographic competence in the affected market may be used. If the mortgagee uses a different appraiser to inspect the property, the appraiser performing the damage inspection must be provided with a complete copy of the original appraisal.

All damages must be repaired by licensed contractors or per local jurisdictional requirements. All damages, regardless of amount, must be repaired and the property restored to pre-loss condition with appropriate and applicable documentation.

#### i. Mortgages Pending Closing

The following table shows inspection and repair escrow requirements that apply to mortgages on properties that have not yet been closed:

<b>Pending Mortgage Closure</b>	
<b>If...</b>	<b>Then...</b>
The mortgage is not closed,	Inspect the property to determine damage exists. Provide on-site inspection with interior/exterior photographs.
No damage exists,	Close mortgage and document inspection.
Damage exists but is below \$5,000 and property is habitable,	Complete repairs and close mortgage or establish repair escrow and close mortgage.
Damage exists and is above \$5,000 or the property is not habitable,	Do not close mortgage. Repairs must be complete prior to closing.
<b>When...</b>	<b>Then...</b>
Repairs above \$5,000 are completed and inspected with interior/exterior photographs,	Document inspection and close mortgage.

#### ii. Mortgages Pending Endorsement

The following table shows inspection and escrow requirements that apply to mortgages on properties that have closed but are not yet endorsed:

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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<b>Pending Mortgage Endorsement</b>	
<b>If...</b>	<b>Then...</b>
The mortgage is closed but not yet endorsed,	Inspect the property to determine if damage exists. Provide drive-by inspection with exterior photographs.
No damage exists,	Endorse mortgage and document inspection.
Damage exists but is below \$5,000 and property is habitable,	Complete repairs and endorse mortgage or establish repair escrow and endorse mortgage.
Damage exists and is above \$5,000 or the property is not habitable,	Do not endorse mortgage.
<b>When...</b>	<b>Then...</b>
Repairs above \$5,000 are completed and inspected with interior/exterior photographs,	Document inspection and endorse mortgage.

#### iii. Pre-Closing Appraisal Validity in Disaster Areas

For mortgages that are not closed prior to the Incident Period, as defined by [FEMA](#), in PDMDAs where a damage inspection report reveals property damage, the appraisal validity period is extended from 120 Days to a maximum of one year from the effective date of the original appraisal.

In no instance will an appraisal be acceptable for a mortgage closing that has an effective date beyond one year. Mortgages with appraisals having effective dates in excess of one year require a new appraisal.

#### d. Procedures for Endorsement

To initiate the insurance endorsement process, the mortgagee must complete the Insurance Application function in [FHAC](#) and compile the uniform case binder, with all of the necessary documents.

Instructions for specific requirements for data format and delivery to FHAC are found in the [FHA Connection Guide](#).

The mortgage must be current to be eligible for endorsement.

Either the sponsoring mortgagee, principal or authorized agent must:

- complete the Mortgage Insurance Premium (MIP) Transmittal Form;
- pay the Upfront MIP (UFMIP) to FHA in a lump sum within 10 calendar Days after the date of mortgage settlement or the Date of Disbursement, whichever is later;
- send the MIP to the FHA, and receive the Statement of Account;

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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- submit evidence of assignment of the case for endorsement in the name of the originating mortgagee; and
- transfer the case number to another mortgagee prior to closing, complete the Lender Transfer screen in [FHAC](#), and complete the assignment of the mortgage after endorsement to a new holding or servicing mortgagee via FHAC.

#### i. Late UFMIP Payments

##### (A) 10-30 Days Late

A one-time late charge of 4 percent is assessed on an UFMIP payment received more than 10 calendar Days after the mortgage closing or Disbursement Date, whichever is later. The mortgagee must pay the late fee before FHA will endorse the mortgage for insurance.

##### (B) More than 30 Days Late

If the UFMIP is paid more than 30 calendar Days after mortgage closing or Disbursement Date, whichever is later, the mortgagee will be assessed the late fee plus interest. The interest rate is the U.S. Department of the Treasury's Current Value of Funds Rate in effect when the UFMIP payment is received. The mortgagee must pay both charges before FHA will endorse the mortgage for insurance.

#### ii. Assembly of Case Binder

The mortgagee must prepare and submit a uniform case binder to the Jurisdictional HOC.

##### (A) Uniform Case Binder Requirements

The mortgagee must ensure that all case binders are complete, meet FHA specifications, and contain all required documents arranged in the correct stacking order.

##### (B) Uniform Case Binder Format

The uniform case binder must be yellow for mortgagees with Lender Insurance authority, manila for mortgagees without Lender Insurance authority and green for Test Cases.

The mortgagee must complete the front of the binder, and write the case number on the side and bottom tabs of the binder.

##### (C) Uniform Case Binder Stacking Order

The mortgagee must ensure that all required documents, as applicable, are arranged in the stacking order chart below:

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

<b>Left Side</b>	
<b>Appraisal and Related Documents</b>	
Conditional Commitment Direct Endorsement Statement of Appraised Value	HUD-92800.B
Compliance Inspection Report	HUD-92051
Mortgagee Assurance of Completion	HUD-92300
Appraisal Update and/or Completion Report	Fannie Mae form 1004D
Appraisal Report, including all attachments and endorsements ( <i>Uniform Residential Appraisal Report, Individual Condominium Unit Appraisal Report, Manufactured Homes Appraisal Report, or Small Residential Income Property Appraisal Report</i> )	Fannie Mae Form 1004 Fannie Mae Form 1073 Fannie Mae Form 1004C Fannie Mae Form 1025
Life of Loan Flood Certification	
Evidence of Flood Insurance (required if property is in flood zone A or V.)	
Evidence of hazard insurance	
Wood Destroying Insect Infestation Report or state mandated report	NPMA-33
Waivers – Property specific issued by HOC	
Borrower’s Contract with Respect to Hotel and Transient Use of Property	HUD-92561
<b>New Construction Exhibits (for all properties built or proposed in the last 12 months)</b>	
Builder’s Certification	HUD-92541
Warranty of Completion of Construction	HUD-92544
Certificate of Occupancy and Building Permit	
10 Year Warranty Plan Coverage and Final Inspection	
Early Start Letter & 3 FHA Inspections	
Local Health Authority Approval for Individual Water and Sewer Systems	
Subterranean Termite Protection Builder’s Guarantee	NPMA-99A
New Construction Subterranean Termite Service Record	NPMA-99B
LOMR, LOMA, Elevation Certificate	
<b>Manufactured Housing</b>	
Engineer’s Certification for Manufactured Housing Foundation	
LOMR, LOMA, Elevation Certificate (if not included with New Construction Docs)	
<b>Condominiums</b>	
Certification for Individual Unit Financing	
<b>Specialized Eligibility Documents</b>	
Hawaiian Home Land	
Presidentially-Declared Disaster Area	
Energy Efficient Documents & Home Energy Rating System (HERS) Report	

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

<b>203(k) Documents</b>	
Maximum Mortgage Worksheet	HUD-92700
Borrower's Acknowledgement	HUD-92700-A
Borrower Identity of Interest Certification	
Rehabilitation Self-help Agreement	
Homeowner/Contractor Agreement	
Contractor & Borrower Cost Estimates	
Rehabilitation Loan Agreement	
Rehabilitation Loan Rider	
Consultant Work Write-up	
Consultant Identity of Interest Certification	
Draw Request	HUD-9746-A
<b>Purchase Transactions</b>	
Purchase Contract	
Amendatory Clause	
Real Estate Certification	
Other contract addendums or short sale approval	
Chain of Title and Evidence of Good and Marketable Title	
<b>Right Side</b>	
<b>Underwriting Documentation</b>	
Late Endorsement Letter	
FHA Connection Screen Prints	
FHA Loan Underwriting and Transmittal Summary	HUD-92900-LT
Underwriter Memos, Clarifications, or Attachments	
Automated Underwriting System (AUS) Feedback Certificate	
Mortgage Note for new first lien	
Security Instrument for new first lien	
Mortgage Riders & Allonges	
Secondary Lien Exhibits	
Settlement Statement or similar legal document with Addendum	
FHA/RESPA/TILA Required Disclosures	
Buydown Agreement	
Power of Attorney	
Uniform Residential Loan Application (URLA) – Initial and Final	Fannie Mae Form 1003
HUD/VA Addendum to Uniform Residential Loan Application – Initial and Final	HUD-92900-A
Borrower Authorization for Verification	
Borrower Authorization for Use of Information Protected under Privacy Act	
<b>Refinance Documentation</b>	

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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Payoff Statement(s) for all liens to be satisfied with loan proceeds	
Borrower Certification for Refinance of Borrowers in Negative Equity Position	HUD-92918
<b>Borrower Identification Documentation</b>	
Evidence of Social Security Number (SSN) or Tax Identification Number (TIN)	
Legal residency status documents for non-U.S. citizens – EAD	
<b>Credit and Capacity Documentation</b>	
Credit report(s)	
Verification of mortgage or rent	
Credit related documentation and explanations	
Housing Counseling Certificate(s)	
<b>Source of Funds Verification</b>	
Verification of non-gift source of funds	
Verification of gift source of funds	
<b>Income and Employment Documentation</b>	
All required documentation grouped by Borrower	

### iii. Case Binder Submission – Direct Endorsement Non-Lender Insurance

The case binder must be received by the Jurisdictional HOC no later than 60 Days after the Disbursement Date.

#### (A) Late Submission

If the case binder is submitted more than 60 Days after the Disbursement Date, the mortgagee must submit a late endorsement request, certifying that:

- no Mortgage Payment is currently unpaid;
- all escrow accounts for taxes, hazard insurance and MIPs are current and intact, except for Disbursements that may have been made to cover payments for which the accounts were specifically established; and
- neither the mortgagee nor its agents provided the funds to bring and/or keep the mortgage current or to bring about the appearance of an acceptable payment history.

Each late endorsement request must:

- list the FHA case number;
- list the Borrower's name;
- be dated and signed by the mortgagee's representative; and
- be printed on company letterhead with the mortgagee's address and telephone number.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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#### **(B) Assignee Mortgagee**

The assignee mortgagee of a mortgage may submit the mortgage for endorsement in its name or the name of the originating mortgagee. The assignee must also notify the Jurisdictional HOC of the assignment, and verify that the originating mortgagee completed all certifications.

The Purchasing Mortgagee may pay any required MIP, late charges, and interest.

#### **(C) After Receipt of a Notice of Return**

If the Jurisdictional HOC issues a Notice of Return (NOR), the mortgagee may request reconsideration for insurance endorsement. All requests for reconsideration must be received by the Jurisdictional HOC within the 60-Day endorsement submission period or within 30 Days of the issuance of the NOR, whichever is longer. If the request for reconsideration is submitted after this time period, the mortgagee must follow the guidelines for late submission.

Mortgagees submitting paper case binders must submit the original case binder with any request for reconsideration.

#### **iv. Ineligible for Endorsement – Non-Lender Insurance**

##### **(A) Notice of Return (NOR)**

If the mortgage is ineligible for insurance endorsement, FHAC issues an electronic NOR, which states the reasons for non-endorsement and any corrective actions that the mortgagee must take.

If the mortgage is permanently rejected for insurance endorsement, the mortgagee must notify the Borrower that they do not have an FHA-insured mortgage and of the circumstances that made the mortgage ineligible for FHA insurance.

##### **(B) Additional Requirements for Permanently Rejected Mortgages**

The mortgagee must obtain a refund of both the UFMIP and any periodic MIP paid by or on behalf of the Borrower, and apply the refund to the principal balance of the mortgage.

##### **(C) Excessive Mortgage Amounts**

An excessive mortgage amount occurs when the mortgagee closes a mortgage in an amount higher than what is permitted by FHA requirements. The mortgage is not eligible for insurance until the amount is reduced to within permissible limits. The mortgagee may choose to either pay down the principal balance, or re-close the mortgage to an insurable amount.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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The mortgagee must provide a copy of the payment ledger showing that the principal balance has been paid down to an insurable amount.

#### v. Endorsement Processing – Lender Insurance

Once the mortgagee has completed the entry of all required data, completed the pre-endorsement review, and satisfied itself that the mortgage meets HUD requirements, it will click “yes” in the Insurance Decision field, enter the FHA Connection ID of the individual insuring the mortgage, enter the insurance date on the Insurance Application screen and click “send.”

The mortgagee must endorse the mortgage no later than 60 Days after the Disbursement Date.

#### Late Submission

If the mortgage is endorsed more than 60 Days after the Disbursement Date, the mortgagee must complete a late endorsement certification stating:

- no Mortgage Payment is currently unpaid;
- all escrow accounts for taxes, hazard insurance and MIPs are current and intact, except for Disbursements that may have been made to cover payments for which the accounts were specifically established; and
- neither the mortgagee nor its agents provided the funds to bring and/or keep the mortgage current or to bring about the appearance of an acceptable payment history.

Each late endorsement certification must:

- list the FHA case number;
- list the Borrower’s name;
- be dated and signed by the mortgagee’s representative; and
- be printed on company letterhead with the mortgagee’s address and telephone number.

The mortgagee must retain the certification in the case binder.

#### vi. Case Warnings – Lender Insurance

Case warnings are issued by FHAC based on system edits. They identify issues that must be addressed before the mortgage can be insured. There are two kinds of case warnings: non-severe and severe.

##### (A) Severe Case Warnings

Severe case warnings are case warnings that make the mortgage ineligible for Lender Insurance (LI), which include:

- a Borrower failed or is pending SSN validation;

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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- a Borrower has a record in CAIVRS;
- the pre-endorsement delinquency status is delinquent; or
- a deficiency exists causing risks to HUD. The requesting HOC will add text to the case warning message screen identifying the reasons requiring submission of the case binder to the HOC for a pre-endorsement review.

Once the severe case warning is corrected, documentation in support of clearing the case warning and the case binder must be submitted to the Jurisdictional HOC for pre-endorsement review and endorsement processing.

#### **(B) Non-severe Case Warnings**

Non-severe case warnings are warnings to provide guidance to the mortgagee that conditions have been detected and must be researched before the mortgage can be endorsed. If, after researching the matter, the mortgagee determines that HUD requirements have not been violated, the mortgagee may re-submit the mortgage for insurance.

By re-submitting the information, the mortgagee is representing that the warning has been reviewed and the mortgage is eligible for insurance endorsement. FHAC will then allow the mortgage to be insured by the mortgagee.

#### **vii. Mortgagee with Conditional Direct Endorsement Approval (Test Case)**

A mortgagee who has not yet received unconditional Direct Endorsement (DE) approval must ensure that the required certifications are executed, assemble the closing package, and return the package to the Jurisdictional HOC that underwrote the mortgage.

For Test Cases, the mortgagee must:

- submit a complete closing package in the order specified in the Closing Documents Requirements Checklist that is provided to the mortgagee during the Entrance Conference;
- include credit and property approval conditions (placed at the bottom of the closing package); and
- place a cover sheet identifying the mortgage as a pre-closing Test Case, along with the FHA case number, as the top sheet inside the package and write “TEST CASE” in large letters on the front of a plain manila folder.

The mortgagee is not required to resubmit documents previously submitted for approval.

#### **e. Endorsement and Post-Endorsement**

##### **i. Endorsement**

Upon successful completion of a pre-endorsement review either by FHA or the LI mortgagee, an electronic Mortgage Insurance Certificate (MIC) will be issued.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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The mortgage becomes insured on the date the MIC is issued.

#### ii. Post-Endorsement

##### (A) Confirming Status of the Mortgage Insurance Certificate

The mortgagee can confirm the endorsement status of a mortgage using [FHAC](#) or FHA Connection Business to Government (FHAC-B2G) application.

##### (B) Obtaining the Mortgage Insurance Certificate

When requesting the MIC, the mortgagee must specify whether it is to be prepared in the name of the originator (principal), or authorized agent, as it appears in HUD Systems.

The MIC will be issued electronically. The mortgagee can download and print copies of the MIC as needed.

##### (C) Corrections to the Mortgage Insurance Certificate

To obtain a correction to the MIC, the mortgagee must submit the [MIC Correction Request](#) form to the FHA Resource Center. This form may be used to correct the property address, Borrower name, ADP Code, maturity and first payments dates, Principal and Interest (P&I), interest rate, SSN, FHA case number, mortgage amount or other information contained in the MIC, or to add a co-Borrower.

##### (D) Corrections to Original Instruments

The mortgagee must follow applicable local law when making corrections to the original instruments.

If new instruments are executed as required by local law, the mortgagee must submit the new instruments prior to insurance endorsement.

##### (E) Partial Release of Security

FHA approval for partial release of security is required except in limited circumstances. See [FHA Servicing Policy](#) for more information.

#### iii. Case Binder Submission – Lender Insurance Mortgagees

LI mortgagees must submit the case binder to the Jurisdictional HOC (or other HUD office as identified in the notice) when requested by FHA.

FHA will request the case binder through a daily email notification to the mortgagee's contact person.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 7. Post-Closing and Endorsement

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If requested, the LI mortgagee must submit the case binder within 10 business days of request.

If approved to submit electronic Case Binders (eCBs) to FHA, the LI mortgagee must submit the eCB through [FHAC](#) through the Insuring, Underwriting Report Screen and Lender Letter screens.

#### iv. Mortgage File Retention

The mortgagee must maintain their mortgage file, including the case binder, in either hard copy or electronic format for a period of two years from the date of endorsement.

Mortgagees retaining eCBs are not required to maintain a separate version of the eCB indexed for electronic submission to HUD.

If HUD requests a case binder that is maintained electronically, the mortgagee must follow the requirements in the [eCB Developer's Guide](#).

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

**8. Programs and Products - 203(k) Rehabilitation Mortgage Insurance Program**

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**8. Programs and Products**

**a. 203(k) Rehabilitation Mortgage Insurance Program**

**PENDING – UNDER CONSTRUCTION**

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Disasters and 203(h) Mortgage Insurance for Disaster Victims

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#### b. Disasters and 203(h) Mortgage Insurance for Disaster Victims

##### i. Definition

Section 203(h) of the National Housing Act authorizes FHA to insure mortgages to victims of a Presidentially-Declared Major Disaster Area (PDMDA) for the purchase or reconstruction of a Single Family property.

Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with the specific requirements on Section 203(h) mortgages provided below, this specific guidance shall control.

##### ii. Eligibility Requirements

###### (A) Borrower Eligibility

###### (1) Application Deadline

The FHA case number must be assigned within one year of the PDMDA, unless an additional period of eligibility is provided.

###### (2) Principal Residence

The mortgaged property must be the Borrower's Principal Residence.

###### (3) Credit Score

The Borrower must have a minimum credit score of 500.

###### (B) Property Eligibility

The previous house (owned or rented) must have been located in a PDMDA and destroyed or damaged to such an extent that reconstruction or replacement is necessary. A list of the specified affected counties and cities and corresponding disaster declarations are provided by the Federal Emergency Management Agency ([FEMA](#)).

The purchased or reconstructed property must be a Single Family property or a unit in an FHA-approved Condominium Project.

###### (C) Minimum Required Investment/Maximum Loan-to-Value

The Borrower is not required to make the Minimum Required Investment (MRI). The maximum Loan-to-Value (LTV) ratio limit is 100 percent of the appraisal value. If a 203(k) is used in conjunction with a 203(h), the 203(k) LTV applies.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Disasters and 203(h) Mortgage Insurance for Disaster Victims

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#### **(D) Underwriting**

The mortgagee should be as flexible as prudent decision making permits.

The mortgagee is required to make every effort to obtain traditional documentation regarding employment, assets, and credit, and must document their attempts. Where traditional documentation is unavailable, the mortgagee may use alternative documentation as outlined below. Where specific requirements are not provided below, the mortgagee may use alternative documentation that is reasonable and prudent to rely upon in underwriting a mortgage.

#### **(1) Credit**

For Borrowers with derogatory credit, the mortgagee may consider the Borrower a satisfactory credit risk if the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster.

#### **(2) Income**

If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same/similar field, then FHA will accept W-2s and tax returns from the Internal Revenue Service (IRS) to confirm prior employment and income.

The mortgagee may also include short-term employment obtained following the disaster in the calculation of Effective Income.

#### **(3) Liabilities**

When a Borrower is purchasing a new house, the mortgagee may exclude the Mortgage Payment on the destroyed residence located in a PDMDA from the Borrower's liabilities. To exclude the Mortgage Payments from the liabilities, the mortgagee must:

- obtain information that the Borrower is working with the servicing mortgagee to appropriately address their mortgage obligation; and
- apply any property insurance proceeds to the mortgage of the damaged house.

#### **(4) Assets**

If traditional asset documentation is not available, the mortgagee may use statements downloaded from the Borrower's financial institution website to confirm the Borrower has sufficient assets to close the mortgage.

## **II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

### **8. Programs and Products - Disasters and 203(h) Mortgage Insurance for Disaster Victims**

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#### **(5) Housing payment history**

The mortgagee may disregard any late payments on a previous obligation on a property that was destroyed or damaged in the disaster where the late payments were a result of the disaster and the Borrower was not three or more months delinquent on their mortgage at the time of the disaster.

The mortgagee may justify approval if the Borrower was three or more months delinquent if extenuating circumstances are documented by the mortgagee.

#### **iii. Eligibility Documentation Requirements**

The mortgagee must document and verify that the Borrower's previous residence was in the disaster area, and was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Documentation attesting to the damage of the previous house must accompany the mortgage application. If purchasing a new house, the house need not be located in the area where the previous house was located.

#### **iv. Refinancing Policy**

Refinancing is permitted in conjunction with rehabilitation.

#### **v. Using Section 203(k) with 203(h) for Rehabilitation**

Damaged residences located in a PDMDA 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). All other Section 203(k) policy must be followed.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Energy Efficient Mortgages

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#### c. Energy Efficient Mortgages

##### i. Definitions

The 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.

Cost-Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of those improvements.

##### ii. Eligibility

###### (A) Eligible Property Types

EEM may be used with:

- New Construction properties (one- to four-units);
- Existing Construction properties (one- to four-units);
- condominiums (one unit); or
- Manufactured Housing.

###### (B) Eligible Programs and Transactions Types

The EEM program can be used in conjunction with any mortgage insurance under Title II, including:

- [203\(b\)](#)
  - Purchase
  - No cash-out refinance
- [203\(h\) Mortgage Insurance for Disaster Victims](#)
- [203\(k\) \(Standard and Streamlined\)](#)
- [Weatherization Policy](#) (Existing Construction only)

##### iii. Standard

###### Energy Package

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. The improvements can include energy-saving equipment, and active and passive solar and wind technologies. The energy package can include materials, labor, inspections, and the home energy assessment by a qualified energy rater. If the Borrower desires, labor may include the cost of an EEM Facilitator (general contractor).

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#### (A) Cost-Effective Test

The financed portion of an energy package must be cost-effective. A cost-effective energy package is one where the cost of the improvements, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements.

#### (B) Cost-effective Test for New Construction

For New Construction, the financed portion of an energy package includes only those cost-effective energy improvements over and above the greater of the following:

- the requirements of the [2006 International Energy Conservation Code \(IECC\)](#), or a successor energy code standard that has been adopted by HUD for its Minimum Property Standards (MPS), pursuant to [42 U.S.C. § 12709](#); or
- the applicable IECC year used by the state or local building code for New Construction.

More information on this energy code can be obtained from the [Department of Energy](#) or the [International Code Council](#).

#### (C) Changes to the Energy Package after Mortgage Closing

If the work that is done differs from the approved energy package, a change order along with a revised home energy audit must be submitted to the Direct Endorsement (DE) underwriter for approval. If the changes still meet the cost-effective test, no further analysis is required. If not, the funds for the work not included in the approval energy package must be used to pay down the mortgage principal.

#### iv. Home Energy Report/Assessment

The Borrower must obtain a home energy assessment. The purpose of the energy assessment under the EEM program is to identify opportunities for improving the energy efficiency of the home and their cost-effectiveness. The assessment must be conducted by a qualified energy rater, assessor, or auditor using whole-home assessment standards, protocols and procedure.

#### (A) Qualifications of Energy Raters/Assessors

Qualified home energy rates/assessors must be trained and certified as one of the following:

- Building Performance Institute Building Analyst Professional
- Building Performance Institute Home Energy Professional Energy Auditor
- Residential Energy Services Network Home Energy Rater

The home energy report must reflect one of the above professional credentials by the rater/assessor.

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Where applicable, qualified energy raters, assessors, or auditors must also meet local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure, and insurance requirements.

#### **(B) Home Energy Report**

The home energy report reflects recommendations of energy-saving improvements for the Borrower's consideration. Included with the recommendations are estimates of energy savings and cost-effective analysis for each of the suggested improvements. These estimates consider energy costs in today's dollars (present value). The mortgagee must use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package.

#### **(C) Home Energy Report for New Construction**

On newly constructed housing, the home energy report must identify improvements that are over and above the greater of the following:

- the requirements of the [2006 IECC](#), or a successor energy code standard that has been adopted by HUD for its MPS, pursuant to [42 U.S.C. § 12709](#); or
- the applicable IECC year used by the state or local building code for New Construction.

#### **(D) Required Documentation**

The mortgagee must obtain a copy of the home energy report. This report must not be greater than 120 Days old.

The mortgagee must submit two forms [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary* as described in the Underwriting Section below.

#### **v. Maximum Financeable Energy Package**

The maximum amount of the energy package that can be added to the Base Loan Amount is the lesser of:

- the dollar amount of a cost-effective energy package as determined by the home energy audit; or
- the lesser of 5 percent of:
  - the Adjusted Value;
  - 115 percent of the median area price of a Single Family dwelling; or
  - 150 percent of the national conforming mortgage limit.

#### **Energy Efficient Mortgage Calculator Tool**

The mortgagee must calculate the dollar amount of a cost-effective energy package as determined by the home energy audit, as shown in [Energy Package](#). The EEM Calculator, located in FHA Connection ([FHAC](#)) on the Case Processing screen, will perform the

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calculation of [Maximum Financeable Energy Package](#). The EEM Calculator uses data entered for the mortgage to calculate the maximum energy package.

For a streamlined refinance, the EEM Calculator uses the appraised value from the initial transaction, contained within FHA Connection records, as the Adjusted Value.

#### vi. Maximum Mortgage Amount

The maximum final Base Loan Amount is determined by adding the maximum financeable energy package amount to the initial maximum Base Loan Amount. For New Construction, the cost of the financeable energy package must be subtracted from the sales price when computing the Adjusted Value.

When utilizing an EEM in conjunction with a [203\(k\)](#) or [Weatherization](#), the items included in the maximum financeable energy package must be excluded from the items included when calculating the initial maximum Base Loan Amount under these programs.

The maximum FHA [Nationwide Mortgage Limit](#) for an area may be exceeded by the maximum financeable energy package.

#### vii. 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.

#### (A) TOTAL Mortgage Scorecard

For purposes of submission to the Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard, the mortgagee must utilize the initial Base Loan Amount prior to the addition of the financeable energy package.

If the mortgagee obtains an Accept or Approve on a mortgage application that does not include the financeable energy package, FHA will recognize the risk rating from TOTAL Mortgage Scorecard and permit the increase to the Mortgage Payment without re-underwriting or rescoring. The mortgagee must provide a form [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*, without the financeable energy package, showing the qualifying ratios in the case binder. A second form [HUD-92900-LT](#) must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in [FHAC](#). The second form must also be included in the case binder.

The underwriter must attest on the second form [HUD-92900-LT](#) that they have 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.

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#### **(B) Manual Underwriting**

The mortgagee must provide a form [HUD-92900-LT](#), without the financeable energy package, showing the qualifying ratios in the case binder. A second form [HUD-92900-LT](#) must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in [FHAC](#). The second form must also be included in the case binder.

The underwriter must attest on the second form [HUD-92900-LT](#) that they have 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.

#### **viii. 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.

#### **ix. Cash-Out**

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, funds must be applied to the principal mortgage balance.

#### **x. Energy Efficient Mortgage Escrows**

For all mortgages on existing properties, except 203(k), if the energy package items are not complete by the time of closing, the mortgagee must establish an escrow account for the remaining cost of the energy improvements in accordance with the [Repair Completion Escrow Requirements](#).

##### **(A) 203(k)**

If the energy package is part of a Section 203(k) Rehabilitation Mortgage, then the escrowed amounts of the energy package must be included in the Rehabilitation Escrow Account.

##### **(B) Borrower Labor**

Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).

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#### (C) Form HUD-92300, Mortgagee's Assurance of Completion

When funds to complete the energy package are escrowed, the mortgagee must execute form [HUD-92300](#), *Mortgagee's Assurance of Completion*, to indicate that the escrow for the energy package improvements has been established.

#### xi. Completion Requirements for Energy Efficient Mortgages

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.

For 203(k) mortgages, the mortgagee must follow the [203\(k\) Escrow Guidance](#).

#### xii. Inspection

The mortgagee, the rater, or an FHA fee inspector may inspect the installation of the improvements. The Borrower may be charged an inspection fee.

**d. Refinances**

**i. Overview**

**(A) 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.

**(B) Types of Refinances**

**(1) Cash-Out**

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.

**(2) No Cash-Out**

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. FHA offers three types of no cash-out refinances:

**(a) Rate and Term**

Rate and Term refers to a no cash-out refinance of any mortgage in which all proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction.

**(b) 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 lien on the subject property and costs associated with the transaction.

**(c) Streamline Refinance**

Streamline Refinance refers to the refinance of an existing FHA-insured mortgage requiring limited Borrower credit documentation and underwriting. There are two different streamline options available.

**(i) Credit Qualifying**

The mortgagee must perform a credit and capacity analysis of the Borrower, but no appraisal is required.

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**(ii) Non-Credit Qualifying**

The mortgagee does not need to perform credit or capacity analysis or obtain an appraisal.

**(3) Refinance of Borrowers in Negative Equity Positions (also known as Short Refinance)**

A Borrower who is current on their non FHA-insured mortgage may qualify for an FHA-insured refinance mortgage provided that the mortgagee or Investor writes off at least 10 percent of the unpaid principal balance of the existing first lien mortgage. (See [Refinance of Borrowers in Negative Equity Positions Program \(Short Refi\)](#)).

**(4) Refinances for the Purpose of Rehabilitation or Repair**

A Borrower may refinance existing debts and obtain additional financing for purposes of rehabilitation and repair. Refer to [203\(k\) Rehabilitation Mortgage Insurance Program](#) for guidelines for refinances under FHA's Section 203(k) program.

**(5) Refinancing of an existing Section 235 mortgage**

An existing Section 235 mortgage may be refinanced as any no cash-out refinance.

In refinancing a Section 235 mortgage, the mortgagee is required to repay to FHA any amount of excess subsidy. The outstanding principal balance on a Section 235 is calculated by adding back to the balance any amount of the excess subsidy paid to FHA.

If FHA has a junior lien that was part of the original Section 235 financing, FHA will subordinate the junior lien to the Section 203(b) mortgage that refinances the Section 235 mortgage.

**ii. General Eligibility**

**(A) FHA-Insured to FHA-Insured Refinances (FHA-to-FHA)**

FHA-to-FHA refinances may be used with any refinance type. The mortgagee must obtain a Refinance Authorization Number from FHA Connection ([FHAC](#)) for all FHA-to-FHA refinances.

**(B) General 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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#### (C) General Property Eligibility

For a transaction involving a Manufactured House to be considered a refinance, the Manufactured House must have been permanently erected on a site for more than twelve months prior to case number assignment.

#### iii. Temporary Interest Rate Buydowns

Temporary interest rate buydowns are not permitted with refinance transactions.

#### iv. Upfront Mortgage Insurance Premium Refunds

If the Borrower is refinancing their current FHA-insured mortgage to another FHA-insured mortgage within 3 years, a refund credit is applied to reduce the amount of the Upfront Mortgage Insurance Premium (UFMIP) paid on the refinanced mortgage, according to the refund schedule shown in the table below:

Upfront Mortgage Insurance Premium Refund Percentages												
Year	Month of Year											
	1	2	3	4	5	6	7	8	9	10	11	12
1	80	78	76	74	72	70	68	66	64	62	60	58
2	56	54	52	50	48	46	44	42	40	38	36	34
3	32	30	28	26	24	22	20	18	16	14	12	10

#### v. Cash-Out Refinances

##### (A) Borrower Eligibility

Nonprofit agencies, state and local government agencies and instrumentalities of government are not eligible for cash-out refinances. Income from a non-occupant co-Borrower may not be used to qualify for a cash-out refinance.

##### (1) Occupancy Requirements

###### (a) Standard

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.

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**Exception**

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

**(b) Required Documentation**

The mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower has occupied the subject property as their Principal Residence for the 12 months prior to Case Assignment.

**(2) Payment History Requirements**

**(a) Standard**

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.

Additionally, 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.

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.

**(b) Required Documentation**

If the mortgage on the subject property is not reported in the Borrower's credit report or is not in the name of the Borrower, the mortgagee must obtain a verification of mortgage, bank statements or other documentation to evidence that all payments have been made by the Borrower in the month due for the previous 12 months.

**(B) Maximum Mortgage Amounts**

**(1) Standard**

**(a) Maximum Loan-to-Value**

The maximum LTV is 85 percent of the Adjusted Value.

**(b) Maximum Combined Loan-to-Value**

The maximum CLTV is 85 percent of the Adjusted Value.

**(c) Nationwide Mortgage Limit**

The combined mortgage amount of the first mortgage and any subordinate liens cannot exceed the [Nationwide Mortgage Limit](#) described in [National Housing Act's Statutory Limits](#).

**(2) Required Documentation**

The mortgagee must obtain the payoff statement for all existing mortgages.

**vi. No Cash-Out Refinances**

**(A) Rate and Term**

**(1) Borrower Eligibility**

**(a) Occupancy Requirements**

**(i) Standard**

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

**(ii) Required Documentation**

The mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the property and determine the length of time the Borrower has occupied the subject property as their Principal Residence.

**(b) Payment History Requirements (Manually Underwritten)**

**(i) Standard**

For manually underwritten mortgages with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

For manually underwritten mortgages with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-day late payment for the previous six months for all mortgages.

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

**(ii) Required Documentation**

If the mortgage on the subject property is not reported in the Borrower's credit report, the mortgagee must obtain a verification of mortgage to evidence payment history for the previous 12 months.

**(2) Maximum Mortgage Amount**

**(a) Maximum Loan-to-Value Ratio**

The maximum LTV for a Rate and Term refinance is:

- 97.75 percent for Principal Residences that have been owner-occupied for previous 12 months, or owner-occupied since acquisition if acquired within 12 months, at case number assignment;
- 85 percent for a Borrower who has occupied the subject property as their Principal Residence for fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the property for that entire period of ownership; or
- 85 percent for all HUD-approved Secondary Residences.

**(b) Calculating Maximum Mortgage Amount**

**(i) Standard**

The maximum mortgage amount for a Rate and Term refinance is:

- the lesser of:
  - the [Nationwide Mortgage Limit](#);
  - the maximum LTV based on the Maximum LTV Ratio from above; or
  - the sum of existing debt and costs associated with the transaction as follows:
    - existing debt includes:
      - 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

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property, that portion above and beyond \$1,000 of the line of credit is not eligible for inclusion in the new mortgage;

- 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;
- allowed costs include all Borrower paid costs associated with the new mortgage; and
- any Borrower-paid repairs required by the appraisal;
- less any refund of the Upfront Mortgage Insurance Premium (UFMIP), if financed in the original mortgage.

#### **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.

#### **Refinancing to Buy Out Title-Holder Equity**

When the purpose of the new mortgage is to refinance an existing mortgage to buy out an existing title-holder’s equity, the specified equity to be paid is considered property-related indebtedness and eligible to be included in the new mortgage calculation. The mortgagee must obtain the divorce decree, settlement agreement, or other legally enforceable equity agreement to document the equity awarded to the title-holder.

#### **Refinancing to Pay off Recorded Land Contracts**

When the purpose of the new mortgage is to pay off an outstanding recorded land contract, the unpaid principal balance shall be deemed to be the outstanding balance on the recorded land contract.

#### **Use of Estimates in Calculating Maximum Mortgage Amount**

The mortgagee may utilize estimates of existing debts and costs in calculating the maximum mortgage amount to the extent that the actual

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debts and costs do not result in the Borrower receiving greater than \$500 cash back at mortgage Disbursement.

Cash to the Borrower resulting from the refund of Borrowers unused escrow balance from the previous mortgage must not be considered in the \$500 cash back limit whether received at or subsequent to mortgage Disbursement.

**Excess Cash Back**

When the estimated costs utilized in calculating the maximum mortgage amount result in greater than \$500 cash back to the Borrower at mortgage Disbursement, mortgagees may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement. The mortgagee must submit the mortgage for endorsement at the reduced principle amount.

**(ii) Required Documentation**

The mortgagee must obtain the payoff statement on all existing mortgages.

**(c) Maximum Combined Loan-to-Value Ratio**

The maximum CLTV ratio for a Rate and Term refinance is 97.75 percent. For open-end line of credit the mortgagee must utilize the maximum accessible credit limit of the subordinate lien to calculate the CLTV ratio.

**(B) Simple Refinance**

**(1) Borrower Eligibility**

**(a) Occupancy Requirements**

**(i) Standard**

Simple Refinance is only permissible for owner-occupied principal or HUD-approved Secondary Residences.

**(ii) Required Documentation**

The mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence the Borrower currently occupies the property as their Principal Residence.

The mortgagee must obtain evidence that the Secondary Residence has been approved by the [Jurisdictional HOC](#).

**(b) Payment History Requirements (Manually Underwritten)**

**(i) Standard**

For manually underwritten mortgages with less than six months of Mortgage Payment history, the Borrower must have made all payments within the month due.

For manually underwritten mortgages with greater than six months history, the Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all mortgages. The Borrower must have made the payments for all mortgages secured by the subject property for the month prior to mortgage Disbursement.

**(ii) Required Documentation**

If the mortgage on the subject property is not reported in the Borrower's credit report, the mortgagee must obtain a verification of mortgage to evidence payment history for the previous 12 months.

**(2) Maximum Mortgage Amount**

**(a) Maximum LTV**

The maximum LTV ratio for a Simple Refinance is:

- 97.75 percent for Principal Residences; and
- 85 percent for HUD-approved Secondary Residences.

**(b) Maximum CLTV**

The maximum CLTV for a Simple Refinance is:

- 97.75 percent for Principal Residences; and
- 85 percent for HUD-approved Secondary Residences.

**(3) Calculating Maximum Mortgage Amount for Simple Refinance Transactions**

**(a) Standard**

The maximum mortgage amount for a Simple Refinance is:

- the lesser of:
  - the [Nationwide Mortgage Limit](#);
  - the Maximum LTV ratio from above; or
  - the sum of existing debt and costs associated with the transaction as follows:

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- existing debt includes:
  - unpaid principal balance of the FHA-insured first mortgage as of the month prior to mortgage Disbursement;
  - interest due on the existing mortgage;
  - MIP due on existing mortgage;
  - late charges; and
  - escrow shortages;
- allowed costs include all Borrower paid costs associated with the new mortgage; and
- Borrower-paid repairs required by the appraisal;
- less any refund of UFMIP (if financed in original mortgage).

#### **(b) Use of Estimates in Calculating Maximum Mortgage Amount**

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.

Cash to the Borrower resulting from the refund of Borrower's unused escrow balance from the previous mortgage must not be considered in the \$500 cash back limit whether received at or subsequent to mortgage Disbursement.

#### **(c) Excess Cash Back**

When the estimated costs utilized in calculating the maximum mortgage amount resulted in greater than \$500 cash back to the Borrower at mortgage Disbursement, mortgagees may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement.

#### **(d) Required Documentation**

The mortgagee must obtain the payoff statements for all existing mortgages.

#### **(4) Upfront and Annual Mortgage Insurance Premium**

See [Appendix 1.0 – Mortgage Insurance Premiums](#) for assessing upfront and annual MIP.

### **(C) 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.

**(1) Streamline Refinance Exemptions**

**(a) Non-Credit Qualifying Exemptions**

Unless otherwise stated in this section, the following sections of [Origination through Post-Closing/ Endorsement](#) do not apply to non-credit qualifying Streamline Refinances:

- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Borrower Minimum Decision Credit Score
- Borrower and Co-Borrower Ownership and Obligation Requirements
- Cosigner Requirements
- Principal Residence in the United States
- Military Personnel Eligibility
- Citizenship and Immigration Status
- Residency Requirements
- Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
- Delinquent Federal Tax Debt
- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard
- Credit Requirements
- Income Requirements
- Asset Requirements
- Underwriting of Credit and Debt
- Underwriting of Income
- Underwriting of Assets
- Calculating Qualifying Ratios
- Approvable Ratio Requirements
- Documenting Acceptable Compensating Factors

**(b) Credit Qualifying Exemptions**

The following sections of [Origination through Post-Closing/ Endorsement](#) do not apply to credit qualifying Streamline Refinances:

- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt
- Delinquent Federal Tax Debt

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- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard

**(2) Borrower Eligibility**

**(a) Occupancy Requirements**

**(i) Standard**

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

**(ii) Required Documentation**

The mortgagee must review the Borrower's employment documentation or obtain utility bills to evidence that the Borrower currently occupies the property as their Principal Residence.

The mortgagee must obtain evidence that the Secondary Residence has been approved by the Jurisdictional HOC.

The mortgagee must process the Streamline Refinance as a non-owner occupied property if the mortgagee cannot obtain evidence that the Borrower occupies the property either as a Principal or Secondary Residence.

**(b) Payment History Requirements**

**(i) Standard**

The Borrower must have made all Mortgage Payments within the month due for the six months prior to case number assignment and have no more than one 30-Day late payment for the previous six months for all mortgages. The Borrower must have made the payments for all mortgages secured by the subject property within the month due for the month prior to mortgage Disbursement.

**(ii) Required Documentation**

If the mortgage on the subject property is not reported in the Borrower's credit report, the mortgagee must obtain a verification of mortgage to evidence payment history for the previous 12 months.

**(3) Transaction Eligibility**

**(a) 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.

**(b) Existing 203(k) Mortgages**

FHA will not issue a case number for a Streamline Refinance where the existing mortgage to be paid is a 203(k) mortgage and the rehabilitation escrow closeout has not been completed.

**(4) General Information Applicable to All Streamline Refinances**

**(a) 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.

**(b) Use of TOTAL Mortgage Scorecard on Streamline Refinances**

The mortgagee must manually underwrite all Streamline Refinances. The mortgagee may score the mortgage through TOTAL Mortgage Scorecard but the findings are invalid.

**(c) Net Tangible Benefit of Streamline Refinances**

**(i) Definitions**

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.

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**8. Programs and Products - Refinances**

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**(ii) Standard**

The mortgagee must determine that there is a net tangible benefit to the Borrower meeting the standards in the chart below for all Streamline Refinance transactions.

<b>From</b>	<b>To</b>	<b>Fixed Rate New Combined Rate</b>	<b>One-Year ARM New Combined Rate</b>	<b>Hybrid ARM New Combined Rate</b>
<b>Fixed Rate</b>		At least 0.5 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.
<b>Any ARM With Less Than 15 Months to Next Payment Change Date</b>		No more than 2 percentage points above the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.
<b>Any ARM With Greater Than or Equal to 15 Months to Next Payment Change Date</b>		No more than 2 percentage points above the prior Combined Rate.	At least 2 percentage points below the prior Combined Rate.	At least 1 percentage point below the prior Combined Rate.

**Reduction in Term**

If the mortgage term is reduced, the new interest rate does not exceed the current interest rate, and the payment does not increase by more than \$50; this alone meets the net tangible benefit test.

**(d) HUD Employee Mortgage**

For non-credit qualifying Streamline Refinances only, any HUD employee may have their mortgage underwritten and approved/denied by the mortgagee.

**(e) Reviewing Limited Denial Participation and SAM Exclusion Lists**

The mortgagee must check the HUD [Limited Denial of Participation \(LDP\)](#) list to confirm the Borrower’s eligibility to participate in an FHA-insured mortgage transaction.

The mortgagee must check the [System for Award Management \(SAM\)](#) and must follow appropriate procedures defined by that system to confirm eligibility for participation.

**(f) Borrower Additions to Title**

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

**(g) Borrower 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](#).

**(h) 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 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.

**(i) Maximum Mortgage Amortization Period**

The maximum amortization period of a Streamline Refinance is limited to the lesser of:

- the remaining amortization period of the existing mortgage plus 12 years; or
- 30 years.

**(j) Maximum Mortgage Calculation for Streamline Refinances**

**(i) Standard**

For owner-occupied Principal Residences and HUD-approved Secondary Residences, the maximum Base Loan Amount for Streamline Refinances is:

- the lesser of:
  - the outstanding principal balance of the existing mortgage as of the month prior to mortgage Disbursement; plus:
    - interest due on the existing mortgage; and
    - MIP due on existing mortgage; or
  - the original principal balance of the existing mortgage (including financed UFMIP);
- less any refund of UFMIP (if financed in original mortgage).

For Investment Properties, the maximum Base Loan Amount for Streamline Refinances is:

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Refinances

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- the lesser of:
  - the outstanding principal balance of the existing mortgage as of the month prior to mortgage Disbursement; or
  - the original principal balance of the existing mortgage (including financed UFMIP);
- less any refund of UFMIP (if financed in original mortgage).

#### **Use of Estimates in Calculating Maximum Mortgage Amount**

The mortgagee may utilize estimates in calculating the maximum mortgage amount to the extent that the total mortgage amount does not result in the Borrower receiving greater than \$500 cash back at mortgage Disbursement.

Cash to the Borrower resulting from the refund of Borrowers unused escrow balance from the previous mortgage must not be considered in the \$500 cash back limit whether received at or subsequent to mortgage Disbursement.

#### **Excess Cash Back**

When the estimates utilized in calculating the maximum mortgage amount resulted in greater than \$500 cash back to the Borrower at mortgage Disbursement, mortgagees may reduce the Borrower's outstanding principal balance to satisfy the \$500 cash back requirement.

#### **(ii) Required Documentation**

The mortgagee must obtain the payoff statement on the existing mortgage.

#### **(k) Maximum CLTV Ratio and Subordinate Financing**

Existing Subordinate financing, in place at the time of case number assignment, must be resubordinated to the Streamline Refinance. New Subordinate financing is permitted only where the proceeds of the subordinate financing are used to:

- reduce the principal amount of the existing FHA-insured mortgage, or
- finance the origination fees, other closing costs, or discount points associated with the refinance

There is no maximum CLTV.

Mortgagees must contact the [National Servicing Center](#) for processing of any HUD held lien subordination.

**(l) Appraisal and Inspection Requirements on Streamline Refinances**

Appraisals are not required on Streamline Refinances.

**(m) Assessing Upfront and Annual MIP**

See [Appendix 1.0 – Mortgage Insurance Premiums](#) for assessing upfront and annual MIP.

For the purpose of calculating the MIP, FHA uses the original value of the property to calculate the LTV.

**(5) Streamline Refinance Non-Credit Qualifying**

**(a) 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.

**Exception**

A Borrower on the mortgage to be paid may be removed from title and mortgage on a new loan in cases of divorce, legal separation or death when:

- the divorce decree or legal separation agreement awarded the property and responsibility for payment to the remaining Borrower, if applicable; and
- the remaining Borrower can demonstrate that they have made the Mortgage Payments for a minimum of six months prior to case number assignment.

**(b) Special Documentation and Procedures for No Credit Streamline Refinances**

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.

**(6) Streamline Refinance Credit Qualifying**

**(a) Borrower Eligibility**

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

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Refinances

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#### (b) Credit Underwriting

In addition to the requirements in this section, credit qualifying Streamline Refinances must meet all requirements of [Manual Underwriting](#), except for any requirements for Appraisals or LTV Calculations.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Refinance of Borrowers in Negative Equity Positions Program (Short Refi)

#### e. **Refinance of Borrowers in Negative Equity Positions Program (Short Refi)**

##### i. **Definition**

For case numbers assigned on or before December 31, 2014, the Short Refi program allows the mortgagee to refinance a non FHA-insured mortgage in which the Borrower is in a negative equity position.

##### ii. **General Eligibility Criteria**

The existing first lien holder must write off at least 10 percent of the unpaid principal balance.

The Borrower must be in a negative equity position and may not have an existing FHA-insured mortgage. The Borrower must be current for the month due or have successfully completed a three month trial payment plan on the existing mortgage to be refinanced.

The mortgagee is not permitted to use Premium Pricing to pay off existing debt obligations to qualify the Borrower for the new mortgage.

The mortgagee is not permitted to make Mortgage Payments on behalf of the Borrower or otherwise bring the existing mortgage current to make it eligible for FHA insurance.

The refinanced FHA-insured first mortgage must have a Loan-to-Value (LTV) ratio of no more than 97.75 percent and any new or re-subordinated mortgages must not result in a Combined Loan-to-Value (CLTV) ratio greater than 115 percent.

#### **(A) Borrower Certification**

##### **(1) Standard**

The Borrower must certify on form [HUD-92918](#), *FHA Refinance of Borrowers in Negative Equity Positions Borrower Certification*, that they have not been convicted within the last 10 years, in connection with a real estate or mortgage transaction, of any of the following: (a) felony larceny, theft, fraud, or forgery; (b) money laundering; or (c) tax evasion from receiving assistance authorized or funded by the Emergency Economic Stabilization Act of 2008 (EESA).

##### **(2) Required Documentation**

The executed Borrower certification must be included in the FHA case binder submitted for insurance endorsement.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Refinance of Borrowers in Negative Equity Positions Program (Short Refi)

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#### (B) Trial Payment Plan

##### (1) Standard

A Borrower who is delinquent on their current mortgage must successfully make three on-time payments on a trial payment plan before closing.

At the time of underwriting the new FHA-insured mortgage, the new total monthly [Mortgage Payment](#) amount cannot increase by more than 6 percent over the trial payment amount on the existing mortgage.

##### (2) Required Documentation

The mortgagee must document in the case binder the Borrower's successful completion of the most recent trial payment plan.

##### (3) Secondary Financing

New or re-subordinated secondary financing that permits the Borrower to comply with the eligibility requirements of the program is permitted, subject to the following limitations:

- the terms of the subordinate lien(s) must not provide for a balloon payment before 10 years, unless the property is sold or refinanced;
- the terms must permit prepayment by the Borrower, without penalty, after giving 30 Days advance notice;
- periodic payments, if any, must be collected monthly; and
- if payments on subordinate financing are required, they must be included in the qualifying ratios unless payments are deferred until at least 36 months after Disbursement.

#### iii. Underwriting

The Borrower must qualify for the new mortgage under the applicable [TOTAL Underwriting](#) or [Manual Underwriting](#) requirements, except for the credit, debt-to-income and new mortgage requirements below.

##### (A) Credit Requirements

The existing mortgage to be refinanced may not have been brought current by the existing first lien holder, except through an acceptable trial payment plan.

##### (B) Debt-to-Income Ratios

For mortgages that receive a Refer risk classification from FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard and/or are manually underwritten, the homeowner's total monthly Mortgage Payment, including the first and any subordinate mortgage(s), cannot be greater than 31 percent of gross monthly

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### 8. Programs and Products - Refinance of Borrowers in Negative Equity Positions Program (Short Refi)

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income; and total debt, including all recurring debts, cannot be greater than 50 percent of the gross monthly income.

#### **Exception**

The Borrower's monthly total Mortgage Payment may be up to 35 percent of gross monthly income if their total debt does not exceed 48 percent of the gross monthly income.

#### **(C) New Mortgage**

##### **(1) Write-off**

The existing first lien holder must write off at least 10 percent of the unpaid principal balance of the mortgage that is being refinanced.

##### **(2) Mortgage Type and Automated Data Processing Codes**

The mortgagee must enter the mortgage as a “conventional to FHA refinance non delinquent” in FHA Connection ([FHAC](#)).

The mortgagee must refer to the [FHAC ADP Codes](#) for Short Refinance codes.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Section 251 Adjustable Rate Mortgages

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#### f. Section 251 Adjustable Rate Mortgages

##### i. Definition

An Adjustable Rate Mortgage (ARM) refers to a mortgage in which the interest rate can change annually based on an index plus a margin.

##### ii. Required Disclosures

The Borrower must sign a disclosure that explains the terms of the ARM at mortgage application.

##### iii. ARM Types

The mortgagee must establish the initial interest rate and the margin. The margin must be constant for the entire term of the mortgage.

The interest rate must remain constant for an initial period of 1, 3, 5, 7, or 10 years, depending on the ARM program chosen by the Borrower, and then may change annually for the remainder of the mortgage term.

A 1- and 3-year ARM may increase by one percentage point annually after the initial fixed interest rate period, and five percentage points over the life of the mortgage.

A 5-year ARM may either allow for increases of one percentage point annually, and five percentage points over the life of the mortgage; or increases of two percentage points annually, and six points over the life of the mortgage.

A 7- and 10-year ARM may only increase by two percentage points annually after the initial fixed interest rate period, and six percentage points over the life of the mortgage.

##### iv. Initial Interest Rate Adjustments

The first interest rate adjustment must occur in accordance with the following chart:

<b>If the ARM is initially at a fixed interest rate for ...</b>	<b>Then the first adjustment rate change may occur no sooner than ...</b>	<b>And no later than ...</b>
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.

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**8. Programs and Products - Section 251 Adjustable Rate Mortgages**

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**v. Indices**

The interest rate governing index may be the 1-Year [Constant Maturity Treasury \(CMT\)](#) or 1-Year [London Interbank Offered Rate \(LIBOR\)](#).

The 1-Year CMT is the weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year published in the [Federal Reserve Board's Statistical Release H.15](#)(519), available on the Federal Reserve System website at [www.federalreserve.gov](http://www.federalreserve.gov).

The 1-Year LIBOR is the London Interbank Offered Rate as published in the Wall Street Journal on the first business day of each week.

**vi. Temporary Interest Rate Buydowns**

Temporary interest rate buydowns are not permitted with ARM transactions.

**vii. Underwriting Requirements**

The mortgagee must underwrite the mortgage based on payments calculated using the initial interest rate.

**1-year ARMs**

If the Loan-to-Value (LTV) is 95 percent or more, the mortgagee must underwrite the mortgage based on payments calculated using the initial interest rate plus one percent.

If the mortgage is less than 95 percent, the mortgagee must underwrite the mortgage based on payments calculated using the initial interest rate.

**viii. Mortgage Term**

The ARM must be fully amortizing over a period of no more than 30 years.

**ix. Required Documentation**

**(A) Model Note**

The mortgagee must use the [Model ARM Note](#) for all ARMs. Paragraph 1 of this form must be adapted or additional paragraphs may be added to provide a full description of the adjustable rate feature of the mortgage to the extent required by state or local law to create an enforceable agreement.

The mortgagee must ensure that the ARM contains amortization provisions that allow for annual adjustments in the rate of interest charged.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Section 251 Adjustable Rate Mortgages

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#### (B) Mortgage Document

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.

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**8. Programs and Products - Section 248 Mortgages on Indian Land**

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**g. Section 248 Mortgages on Indian Land**

**i. Definitions**

A Section 248 Mortgage on Indian Land refers to a purchase or refinance mortgage covering one- to four-family dwellings on Indian Lands.

Indian Land refers to those lands that are held by or for the benefit of Indian Tribes under some restriction or with some attribute peculiar to the legal status of its owners.

Indian Tribe refers to any Indian or Alaskan native tribe, band, nation, or other organized group or community of Indians or Alaskan natives recognized as eligible for the services provided to Indians or Alaskan natives by the Secretary of Interior because of its status as such an Entity, or that was an eligible recipient under Chapter 67 of title 31, United States Code, prior to the repeal of this section.

**ii. Eligibility**

**(A) Standard**

The mortgagee must obtain documentation from the Indian/Native American that the Indian Land/reservation has adopted eviction procedures acceptable to HUD.

**(B) Required Documentation**

The mortgagee must obtain a certification from the Indian Tribe confirming the Indian Land/reservations compliance with HUD's requirements. The mortgagee must include the certification in the mortgage file and take the following measures:

- certify to HUD that it has adopted eviction procedures and will enforce them;
- permit HUD access to tribal lands for the purpose of servicing properties;
- agree to the lease form that HUD prescribes; and
- enact a law that grants the tribal government's court the jurisdiction to hear evictions and foreclosures so that FHA-insured and FHA-held mortgages can be assured a first lien or provides that the law of the state in which the property is located shall determine the priority of liens against the property. If the reservation spans two or more states, the state in which the property is located is the applicable state law.

**(C) Borrower Eligibility**

Only an Indian Tribe or a member of the Indian Tribe may be a Borrower. Where there is a co-Borrower, at least one Borrower must be an Indian Tribe or a member of the Indian Tribe. The Borrower must occupy the property as their Principal Residence.

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**8. Programs and Products - Section 248 Mortgages on Indian Land**

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**(D) Property Eligibility**

The property must be located on land held by the Indian Tribe or held by the United States government for the benefit of the Indian Tribe.

Units in cooperatives are not eligible.

The Borrower must hold a Residential Lease for the property.

**(E) First Lien Status**

The mortgages must be secured by a first lien on the property that has been filed with the state recording system and with the Bureau of Indian Affairs, U.S. Department of Interior.

**(F) Assumptions**

The mortgagee cannot approve an assumption of a mortgage secured by a property located on an Indian Land/reservation unless the Indian Tribe has approved the assumption or sale of the rights to the property securing the mortgage. The mortgagee must comply with all requirements for assumptions.

**(G) Lease**

The attached lease must be used in connection with any Section 248 mortgages. Modifications may be made to the Section 248 rider with the approval of the Jurisdictional HOC.

The term of the lease must be 25 years with a provision for an automatic extension of an additional 25 years.

The lease must prohibit termination by either or both parties while the Leasehold is mortgaged under Section 248.

**iii. Underwriting**

**(A) Tribal Leasehold and Taxes**

The mortgagee must obtain tax information on the Leasehold from the tribe and include the payment of such taxes in the calculation of the Borrower's Mortgage Payment as is done with local property taxes.

**(B) Mortgage Insurance Premiums**

The Section 248 program does not require an Upfront Mortgage Insurance Premium (UFMIP). Annual premiums are found in [Appendix 1.0 – Mortgage Insurance Premiums](#).

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Section 248 Mortgages on Indian Land

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#### iv. Valuation

The mortgagee must ensure that the appraisal of the property meets the requirements specified in the [Appraisal of Single Family Housing on Indian Lands](#) section of the Appraiser requirements.

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**8. Programs and Products - Section 248 Mortgages on Indian Land**

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RESIDENTIAL LEASE

Lease No. \_\_\_\_\_

Contract No. \_\_\_\_\_

THIS LEASE, made and entered into between \_\_\_\_\_, hereafter designated as "LESSOR," and \_\_\_\_\_ member(s) of the \_\_\_\_\_ residing upon the \_\_\_\_\_ Indian Reservation, hereinafter designated as "LESSEE(S)". If the Lessor is not an Indian Tribe, the term "Tribe" is defined as: \_\_\_\_\_.

WITNESSETH:

1. SECRETARIAL APPROVAL. As used in this Lease, the term "Secretary" means the Secretary of the Interior or his duly authorized representative. This Lease is subject to the approval of the Secretary pursuant to the Act of August 9, 1955, 69 Stat. 539, as amended; 25 U.S.C. 415. This Lease has been prescribed by the Secretary of Housing and Urban Development (HUD) pursuant to 24 CFR 203.43h(c), which implements Section 248 of the National Housing Act, 12 U.S.C. 1715z-13, for use in connection with Federal Housing Administration (FHA) insurance of a mortgage on the interest created by this Lease.

2. PREMISES. Lessor, as authorized by law and in accordance with a resolution adopted by the \_\_\_\_\_ on \_\_\_\_\_, hereby leases to the Lessee(s) all that tract or parcel of land situated on the \_\_\_\_\_ Indian Reservation, County of \_\_\_\_\_ State of \_\_\_\_\_, and described as follows:

3. USE OF PREMISES. The object of this Lease is to enable the Lessee(s) to construct, improve and/or maintain a dwelling and related structures on the leased premises, and otherwise to use said premises as a principal residence.

4. TERM. Lessee shall have and hold the premises for a term of twenty-five (25) years beginning on the effective date of this Lease. This Lease shall automatically and without notice renew for an additional term of twenty-five (25) years on the same terms and conditions contained herein. This Lease may not be terminated by either or both parties during its initial or renewal term if, and as long as, the Lease and/or any improvements on the premises, or any interest therein, are mortgaged or

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### 8. Programs and Products - Section 248 Mortgages on Indian Land

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otherwise pledged as security for any loan in accordance with the provisions hereof, unless consent in writing to such termination is given by the Lender and, when HUD/FHA insurance is in force, by HUD. This Lease shall not be subject to any forfeiture or reversion and shall not be otherwise terminable, if such event would adversely affect any interest in the premises, including improvements thereon, acquired in accordance with the provisions hereof by the holder of any mortgage or other lien, or of any purchaser at a foreclosure sale under such mortgage (or lien) or under any conveyance given in lieu of foreclosure, or of any holder subsequent to such purchase. In the event HUD acquires a mortgage on the interest created by this Lease by assignment from a lender, the Lessor shall not terminate the Lease without the written consent of HUD as long as the mortgage is in force.

5. RENT. The improvement of housing for \_\_\_\_\_ families is a public purpose of the Lessor. The consideration for this Lease is (1) the said purpose, (2) the promise hereby given of Lessee(s) to pay the Lessor rent at the rate of One Dollar (\$1.00) for each twenty-five (25) year term, payment to be made each term in advance, (3) the extinguishment, hereby agreed to by Lessee(s), of any and all use rights heretofore held by Lessee(s) in the premises, so that Lessee(s) shall hereafter hold rights only by virtue of this lease, and (4) other good and valuable considerations, the receipt of which is hereby acknowledged by Lessor. It is agreed that there shall be no adjustment of the rent if the Lease is terminated before its term otherwise would expire or in the event that any part of the premises is taken by condemnation for highway or other public purposes.

6. IMPROVEMENTS. All buildings or other improvements now existing or hereafter constructed on the premises shall be the leasehold property of the Lessee(s) during the term of this Lease, including any extension or renewal thereof.

7. USE RIGHT. Upon expiration of this Lease, or upon its termination in accordance with the terms hereof, unless such termination is due to default upon the part of Lessee(s), Lessee(s) or any successors in interest shall be entitled to use rights in the premises if qualified under the laws and customs of the \_\_\_\_\_. If not so eligible, Lessee(s) and any successors in interest shall, upon demand, surrender to Lessor upon expiration or other termination of this Lease complete and peaceable possession of the premises and all improvements thereon, which shall be the property of the \_\_\_\_\_.

8. FEDERAL SUPERVISION. (a) Nothing contained in this Lease shall operate to delay or prevent a termination of Federal responsibilities with respect to the premises by the issuance of a fee patent, the lifting of

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restrictions on alienation, or otherwise during the term of the Lease; such termination, however, shall not serve to abrogate the Lease. (b) No member of Congress or any delegate thereto or any Resident Commissioner shall be admitted to any share or part of this Lease or to any benefit that may arise herefrom. (c) The Lessee(s) agree(s) not to use or cause to be used any part of said premises for any unlawful conduct or purpose.

9. QUIET ENJOYMENT. Lessor agrees to defend the title to the premises and also agrees that Lessee(s) and any successors in interest shall peaceably and quietly hold, enjoy and occupy the premises for the duration of this Lease without any hindrance, interruption, ejection or molestation by Lessor or by any other persons whomsoever.

10. ASSIGNMENT. Except as otherwise provided herein, Lessee(s) shall not assign this Lease without the prior written consent of the Lessor and, if this Lease and/or any improvements on the premises are mortgaged or pledged as security for a loan, without the written approval of the lender. Lessee(s) may assign the Lease or deliver possession of the premises, including any improvements thereon, to the lender or its successors in interest if Lessee(s) default(s) in any mortgage or other loan agreement for which the Lease and/or improvements on the premises are pledged as security, and, in such event, the lender or its successors in interest may transfer this Lease or possession of the premises to a successor Lessee. Nothing in this Lease shall prevent the Lessee(s) from executing and recording a mortgage, declaration of trust and/or other security instrument as may be necessary to obtain financing for the construction and/or improvement of a dwelling and related structures, or shall prevent the mortgagee or other lender from foreclosing or instituting other appropriate proceedings under law in the event of default or any mortgage or other loan agreement by the Lessee(s). Except in cases involving loans for home construction or home improvement by a bank or other recognized lending institution, where no such consent or approval of Lessor shall be required, lessee(s) may not execute a mortgage, declaration of trust or other security instrument pledging their interest in this Lease or any improvements on the premises without the prior consent of Lessor and the approval of the Secretary.

Notwithstanding the provisions contained above, the following additional requirements shall be applicable to a Lease which secures a mortgage insured or held by HUD/FHA:

- (1) Lessee(s) shall not sell or otherwise assign this Lease without the prior written consent of the tribe of which the Lessee(s) is/are member(s), if the Lessor is not such tribe.
- (2) In the event HUD acquires the mortgage secured by this

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Lease, and subsequently acquires the Lease by foreclosure, or by the assignment of the Lease by Lessee(s) (for which the approval of the tribe is not required), then:

- (a) HUD will notify the tribe of the availability of the Lease for sale, the sales price and other terms of sale.
- (b) If a purchaser is found, the Lease will be transferred by HUD to the purchaser, with the written consent and approval of the tribe.
- (c) If a purchaser cannot be found, HUD shall be entitled to sublease the leased premises to anyone wishing to sublease the same. The term of the initial sublease period and any succeeding periods shall not exceed one year each. A purchaser approved by the tribe must wait where the leased premises are sublet until the expiration of any current sublease before occupying the premises.
- (d) No mortgagee (except HUD as assignee of a mortgage) may obtain title to the interest created by this Lease without the prior written consent of the tribe.

12. OPTION. In the event of default by the Lessee(s) on any mortgage or other loan agreement for which this Lease or any improvements on the premises are pledged as security, Lessor shall have the right of first refusal to acquire the Lessee's interest in the premises (subject to all valid liens and encumbrances) upon (a) payment of all sums then in arrears, and (b) either payment of the balance of the loan or assumption of the mortgage. Said right of first refusal may be exercised at any time within thirty (30) Days after notice in writing from the lender of the Lessee's default, which notice shall be given before the lender invokes any other remedies provided under the mortgage or by law, and shall be exercised by notice in writing from the Lessor to the Lessee(s) and the lender; provided, however, that the Lessee(s) shall have fifteen (15) Days from the date of the latter notice to cure the default. The estate acquired by the Lessor through exercise of said right of first refusal shall not merge with any other estate or title held by the \_\_\_\_\_ as long as this Lease and/or any improvements on the premises, or any interest therein, are mortgaged or otherwise pledged as security for any loan, and said estate shall remain subordinate to any valid and subsisting mortgage or other security instrument. Provided: Where the Lessee(s) default(s) on a HUD/FHA insured mortgage, this option shall not be exercised by the Lessor unless: (1) HUD has considered the Lessee(s) for assignment

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forbearance relief and determined Lessee(s) to be ineligible; (2) after Lessee(s) has/have received assignment forbearance relief, HUD determines Lessee(s) to be ineligible for additional assignment relief, or (3) HUD is not required by appropriate regulation (24 CFR 203.664(b)(2)) to grant assignment forbearance relief to the Lessee(s).

13. EFFECTIVE DATE. This Lease and all its terms and provisions shall be binding upon the heirs, successors, executors, administrators and assigns of the Lessee(s) and any successor in interest to the Lessor, and shall take effect on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_.

14. OBLIGATIONS TO THE UNITED STATES. It is understood and agreed that while the leased premises are in trust or restricted status, all of the Lessee's obligations under this lease, and the obligation of his sureties, are to the United States as well as to the owner of the land.

\_\_\_\_\_, LESSOR

ATTEST:

By \_\_\_\_\_  
(Authorized Official)

WITNESS:

\_\_\_\_\_, LESSEE

\_\_\_\_\_, LESSEE

WITNESS:

APPROVED:

DATE:

\_\_\_\_\_  
Secretary of the Interior

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**8. Programs and Products - Section 248 Mortgages on Indian Land**

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RIDER FOR SECTION 248 MORTGAGE

THIS RIDER FOR SECTION 248 MORTGAGE is made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to

("Lender") of the same date and covering the property described in the Security Instrument and located at:

Property Address

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. The interests of the Borrower in the property described above were created by a lease agreement from \_\_\_\_\_ as lessor dated \_\_\_\_\_, 20\_\_\_\_. Any reference to the "Property" shall be construed as referring only to the interest of Borrower created by such lease or any replacement lease.
- B. If the Security Instrument is assigned to the Secretary of Housing and Urban Development ("Secretary"), any foreclosure proceeding may take place in a tribal court, Federal district court, or other court of competent jurisdiction. Section 248(f)(5) of the National Housing Act grants to any such court the jurisdiction to convey to the Secretary the remaining life of a lease on the property and to order eviction of the delinquent Borrower.
- C. Any purchaser at foreclosure sale other than the Secretary must receive the written consent of the lessor or, if lessor is not an Indian tribe, the tribe of which lessor is a member. The purchaser shall receive a lease for the remaining term of the existing lease unless the tribe consents to an assumption of the existing lease.
- D. This Security Instrument may be assumed, subject to credit approval by the Lender and the consent of the tribe to an assumption of the existing lease or the grant of the new lease. Assumption shall not cause any adjustment of the interest rate.
- E. A sale of property subject to the Security Instrument without an assumption of the Security Instrument may be made if a new lease

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

**8. Programs and Products - Section 248 Mortgages on Indian Land**

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for the remaining term of the existing lease is granted.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants in this Rider for Section 248 Mortgage.

\_\_\_\_\_ (SEAL)  
Borrower

\_\_\_\_\_ (SEAL)  
Borrower

ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands

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#### h. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands

##### i. Definition

FHA insures mortgages made to Native Hawaiians to purchase or refinance one- to four-family dwellings located on Hawaiian Home Lands, which are owned by the State of Hawaii, Department of Hawaiian Home Lands (DHHL) and leased to Native Hawaiians for 99 year lease terms.

##### ii. Eligibility Requirements

###### (A) Borrower Eligibility

###### (1) Native Hawaiian

A Borrower must be a native Hawaiian who is at least 18 years of age and certified as eligible to hold a Hawaiian Home Lands Lease, or possesses a lease of Hawaiian Home Lands issued under Section 207(a) of the Hawaiian Homes Commission Act, 1920, that has been certified by the Department of Hawaiian Home Lands as being a valid current lease, and not in default.

Native Hawaiian means a descendant of not less than 50 percent part of the blood of the races inhabiting the Hawaiian Islands before January 1, 1778 (or, in the case of an individual who succeeds a spouse or parent in an interest in a lease of Hawaiian Home Lands, such lower percentage as may be established for such succession under Section 209 of the Hawaiian Homes Commission Act, 1920, or under the corresponding provision of the constitution of the State of Hawaii adopted under Section 4 of the Act entitled, “An Act to provide for the admission of the State of Hawaii into the Union,” approved March 18, 1959). 12 U.S.C. § 1715z-12(d)(1).

###### (2) Principal Residence

The property must be the Borrower’s Principal Residence (leased land condominiums and townhomes are allowed).

###### (3) Co-Borrower

DHHL may be a co-Borrower on the mortgage.

###### (B) Mortgaged Property Location

The mortgaged property must be located within the Hawaiian Home Lands covered under a homestead lease issued under Section 207(a) of Hawaiian Homes Commission Act, 1920, or under the corresponding provision of the Constitution of the State of Hawaii adopted under Section 4 of the Act entitled “An Act to provide for the admission of the State of Hawaii into the Union,” approved March 18, 1959 (73 Stat. 5).

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands

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#### iii. Required Documentation

##### (A) Certificate of Eligibility

Certificates of Eligibility are issued by DHHL and certify that the Borrower possesses a homestead lease in good standing (not cancelled or in default).

The mortgagee must verify and obtain documentation that the Borrower has a Certificate of Eligibility for an existing Hawaiian Home Land lease issued by DHHL, or possesses a lease of Hawaiian Home Lands issued under Section 207(a) of the Hawaiian Homes Commission Act, 1920 (42 Stat. 110).

##### Obtaining a Certificate of Eligibility

To obtain a Certificate of Eligibility, the mortgagee must submit a [Request for Certification of Eligibility](#) form to the DHHL. DHHL will issue the Certification of Eligibility to the mortgagee.

##### (B) Copy of Homestead Lease

The mortgagee must obtain a recorded copy of either (1) the original homestead lease issued by DHHL that identifies the proposed Borrower as the lessee; or (2) the original homestead lease plus documentation of the chain of succession or assignment of the homestead lease to the Borrower and DHHL's consent to each and every transfer of the homestead lease. If the lease was issued prior the development of the Hawaii State recording system, the mortgagee must provide written confirmation from DHHL or provide other evidence that the lease was validly issued to the lessee.

The mortgagee must document all amendments to the original homestead lease. All homestead lease documents must bear evidence of having been recorded at the DHHL.

##### (C) DHHL Mortgage Insurance Program Rider

The mortgagee must obtain an executed copy of the DHHL [Mortgage Insurance Program Rider](#). This rider must be recorded in DHHL's recording system.

##### (D) DHHL Mortgage Form

The mortgagee must use the [DHHL Mortgage Form](#). The mortgagee must certify and document that the mortgage has been recorded with DHHL.

##### (E) DHHL Consent to Mortgage

The mortgagee must obtain a "Consent to Mortgage" executed by the Chairman of the Hawaiian Homes Commission and recorded with DHHL. Mortgagees can obtain

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands

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this form by writing to the Department of Hawaiian Home Lands, Attn: Loan Services Branch.

#### iv. Appraisal

Mortgagees are required to obtain only a Cost Approach Appraisal for both Existing and Proposed Construction. The Market and Sales Comparison Approaches are not required.

The following statement may be included on the [Uniform Standards of Professional Appraisal Practices \(USPAP\)](#): “The final value stated in this appraisal is not ‘market value’ as defined in USPAP. This appraisal has been completed for FHA mortgage insurance purposes, per HUD instructions for DHHL properties.” For more information on appraisal requirements, refer to the [Appraiser](#) section.

#### v. Origination

##### (A) Loan-to-Value Limits

###### (1) Purchase

The maximum LTV for purchase is 85 percent of the Adjusted Value.

###### (2) Refinance

The maximum LTV is 85 percent when the Borrower is paying off an existing mortgage and all remaining proceeds are used for documented home improvement.

The maximum LTV is 75 percent when the refinance is for the purpose of consolidating debt.

The Borrower cannot receive any cash back at closing.

##### (B) Mortgage Insurance Premium

The Mortgage Insurance Premium (MIP) payment on a Section 247 Mortgage is a one-time upfront MIP of 380 basis points (bps).

Annual or periodic MIPs are not assessed on Section 247 mortgages.

#### vi. Underwriting

For refinance transactions, for the purpose of consolidating debt, the mortgagee must include all debt, including those being paid off through the refinance, when calculating the Borrower’s debt ratio.

## **II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

### **8. Programs and Products - Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands**

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#### **vii. Closing**

##### **(A) Lien Position**

The Section 247 mortgage must give rise to a valid and secured interest in the mortgaged property. However, the lien is not required to be in first position.

##### **(B) Recordation**

The mortgage must be recorded in DHHL's recording system upon closing of the mortgage. The documents must NOT be recorded at the State of Hawaii Bureau of Conveyances or filed with the Office of Assistant Registrar of the Land Court. Recordation at either of these offices does not effectuate a lien on the Hawaiian Home Lands lease.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - New Construction

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#### i. New Construction

##### i. Definitions

New Construction refers to properties that are Proposed, Under Construction, or were completed within one year as defined below:

- Proposed Construction refers to a property where no concrete or permanent material has been placed. Digging of footing and placement of rebar is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing for Less than One Year refers to a property that is 100 percent complete and has been completed less than one year from the date of the issuance of the CO or equivalent. The property must have never been occupied.

Pre-Approval refers to properties that are less than one year old and meet one of the following requirements:

- property was appraised and the mortgagee issued form [HUD-92800.5B](#), *Conditional Commitment Direct Endorsement Statement of Appraised Value*, before construction started;
- a building permit or its equivalent has been issued by a local jurisdiction (not applicable to Manufactured Housing); or
- the mortgagee issued an Early Start Letter.

Early Start Letter refers to the document issued by the mortgagee in response to a builder's request to start construction before the appraisal is completed. The Early Start Letter indicates the mortgagee's approval of the property before issuance of form [HUD 92800.5B](#) and without affecting the maximum mortgage amount. The mortgagee can issue the Early Start Letter if local jurisdiction has issued a building permit and a case number has been assigned.

Ten-year warranty refers to an agreement between the Borrower and a plan issuer which contains warranties regarding the construction and structural integrity of the Borrower's dwelling securing the FHA-insured mortgage. The plan must be a [HUD-accepted insured ten-year protection plan](#).

#### ii. Inspections or Warranties for Maximum Financing

##### (A) Site Built Housing and Condominiums (By Construction Status at Time of Appraisal)

###### (1) Proposed Construction

The mortgagee must obtain one of the following:

- copies of the building permit and CO (or equivalent);

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - New Construction

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- three inspections (footing, framing and final) performed by an FHA Roster Inspector on form [HUD-92051](#), *Compliance Inspection Report* (for Modular Housing, footing and final only);
- three inspections (footing, framing and final) performed by the local authority with jurisdiction over the property (for Modular Housing, footing and final only); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the property or an FHA Roster Inspector.

#### (2) Under-Construction

The mortgagee must obtain:

- copies of the building permit and CO (or equivalent); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the property or an FHA Roster Inspector.

#### (3) Existing for Less than One Year (100 Percent Complete)

The mortgagee must obtain:

- copies of the building permit and CO (or equivalent); or
- a 10-year warranty and final inspection issued by the local authority with jurisdiction over the property or an FHA Roster Inspector; or
- an appraisal evidencing property is 100 percent complete.

### (B) Manufactured Housing (By Construction Status at Time of Appraisal) Inspection Requirements for Maximum Financing

#### (1) Proposed Construction

The mortgagee must obtain:

- two inspections (initial and final) performed by an FHA Roster Inspector; or
- two Inspections (initial and final) performed by the certifying engineer or architect; or
- a 10-year warranty and final inspection issued by an FHA Roster Inspector or certifying engineer or architect.

#### (2) Under Construction

The mortgagee must obtain a 10-year warranty and final inspection issued by the FHA Roster Inspector or certifying engineer or architect.

#### (3) Existing for Less than One Year (100 Percent Complete)

The mortgagee must obtain a 10-year warranty and final inspection issued by the FHA Roster Inspector or certifying engineer or architect.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - New Construction

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HUD will only accept inspections by a local building authority on Manufactured Housing properties if there are no FHA Roster Inspectors available to perform these inspections. The mortgagee must document efforts to obtain an FHA Roster Inspector.

#### iii. Required Documentation for Maximum Financing

The mortgagee also must obtain and include the following documents in the case binder:

- Form [HUD-92541](#), *Builder's Certification of Plans, Specifications, and Site*;
- Form [HUD-92544](#), *Warranty of Completion of Construction*;
- Evidence that the property was pre-approved or the 10-year warranty plan:
  - Evidence of pre-approval is the Early Start Letter or copy of building permit issued by local authority prior to start of construction.
  - For a 10-year warranty plan, evidence of acceptance or enrollment in the plan is required; the application alone is not acceptable.
- Required inspections;
- Wood Infestation Report, if located in a [Termite Infestation Probability \(TIP\) Zone](#) other than "None to Slight":
  - Form [HUD-NPMA-99-A](#), *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.
  - Form [HUD-NPMA-99-B](#), *New Construction Subterranean Termite Service Record*, is required when the proposed property is treated with a soil chemical termiticide. The mortgagee must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

#### iv. Financing LTV Limit

Properties that are Under Construction or Existing for Less than One Year are limited to a 90 percent LTV unless they meet the [Pre-Approval requirements](#) or are covered with a [HUD-accepted insured ten-year protection plan](#), and they meet the [required documentation](#) set forth above.

For a mortgage with an LTV of 90 percent or less, the mortgagee must obtain:

- Form [HUD-92541](#), *Builder's Certification of Plans, Specifications, and Site*;
- Final inspection or appraisal, if property is 100 percent complete;
- Wood Infestation Report, if located in a [Termite Infestation Probability \(TIP\) Zone](#) other than "None to Slight":
  - Form [HUD-NPMA-99-A](#), *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - New Construction

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wood trim and roof sheathing, no treatment is needed. The mortgagee must ensure that the builder notes on the form that the construction is masonry, steel, or concrete.

- Form [HUD-NPMA-99-B](#), *New Construction Subterranean Termite Service Record*, is required when the proposed property is treated with a soil chemical termiticide. The mortgagee must reject the use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation.
- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.

#### v. Documents to be Provided to Appraiser at Assignment

The mortgagee must provide the appraiser with a fully executed form [HUD-92541](#), signed and dated no more than 30 Days prior to the date the appraisal was ordered.

For properties 90 percent completed or less, the mortgagee must provide a copy of the floor plan, plot plan, and any other exhibits necessary to allow them to determine the size and level of finish of the house they are appraising.

For properties greater than 90 percent but less than 100 percent completed, the mortgagee must provide the appraiser with a list of components to be installed or completed after the date of inspection.

#### vi. Property Considerations

New Construction must meet HUD Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

#### vii. Mortgagee Review of Appraisal

##### (A) Site Considerations

##### (1) Operating Oil or Gas Wells

If a proposed or newly constructed dwelling is located within 75 feet of an operating oil or gas well, the mortgagee must reject the property unless mitigation measures are completed.

##### (2) Slush Pits

If a property is Proposed Construction near an active or abandoned Slush Pit, the appraiser must require a survey to locate the pit. The mortgagee is to assess any impact on the subject property.

### **(3) Special Airport Hazards**

If a proposed or newly constructed property is located within Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields, the mortgagee must reject the property for insurance.

A proposed or newly constructed property located in Accident Potential Zone I at military airfields may be eligible for FHA mortgage insurance provided that the mortgagee determines that the property complies with Department of Defense guidelines.

### **(4) Flood Hazard Areas**

If any portion of the property improvements (the dwelling and related Structures/equipment essential to the value of the property and subject to flood damage) is located within a Special Flood Hazard Area (SFHA), the mortgagee must reject the property, unless:

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA is obtained from the Federal Emergency Management Agency (FEMA); or
- the mortgagee obtains a FEMA National Flood Insurance Program (NFIP) Elevation Certificate ([FEMA Form 81-31](#)), that documents that the lowest floor (including the basement) of the residential building and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria. The mortgagee must ensure that the flood elevation certificate is prepared by a licensed engineer or surveyor and completed based on finished construction.

The mortgagee must include the LOMA, LOMR, or flood elevation certificate with the case when it is submitted for endorsement.

The mortgagee must ensure that insurance under the NFIP is obtained when a flood elevation certificate documents that the property remains located within an SFHA.

### **(5) Individual Well**

The mortgagee must ensure that new wells are drilled and are no less than 20 feet deep and cased. Casing should be steel or other casing material that is durable, leak-proof, and acceptable to either the local health authority or the trade or profession licensed to drill and repair wells in the local jurisdiction.

A well located within the foundation walls of New Construction is not acceptable except in arctic or sub-arctic regions.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - New Construction

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For New and Proposed Construction, if the local or state health authority requires greater distances, the mortgagee must ensure that the property complies with the local or State requirements. The mortgagee cannot submit a waiver for new or Proposed Construction distances that do not meet these minimum requirements.

#### (6) Shared Well

A shared well is permitted only if the mortgagee obtains evidence that:

- it is not feasible to serve the housing by an acceptable public or community water system; and
- the housing is located in an area other than in an area where local officials have certified that installation of public or adequate community water and sewer systems are economically feasible.

#### (B) Sales Comparison Approach: Comparable Selection

For properties in new subdivisions, the selected comparable sales must include at least one sale outside the subdivision or project and at least one sale from within the subdivision or project.

#### viii. Completion of Construction

Regardless of the inspection process used, the mortgagee must certify on form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, that the property is 100 percent complete and meets HUD's MPR and MPS.

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**8. Programs and Products - Construction to Permanent**

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**j. Construction to Permanent**

**i. Definition**

A Construction to Permanent mortgage 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 with a single mortgage closing prior to the start of construction.

**ii. Borrower Eligibility**

The Borrower must have contracted with a builder to construct the improvements. The builder must be a licensed general contractor. The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

**iii. Property Eligibility**

The Borrower must be purchasing the land at the closing of the construction loan, or have owned the land for six months or less at the date of case number assignment.

**iv. Calculating Maximum Mortgage Amount**

The maximum mortgage amount is calculated using the appropriate [purchase Loan-to-Value \(LTV\)](#) percentage of the lesser of the appraised value or the documented Acquisition Cost.

The documented Acquisition Cost of the property includes:

- the builder's price to build;
- Borrower-paid extras over and above the contract specifications and/or out-of-pocket expenses not included in the builder's price to build;
- cost of the land if already owned, or with an acceptable gift documentation, the appraised value of the land may be used instead of the cost; and
- closing costs associated with any interim financing of the land.

If the land is being purchased from the builder, the cost must be included in the builder's price to build.

**v. Minimum Required Investment**

**(A) Standard**

The Borrower may utilize any cash investment in the Acquisition Cost of the property to satisfy the Minimum Required Investment (MRI).

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**8. Programs and Products - Construction to Permanent**

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**(B) Required Documentation**

The mortgagee must document the cash investment was from an acceptable source of funds in accordance with [TOTAL](#) or [manual underwriting](#) requirements as applicable.

The mortgagee must document the cost and date of purchase of the land, if already owned, by obtaining the Settlement Statement or similar legal document.

The mortgagee must document any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price to build by obtaining evidence funds were derived from an acceptable source. The mortgagee must obtain an itemization of the extras and expenses and the cost of each item.

**vi. Mortgage Interest Rate**

During the construction period, the interest rate may be variable. The mortgagee and the Borrower must enter into an agreement that:

- documents the range in which the interest rate may float during construction;
- documents the point of interest rate lock-in;
- specifies that the permanent mortgage will not exceed a specific maximum interest rate; and
- permits the Borrower to lock in at a lower rate, if available and they have not already locked in a rate.

The mortgagee must qualify the Borrower for the mortgage at the maximum rate at which the permanent mortgage may be set.

**vii. Documentation Requirements for Closing**

In addition to standard FHA documents, the following documents must be used:

- (A) A Construction Rider to the Note, and Construction Loan Agreement. These construction documents may be in any form acceptable to the mortgagee, but they must provide that all special construction terms end when the construction loan converts to a permanent mortgage. After conversion, only the permanent mortgage terms (based on standard documents) continue to be effective, making the permanent mortgage eligible for FHA mortgage insurance.
- (B) A disclosure issued to the Borrower explaining that the mortgage is not eligible for FHA mortgage insurance until after a final inspection, or the issuance of a certificate of occupancy by the local governmental jurisdiction, whichever is later.
- (C) Either, a fully executed contract agreement between the builder and the Borrower, which includes the contractor's price to build; or documentation of

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Construction to Permanent

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the actual costs of construction where the Borrower is acting as the general contractor.

- (D) Documentation of land acquisition or land ownership.
- (E) A payoff statement and evidence of the actual payoff if mortgage proceeds are used to purchase or pay off debt on the land.

#### viii. Escrow Account

At closing, after funds are disbursed to cover the purchase of the land, the balance of the mortgage proceeds must be placed in an escrow account to be disbursed as construction progresses.

The mortgagee must obtain the Borrower's written authorization for each draw prior to disbursing funds to the contractor.

After completion of construction, the construction escrow account must be fully extinguished, and any remaining funds must be applied to the outstanding principal balance of the permanent mortgage.

#### ix. Documentation Required for Endorsement

If the LTV exceeds 90 percent, the mortgagee must comply with [Inspections or Warranties for Maximum Financing](#) and [Required Documentation for Maximum Financing](#).

If the LTV is 90 percent or less, the mortgagee must comply with the documentation requirements found in the New Construction [Financing LTV Limit](#).

The following documentation is required for mortgage endorsement:

- The mortgagee must obtain a title update after conversion to the permanent mortgage to show that the mortgaged property is free and clear of all liens other than the mortgage.
- The mortgagee must verify and document that the construction was fully drawn down and that any remaining funds were used to pay down the principal balance on the permanent mortgage.

#### x. Endorsement

The mortgage must be endorsed within 60 Days of the final inspection or issuance of the Certificate of Occupancy (CO), whichever is later.

#### xi. Start of Amortization

Amortization of the permanent mortgage must begin no later than the first of the month following 60 Days from the date of the final inspection or issuance of the CO.

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**8. Programs and Products - Building on Own Land**

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**k. Building on Own Land**

**i. Definition**

Building on Own Land refers to a product of the 203(b) program used to finance the construction of a dwelling on land already owned by the Borrower for greater than 6 months.

**ii. Borrower Eligibility**

The Borrower must have contracted with a builder to construct the improvements. The builder must be a licensed general contractor. The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

**iii. Maximum Mortgage Amount**

The mortgagee must use the lesser of the Property Value or the documented Acquisition Cost to determine the Adjusted Value.

The documented Acquisition Cost of the property includes:

- builder's price or the sum of all subcontractor bids and materials;
- value of the land as shown in the site value of the appraisal; and
- interest and other costs associated with a construction loan obtained by the Borrower to fund construction.

**iv. Minimum Required Investment**

The mortgage is calculated using the [purchase Loan-to-Value \(LTV\)](#) limits. The Settlement Statement or similar legal document may be prepared as a refinance transaction. The mortgagee must document any borrower required funds to close are from an acceptable source of funds in accordance with [TOTAL](#) or [manual underwriting](#) requirements as applicable.

If the land was given as a gift to the Borrower, the mortgagee must verify that the donor was not a prohibited source.

The mortgagee must obtain standard gift documentation for any gift of land.

**v. Borrower's Additional Equity in the Property**

The Borrower may not receive cash back from the additional equity in the property, but the Borrower may replenish their own cash expenditures for any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price. The mortgagee must obtain an itemization of the extras and expenses and the cost of each item.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Building on Own Land

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#### vi. Required Documentation

The mortgagee must comply with general [New Construction](#) requirements.

The mortgagee must document the date of purchase of the land by obtaining the Settlement Statement or similar legal document.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Weatherization

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#### I. Weatherization

The weatherization product permits the Borrower to finance the cost of eligible energy-related weatherization improvements, in conjunction with a purchase or refinance.

##### i. Eligibility

###### (A) Eligible Programs and Transaction Types

Weatherization improvements may be financed in conjunction with the following:

- Section 203(b)
  - purchase transaction
  - no cash-out refinance transaction
- [Section 203\(h\) Mortgage Insurance for Disaster Victims](#)
- [Energy Efficient Mortgages \(EEM\)](#)

For financing of weatherization under the 203(k) Rehabilitation Mortgage Insurance Program, refer to [203\(k\) Rehabilitation Mortgage Insurance Program](#).

###### (B) Eligible Property Types

Weatherization improvements may be used on the following property types:

- existing properties (one- to four-units)
- condominiums (one unit)
- Manufactured Housing (single unit)

###### (C) Eligible Weatherization Items

Eligible energy-related weatherization items include the following measures:

- air sealing (including weather-stripping doors, caulking window and plumbing penetrations)
- insulation (attic, floors, walls, basement)
- duct sealing and insulation
- smart thermostats and equipment controls
- windows and doors
- low flow water fixtures
- carbon monoxide monitors and other combustion appliance safety measures

###### (D) Maximum Dollar Amount

The maximum allowable cost of energy-related weatherization items that can be financed is:

- \$2,000 (not to exceed actual cost) without a separate value determination;
- \$3,500 (not to exceed actual cost) if supported by a value determination made by an approved FHA Roster appraiser or Direct Endorsement (DE) underwriter; or

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Weatherization

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- no limit (not to exceed actual cost) if:
  - supported by a value determination made by an approved appraiser or underwriter; and
  - a separate on-site inspection is made by an FHA-approved fee inspector or DE staff appraiser.

#### **(E) Required Documentation**

The mortgagee must document the cost of work including the weatherization materials and labor.

#### **(F) Maximum Mortgage Amount Calculation**

When determining the Adjusted Value, the dollar limit may be added to both the sales price and the appraised value.

#### **(G) Weatherization Combined with Energy Efficient Mortgage**

For existing properties, energy-related weatherization items may be combined with the EEM.

#### **(H) Cash-Out**

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, funds must be applied to the principal mortgage balance.

#### **(I) Escrows**

The mortgagee must establish an escrow account for the remaining costs of the energy improvements if the installation of weatherization items is not complete by the time of closing. Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.

Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).

#### **(J) Form HUD-92300, Mortgagee's Assurance of Completion**

When funds to complete the solar or wind energy systems are escrowed, the mortgagee must execute form [HUD-92300](#), *Mortgagee's Assurance of Completion*, to indicate that the escrow for the solar or wind improvements has been established.

### **ii. Completion Requirements for Weatherization Measures**

#### **(A) Time of Completion**

Installation of solar and wind energy systems must be completed within

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Weatherization

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- 30 Days of the mortgage Disbursement; or
- 90 Days of the mortgage Disbursement if the improvements are part of an energy package for an EEM.

The mortgagee must apply the remaining weatherization escrow funds to a prepayment of the mortgage principal if the work is not completed within the required time frames.

#### **(B) Inspection**

The mortgagee or their agent must inspect the weatherization items or obtain evidence from a local authority that the system was installed in accordance with local requirements.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Solar and Wind Technologies

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#### m. Solar and Wind Technologies

The solar and wind technologies policy allows the mortgagee to increase the Base Loan Amount to cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the property at the time of a purchase or refinance.

##### i. Eligibility

###### (A) Eligible Property Types

The following property types are eligible for the solar and wind technologies policy:

- one- to four-unit properties
- Manufactured Housing (one unit)

Condominium units are ineligible for solar and wind technologies.

###### (B) Eligible Programs and Transaction Types

Costs for new solar and wind energy systems may be added to an FHA-insured base mortgage, for the following programs:

- Section 203(b)
  - purchase transaction
  - Rate and Term refinance and Simple Refinance
- [Section 203\(h\) Mortgage Insurance for Disaster Victims](#)

##### ii. Eligible Solar and Wind Technologies

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

###### (A) Photovoltaic Systems

Photovoltaic systems must provide electricity for the residence, and must meet applicable fire and electrical code requirement.

###### (B) Wind Turbine for Residential Properties

A wind turbine must:

- have a nameplate capacity of no more than 100 kilowatts;
- have a performance and safety certification from:
  - the International Electrotechnical Commission (IEC) standards from an accredited product certification body; or
  - the American Wind Energy Association (AWEA) standards from the Small Wind Certification Council (SWCC) or a Nationally Recognized Testing Laboratory (NRTL); and
- be installed by an installer who has received either a North American Board of Certified Energy Practitioners Small Wind Installer Certification or small wind turbine installation training from an accredited training organization.

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**8. Programs and Products - Solar and Wind Technologies**

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**iii. Title to Systems**

The Borrower must own, not lease, solar or wind energy systems for the systems to be considered eligible improvements. Leased equipment and Solar Power Purchase Agreements (SPPA) may not be financed under any FHA Title II programs.

**iv. Maximum Mortgage Amount Calculation**

**(A) Maximum Mortgage Amount - Purchase**

The mortgagee must compute the Adjusted Value by using the purchase price excluding the cost and installation of the solar or wind technology system and the Property Value excluding the cost and installation of the solar or wind technology system.

The mortgagee must add the lesser of:

- the cost and installation of the solar or wind technology system; or
- 20% of the Property Value to the Base Loan Amount.

The mortgagee must exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

**(B) Maximum Mortgage Amount - Refinance**

The mortgagee must compute the Adjusted Value by using the Property Value without the cost and installation of the solar or wind technology system.

The mortgagee must add the lesser of:

- the cost and installation of the solar or wind technology system; or
- 20% of the Property Value to the Base Loan Amount.

The mortgagee must exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.

**(C) Nationwide Mortgage Limit – Purchase and Refinance**

The Base Loan Amount may exceed the [Nationwide Mortgage Limit](#) for the geographical area [See [Maximum Mortgage Amounts](#)] by no more than 20 percent.

**v. Required Documentation**

The mortgagee must document the cost of work, including the energy systems' materials and labor.

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**  
**8. Programs and Products - Solar and Wind Technologies**

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**vi. Cash-Out**

The Borrower may not receive cash back from the mortgage transaction. If an excess exists, the mortgagee must apply these funds to the principal mortgage balance.

**vii. Escrows**

The mortgagee must establish an escrow account for the remaining cost of the energy improvements if the installation of solar or wind energy systems is not complete by the time of closing. Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.

**(A) Borrower Labor**

Escrows may not include costs for labor or work performed by the Borrower (Sweat Equity).

**(B) Required Documentation: Form HUD-92300, Mortgagee's Assurance of Completion**

When funds to complete the solar or wind energy systems are escrowed, the mortgagee must execute form [HUD-92300](#), *Mortgagee's Assurance of Completion*, to indicate that the escrow for the solar or wind improvements has been established.

**viii. Completion Requirements for Solar and Wind Technology Installation**

**(A) Time of Completion**

Installations of solar and wind energy systems must be completed within 120 Days of the mortgage closing.

The mortgagee must apply the remaining solar and wind escrow funds to a prepayment of the mortgage principal, if the work is not completed within the required time frames.

**(B) Inspection**

The mortgagee or their agent must inspect the solar and wind improvement or obtain evidence from a local authority that the system was installed in accordance with local code.

**n. Assumptions**

**i. Definition**

Assumption refers to the transfer of an existing mortgage obligation from an existing Borrower to the assuming Borrower.

**ii. Occupancy Eligibility Requirements**

If the original mortgage was closed on or after December 15, 1989, the assuming Borrower must intend to occupy the property as a Principal Residence or HUD-approved Secondary Residence.

If the original mortgage was closed prior to December 15, 1989, the assuming Borrower may assume the mortgage as a Principal Residence, HUD-approved Secondary Residence or Investment Property.

**iii. Restrictions on Loan-to-Value Ratio**

**(A) Investment Property**

The maximum Loan-to-Value (LTV) for an Investment Property assumption is 75%.

Either the original appraised value or new Property Value may be used to determine compliance with the 75% LTV limitation.

**(B) HUD-Approved Secondary Residence**

The maximum LTV for a HUD-approved Secondary Residence assumption is 85%.

Either the original appraised value or new Property Value may be used to determine compliance with the 85% LTV limitation.

**iv. Processing of an Assumption**

**(A) Initiating Processing**

Mortgagees must complete form [HUD 92210](#), *Request for Credit Approval of Substitute Mortgagor*, or equivalent form to document its processing of an assumption. The completion of such form does not formally release the original borrower from personal liability for the mortgage Note.

**(B) Release of Liability**

The mortgagee must prepare form [HUD 92210.1](#), *Approval of Purchaser and Release of Seller*, thereby releasing the original owner when they sell by assumption to the assuming Borrower who executes an agreement to assume the mortgage and to pay the debt.

**v. Underwriting Review**

Assuming Borrowers must be underwritten in accordance with [Origination through Post-Closing/ Endorsement](#), except for the following sections:

- Ordering Case Numbers
- Ordering Appraisal
- Transferring Existing Appraisal
- Ordering Second Appraisal
- Ordering an Update to an Appraisal
- Property Eligibility and Acceptability Criteria
- National Housing Act's Statutory Limits
- Nationwide Mortgage Limits
- Underwriting the Property
- Underwriting the Borrower Using the TOTAL Mortgage Scorecard

**(A) Exceptions in Case of Transfer by Devise or Descent**

The mortgagee may process an assumption without credit review of the assuming Borrower if the transfer is by devise or 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, and the assuming Borrower can demonstrate that they have made the Mortgage Payments for a minimum of six months prior to case number assignment.

**(B) Exception to Minimum Required Investment**

The assuming Borrower is not required to make a cash investment in the property. The assuming Borrower may assume 100% of the outstanding principal balance of the mortgage.

**(C) Responsibility of Direct Endorsement Underwriter**

The holding or servicing mortgagee is responsible for the underwriting review. The review must be completed by a Direct Endorsement (DE) underwriter registered by the mortgagee in FHA Connection ([FHAC](#)). Where the holding or servicing mortgagee does not originate mortgages or is not approved under the DE program, it may:

- contract with a DE underwriter to perform the review; or
- have an Authorized Agent perform the review.

**(D) Use of TOTAL Mortgage Scorecard for Assumptions**

The TOTAL Mortgage Scorecard must not be used for assumptions. The DE underwriter must manually underwrite the assumption.

## II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

### 8. Programs and Products - Assumptions

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#### vi. Allowable Fees and Charges

##### (A) Processing Fee and Other Costs

Mortgagees may charge the assuming Borrower a maximum fee of \$500 for the processing of an assumption in addition to the actual costs incurred for credit reports and other expenses.

##### (B) Interested Party Contributions

The seller or other Interested Parties may make contributions toward the assuming Borrower's actual closing costs consistent with the requirements in [Interested Party Contributions](#).

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

**8. Programs and Products - HUD REO Purchasing**

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**o. HUD REO Purchasing**

**PENDING – UNDER CONSTRUCTION**

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

**B. 203(k) Consultant Requirements**

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**B. 203(K) CONSULTANT REQUIREMENTS**

**PENDING – UNDER CONSTRUCTION**

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

**C. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND REVERSE MORTGAGES**

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**C. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND REVERSE MORTGAGES**

**PENDING – UNDER CONSTRUCTION**

**II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

**D. Condominium Project Approvals**

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**D. CONDOMINIUM PROJECT APPROVALS**

**PENDING – UNDER CONSTRUCTION**

**APPENDIX 1.0 – MORTGAGE INSURANCE PREMIUMS**

<b>Upfront Mortgage Insurance Premium (UFMIP)</b>	
All mortgages: 175 basis points (bps) (1.75%) of the Base Loan Amount.	
Exceptions: <ul style="list-style-type: none"> <li>• Streamline Refinance and Simple Refinance mortgages used to refinance a previous FHA-endorsed mortgage on or before May 31, 2009</li> <li>• Hawaiian Home Lands (Section 247)</li> <li>• Indian Lands (Section 248)</li> </ul>	
Indian Lands (Section 248) do not require a UFMIP.	

<b>Annual Mortgage Insurance Premium (MIP)</b>			
Applies to all mortgages except:			
<ul style="list-style-type: none"> <li>• Streamline Refinance and Simple Refinance mortgages used to refinance a previous FHA endorsed mortgage on or before May 31, 2009</li> <li>• Hawaiian Home Lands (Section 247)</li> </ul>			
Hawaiian Home Lands (Section 247) do not require Annual MIP.			
<b>Mortgage Term of More Than 15 Years</b>			
Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to \$625,500	≤ 90.00%	130	11 years
	> 90.00% but ≤ 95.00%	130	Mortgage term
	> 95.00%	135	Mortgage term
Greater than \$625,500	≤ 90.00%	150	11 years
	> 90.00% but ≤ 95.00%	150	Mortgage term
	> 95.00%	155	Mortgage term
<b>Mortgage Term of Less than or Equal to 15 Years</b>			
Base Loan Amount	LTV	MIP (bps)	Duration
Less than or equal to \$625,500	≤ 90.00%	45	11 years
	> 90.00%	70	Mortgage term
Greater than \$625,500	≤ 90.00%	70	11 years
	> 90.00%	95	Mortgage term

**Streamline Refinance, Simple Refinance:**

<b>For refinance of previous mortgage endorsed on or before May 31, 2009</b>			
UFMIP: 1 (bps) (.01%) All mortgages			
<b>All Mortgage Terms</b>			
Base Loan Amount	LTV	Annual MIP (bps)	Duration
All	≤ 90.00%	55	11 years
	> 90.00%	55	Mortgage term
For mortgages where FHA does not require an appraisal, the value from the previous mortgage is used to calculate the LTV.			

**Hawaiian Home Lands Section 247**

<b>Hawaiian Home Lands Upfront MIP (UFMIP)</b>				
	<b>Loan Term in Years</b>			
	≤18	>18 and ≤22	>22 and ≤25	>25
MIP Financed	2.400%	3.000%	3.600%	3.800%
MIP not Financed	2.344%	2.913%	3.475%	3.661%
Annual MIP is not assessed on Section 247 mortgages.				

APPENDIX 2.0 – ANALYZING IRS FORMS

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	<p>An amount shown under this heading may indicate that the individual:</p> <ul style="list-style-type: none"> <li>• is a salaried employee of a corporation; or</li> <li>• has other sources of income.</li> </ul> <p>This section may also indicate that the spouse is employed, in which case the spouse’s income must be subtracted from the Borrower’s gross income.</p>
Employee Business Expenses (from Schedule A)	<p>Unreimbursed employee business expenses, as shown on IRS Form 2106, are actual cash expenses that must be deducted from the gross income.</p> <p>Depreciation due to business use of a vehicle may be added to the gross income.</p>
Business Income and Loss (from Schedule C)	<p>Sole proprietorship income calculated on Schedule C is business income.</p> <p>Depreciation, depletion, amortization, and casualty losses may be added back to the gross income.</p>
Business Use of Home	<p>Mortgage interest, mortgage insurance premiums, real estate taxes, and property insurance deducted for business use of house may be added back to the gross income.</p>
Rents, Royalties, Partnerships (from Schedule E)	<p>Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.</p>
Capital Gain and Losses (from Schedule D)	<p>Capital gains or losses generally occur only one time, and should not be considered when determining Effective Income.</p> <p>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 earnings trend. If the trend:</p> <ul style="list-style-type: none"> <li>• results in a gain, it may be added as Effective Income; or</li> <li>• consistently shows a loss, it must be deducted from the total income.</li> </ul>

IRS Form 1040 Heading	Description
Interest and Dividend Income (from Schedule B)	<p>This taxable/tax-exempt income may be added back to the adjusted gross income only if it:</p> <ul style="list-style-type: none"> <li>• has been received for the past two years; and</li> <li>• is expected to continue.</li> </ul> <p>If the interest-bearing asset will be liquidated as a source of the cash investment, the mortgagee must appropriately adjust the amount.</p>
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the 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	<p>Adjustments to income may be added back to the adjusted gross income if they are:</p> <ul style="list-style-type: none"> <li>• IRA and Keogh retirement deductions; or</li> <li>• penalties on early withdrawal of savings health insurance deductions, and Alimony payments.</li> </ul>

### Analyzing IRS Form 1120, U.S. Corporation Income Tax Return

A Corporation refers to a state-chartered business owned by its stockholders.

To determine the Borrower’s income, the adjusted business income must be multiplied by the Borrower’s percentage of ownership in the business.

Corporate compensation to the officers, in proportion to the percentage of ownership, is shown on the corporate tax return (IRS Form 1120), and individual tax returns. If the Borrower’s percentage of ownership does not appear on the tax returns, the mortgagee must obtain the information from the corporations’ accountant, along with evidence that the Borrower has the right to any compensation.

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.
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.

**Analyzing IRS Form 1120S, *U.S. Income Tax Return for an S Corporation***

An “S” Corporation refers to 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 IRS Form 1120S, Compensation of Officers line item is transferred to the Borrower’s individual IRS Form 1040.

Depreciation and depletion may be added back to income in proportion to the Borrower’s percentage of ownership in the corporation.

The Borrower’s income must be reduced proportionately by the total obligations payable by the corporation in less than one year.

**Analyzing IRS Form 1065, *U.S. Return of Partnership Income***

A Partnership refers to when two or more individuals form a business, and share in profits, losses, and responsibility for running the company. Each partner pays taxes on their proportionate share of the partnership’s net income.

Both general and limited partnerships report income on IRS Form 1065, and the partners’ share of income is carried over to Schedule E of IRS Form 1040.

Both depreciation and depletion may be added back to the income in proportion to the Borrower’s share of the income.

The Borrower’s income must be reduced proportionately by the total obligation payable by the partnership in less than one year.

## APPENDIX 3.0 – GLOSSARY

### **30-Day Accounts**

30-Day Accounts refers to a credit arrangement that requires the Borrower to pay the outstanding balance on the account every month.

### **Active Duty**

Active Duty refers to a status where a person has a full-time military occupation.

### **Adjustable Rate Mortgage**

An Adjustable Rate Mortgage (ARM) refers to a mortgage in which the interest rate can change annually based on an index plus a margin.

### **Adjusted Value**

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

- purchase price less any inducements to purchase; or
- the Property Value.

For refinance transactions:

- For properties acquired by the Borrower within 12 months of the case assignment date the Adjusted Value is the lesser of:
  - the lowest sales price of the property in the past 12 months, plus any documented improvements made subsequent to the purchase; or
  - the Property Value.
- 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; and
- For properties acquired by the Borrower greater than or equal to 12 months prior to the case assignment date the Adjusted Value is the Property Value.

### **Affiliate**

An Affiliate is a contractor, agent, vendor, subservicer, or sponsored Third-Party Originator that participates in FHA programs on behalf of an FHA-approved mortgagee.

### **Alimony, Child Support, or Maintenance Income**

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

### **Annuity Income**

Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source other than employment.

### **Authoritative Copy**

The Authoritative Copy refers to the controlling reference copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the mortgagee or holder as the controlling reference copy.

**Automobile Allowance**

Automobile Allowance refers to the funds provided by the Borrower's employer for automobile related expenses.

**Base Loan Amount**

The Base Loan Amount is the mortgage amount prior to the addition of any financed Upfront Mortgage Insurance Premium (UFMIP). Unless otherwise stated in this *SF Handbook*, all references to maximum mortgage amount or mortgage amount refer to the Base Loan Amount.

**Boarder**

Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

**Borrower**

Borrower refers to each and every Borrower on the mortgage application.

**Business Relationship**

Business Relationship refers to an association between individuals or companies entered into for commercial purposes.

**Cash on Hand**

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

**Combined Loan-to-Value (CLTV)**

The CLTV is computed as the Base Loan Amount plus the outstanding principal balance of all subordinate mortgage(s) divided by the Adjusted Value.

**Combined Rate**

Combined Rate refers to the interest rate on the mortgage plus the Mortgage Insurance Premium rate.

**Commission Income**

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

**Condominium Project**

A Condominium Project refers to a multiunit property in which persons hold title to individual units and an undivided interest in common elements. Examples of common elements (areas) include underlying land and building Structures, driveways, parking areas, elevators, outside hallways, and recreation and landscaped areas. Common areas are typically managed by a Homeowners' Association.

**Contract Execution Date**

Contract Execution Date refers to the date the contract has been executed by all parties.

**Contributory Value**

Contributory Value refers to the change in the value of a property as a whole, whether positive or negative, resulting from the addition or deletion of a property component.

**Days**

Days refer to calendar Days.

**Disbursement**

Disbursement refers to the release of mortgage proceeds to the Borrower.

**Disbursement Date**

The Disbursement Date refers to the date the proceeds of the mortgage are made available to the Borrower.

**Disputed Derogatory Credit Account**

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

**Dwelling Unit**

Dwelling Unit refers to a single unit of residence for a household of one or more persons.

**Early Start Letter**

Early Start Letter refers to the document issued by the mortgagee in response to a builder's request to start construction before the appraisal is completed.

**Economic Event**

Economic Event refers to any occurrence beyond the Borrower's control that results in loss of employment, loss of income, or a combination of both, which causes a reduction in the Borrower's household income of 20 percent or more for a period of at least six months.

**Effective Income**

Effective Income refers to income that may be used to qualify a Borrower for a mortgage.

**Eligible Contractor**

Eligible Contractor refers to a contractor that meets all state and local licensing requirements.

**Employer Assistance**

Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, Mortgage Insurance Premiums, or any portion of the Minimum Required Investment.

**Employer Housing Subsidy**

Employer Housing Subsidy refers to employer provided mortgage assistance.

**Employment Authorization Document (EAD)**

Employment Authorization Document refers to the form provided by the U.S. Citizenship and Immigration Services (USCIS) that proves an individual is allowed to work in the United States for a specific period of time.

**Employment Income**

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

**Entity**

Entity refers to a business Entity such as a corporation, trust, partnership, or sole proprietorship.

**Equivalent System**

A system equivalent to the Credit Alert Verification Reporting System (CAIVRS) provided by HUD that mortgagees may use to obtain information on delinquent Federal Debts from public records, credit reports or other sources.

**Excluded Parties**

Excluded Parties refer to business parties that have been suspended and/or debarred from further participation in HUD and other federal government programs due to unethical business practice.

**Existing Construction**

Existing Construction refers to a property that has been 100 percent complete for over one year or has been completed for less than one year and was previously occupied.

**Existing for Less than One Year**

Existing for Less than One Year refers to a property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The property must have never been occupied.

**Expected Income**

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

**Family Member**

Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- child, parent, or grandparent
  - a child is defined as a son, stepson, daughter, or stepdaughter
  - a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent
- spouse or domestic partner
- legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption
- foster child
- brother, stepbrother

- sister, stepsister
- uncle
- aunt, or
- a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law of the Borrower.

**Family-Owned Business Income**

Family-Owned Business Income refers to income earned from a business owned by the Borrower’s family, but in which the Borrower is not an owner.

**Federal Debt**

Federal Debt refers to debt owed to the federal government for which regular payments are being made.

**Federal Tax Debt**

Federal Tax Debt refers to tax debt owed to the federal government for which regular payments are required.

**Finding**

Finding refers to a final determination of defect by the mortgagee.

**Governmental Entity**

Governmental Entity refers to any federal, state, or local government agency or instrumentality. To be considered an instrumentality of the government, the 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 (statue or court opinion). HUD deems Section 115 Entities to be instrumentalities of government for the purpose of providing secondary financing.

**Gross Living Area**

Gross Living Area (GLA) is the total area of finished, above-grade residential space calculated by measuring the outside perimeter of the Structure.

**Grossing Up**

Grossing Up refers to the process of adjusting tax-exempt income upward by the effective tax rate to compute an equivalent taxable income amount.

**Ground Rent**

Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

**Homeownership and Opportunity for People Everywhere (HOPE) Grantee**

Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an Entity designated in the homeownership plan submitted by an applicant for an implementation grant under the HOPE program.

**Housing Obligation/Mortgage Payment**

A Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or properties owned.

**HUD-approved Nonprofit**

A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a borrower using FHA mortgage insurance, purchase the Department’s Real Estate Owned (REO) properties (HUD Homes) at a discount, and provide secondary financing.

**Identity of Interest**

Identity of Interest refers to a transaction between Family Members, business partners or other business affiliates.

**Indian Land**

Indian Land refers to those lands that are held by or for the benefit of Indian Tribes under some restriction or with some attribute peculiar to the legal status of its owners.

**Indian Tribe**

Indian Tribe refers to any Indian or Alaskan native tribe, band, nation, or other organized group or community of Indians or Alaskan natives recognized as eligible for the services provided to Indians or Alaskan natives by the Secretary of Interior because of its status as such an Entity, or that was an eligible recipient under Chapter 67 of title 31, United States Code, prior to the repeal of this section.

**Individual Retirement Account (IRA)/401(k) Income**

Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

**Installment Loans**

Installment Loans refer to loans, not secured by real estate, that require the periodic payment of principal and interest. A loan secured by an interest in a timeshare must be considered an Installment Loan.

**Interested Parties**

Interested Parties include, but are not limited to, sellers, real estate agents and brokers, builders, developers, lenders, mortgagees, sponsored Third Party Originator and title or settlement companies.

**Interested Third Parties**

Interested Third Parties include Interested Parties other than the mortgagee or sponsored Third Party Originator.

**Investment Income**

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

**Investment Property**

Investment Property refers to a property being purchased by a Borrower that will not occupy the property as a Principal or HUD-approved Secondary Residence.

**Investor**

Investor refers to a Borrower(s) that will not occupy the housing as a Principal or HUD-approved Secondary Residence (non-owner occupant).

**Judgment**

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.

**Jurisdictional HOC**

The appropriate [Jurisdictional HOC](#) refers to the Homeownership Center determined by the location of the property securing the FHA-insured mortgage.

**Last Action Taken**

Last Action Taken refers to one of the following steps in the application to endorsement process that is used to refer to the step in the process that was the last completed: (1) case number assigned; (2) appraisal information entered; (3) Firm Commitment issued by FHA; (4) insurance application received and subsequent updates; and (5) Notice of Return (NOR) and resubmissions. Last Action Taken does not include updates to Borrowers’ names and/or property addresses, an appraisal update, or a transmission of the Upfront Mortgage Insurance Premium (UFMIP) to FHA.

**Leasehold**

Leasehold refers to the right to hold or use property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

**Loan Modification**

A Loan Modification is a permanent change in one or more terms of a Borrower’s loan to allow the loan to be reinstated by establishing an affordable monthly payment when the cause of the default is permanent or long term. A Loan Modification may include a change within the following:

- interest rate;
- capitalization of delinquent principal, interest or escrow items;
- extension of time available to repay the loan; and/or
- re-amortization of the balance due.

**Loan-to-Value (LTV)**

The LTV is computed as the Base Loan Amount divided by the Adjusted Value.

**Manufactured Housing**

Manufactured Housing refers to Structures that are transportable in one or more sections. They are designed to be used as a dwelling when connected to the required utilities, which includes the plumbing, heating, air-conditioning and electrical systems contained therein.

**Market Value**

REO properties are to be appraised “as-is,” in the condition as it exists on the effective date of the appraisal. The value to be determined is Market Value.

**Military Income**

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay
- Basic Allowance for Housing
- clothing allowances
- flight or hazard pay
- Basic Allowance for Subsistence
- proficiency pay

**Minimum Decision Credit Score (MDCS)**

Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower’s credit report when all reported scores are the same. Where two differing scores are reported, the MDCS is the lowest score. Where three differing scores are reported, the middle score is the MDCS.

**Minimum Required Investment (MRI)**

Minimum Required Investment (MRI) refers to the Borrower’s contribution in cash or its equivalent required by Section 203(b)(9) of the National Housing Act, which represents at least 3.5 percent of the Adjusted Value of the property.

**Mixed Use**

Mixed Use refers to a property suitable for a combination of uses including any of the following: commercial, residential, retail, office or parking space.

**Modular Housing**

Modular Housing refers to dwellings constructed according to state and local codes off-site in a factory, transported to a building lot, and assembled by a contractor into a finished house.

**Mortgage Charge**

Mortgage Charge refers to the interest rate, discount points, origination fee, and any other amount charged to the Borrower for an insured mortgage.

**Mortgage Charge Rate**

Mortgage Charge Rate refers to the total amount of Mortgage Charges for a mortgage expressed as a percentage of the initial principal of the mortgage.

**Mortgage on Indian Land**

A Section 248 Mortgage on Indian Land refers to a purchase or refinance mortgage covering one- to four-family dwellings on Indian Lands.

**Net Self-Sufficiency Rental Income**

Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject property over and above the [Principal, Interest, Taxes, and Insurance \(PITI\)](#).

**New Construction**

New Construction refers to properties that are proposed, Under Construction, or were completed within one year as defined below:

- Proposed Construction refers to a property where no concrete or permanent material has been placed. Digging of footing and placement of rebar is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- Existing for Less than One Year refers to a property that is 100 percent complete and has been completed less than one year from the date of issuance of the CO or equivalent. The property must have never been occupied.

**Non-Borrowing Spouse Debt**

Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower.

**Non-Occupying Borrower Transaction**

Non-Occupying Borrower Transaction refers to a transaction involving two or more Borrowers in which one or more of the Borrower(s) will not occupy the property as their Principal Residence.

**Non-Taxable Income**

Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security Income;
- 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.

**Non-Traditional Mortgage Credit Report (NTMCR)**

A type of credit report designed to access the credit history of a Borrower without the types of trade references normally appearing on a traditional credit report. It is used as a substitute for the traditional credit report.

**Note**

Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a mortgage.

**Notes Receivable Income**

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a Note.

**Obligor**

Obligor refers to a person or Entity who is legally or contractually obliged to make all principal and interest payments on a debt.

**Onset of an Economic Event**

Onset of an Economic Event refers to the month of loss of employment/income.

**Overtime and Bonus Income**

Overtime and Bonus Income refers to income that the Borrower receives in addition to the Borrower's normal salary.

**Part-Time Employment**

Part-Time Employment refers to employment that is not the Borrower's primary employment and is generally performed for less than 40 hours per week.

**Pension**

Pension refers to income received from the Borrower's former employer(s).

**Personal Property**

Personal Property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins or other collectibles.

**Premium Pricing**

Premium Pricing refers to a credit from a mortgagee for the interest rate chosen.

**Principal Residence**

Principal Residence refers to a dwelling where the Borrower maintains or will maintain their permanent place of abode and typically spends or will live in the house the majority of the calendar year. A person may have only one Principal Residence at any one time. A person in military service must meet the requirements of [24 CFR § 203.31](#).

**Private Savings Club**

Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

**Property Flipping**

Property Flipping refers to a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a mortgagee’s collusion with an appraiser.

**Property Value**

Property Value refers to the value as determined by the FHA Roster Appraiser.

**Proposed Construction**

Proposed Construction refers to a property where no concrete or permanent material has been placed. Digging of footing and placement of rebar is not considered permanent.

**Public Assistance**

Public Assistance refers to income received from government assistance programs

**Purchasing Mortgagee**

The Purchasing Mortgagee is the mortgagee that purchases the mortgage and thereby succeeds to all rights and obligations of the Selling Mortgagee under the contract for mortgage insurance.

**Rate and Term**

Rate and Term refers to a no cash-out refinance of any mortgage in which all proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction.

**Real Estate Commission from Sale of Subject Property**

Real Estate Commission from Sale of Subject Property refers to the Borrower’s (i.e., buyer’s) portion of a real estate commission earned from the sale of the property being purchased.

**Recovery from an Economic Event**

Recovery from an Economic Event refers to the re-establishment of Satisfactory Credit.

**Rental Income**

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

**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.

**Residential Mortgage Credit Report (RMCR)**

RMCR refers to a credit report that provides details on items that have been flagged in a merged report as a result of combining reports from the three credit repositories (Equifax, Trans Union, and Experian).

**Retirement Income**

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

**Revolving Charge Accounts**

Revolving Charge Accounts refer to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

**Sale of Real Property**

Sale of Real Property refers to the sale of property currently owned by the Borrower.

**Seasonal Employment**

Seasonal Employment refers to employment that is not year round, regardless of the number of hours per week the Borrower works on the job.

**Secondary Residence**

Secondary Residence refers to a Structure that a Borrower occupies in addition to his/her Principal Residence; it does not include a Vacation Home.

**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.

There are four basic types of business Structures. They include:

- sole proprietorships
- corporations
- limited liability or “S” corporations
- partnerships

**Seller’s Acquisition Cost**

Seller’s Acquisition Cost refers to the purchase price the seller paid for the property, including closing costs, prepaid costs, and commissions, if paid by the seller, but not including the cost of any repairs that the seller makes to the property.

**Settlement Statement**

Settlement Statement refers to the closing disclosure required under Section 4 of the Real Estate Settlement Procedures Act.

**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 lien on the subject property and costs associated with the transaction.

**Single Family**

Single Family refers to one- to four-unit dwellings.

**Site Condominiums**

Site Condominiums refer to a project of Single Family, totally detached dwellings encumbered by a declaration of condominium covenants or a condominium form of ownership. They have no shared garages or any other attached buildings.

**Slush Pit**

A Slush Pit is a basin in which drilling “mud” is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

**Social Security Income**

Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

**Streamline Refinance**

Streamline Refinance refers to the refinance of an existing FHA-insured mortgage requiring limited Borrower credit documentation and underwriting. There are two different streamline options available.

**Structure**

Structure refers to a building that has a roof, walls, and stands permanently in one place which contains single or multiple housing units that are used for human habitation.

**Sweat Equity**

Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower before closing on the property being purchased.

**Test Case**

Test Case refers to a mortgage used by a mortgagee when requesting an unconditional Direct Endorsement (DE) approval. These mortgages must be processed per the Direct Endorsement eligibility requirements and approved by HUD for endorsement.

**Third Party Documents**

Third Party Documents refer to those documents that are created or maintained outside of the lender's control by another Entity.

**Third-Party Originator (TPO)**

A Third-Party Originator (TPO) is an Entity that originates FHA-insured mortgages for an FHA-approved mortgagee. A TPO may be an FHA-approved Entity or a non-FHA-approved Entity.

**Tiered Pricing**

Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage points from the mortgagee’s reasonable and customary rate for insured mortgages for dwellings located within the Area.

**TOTAL**

TOTAL refers to “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.

**Total Required Investment**

Total Required Investment refers to the amount the Borrower must contribute to the transaction including the Borrower’s downpayment and the Borrower-paid transaction costs. The Total Required Investment includes the MRI.

**Trade Equity**

Trade Equity refers to when a Borrower trades their real property to the seller as part of the cash investment.

**Trade-In of Manufactured Housing**

Trade-In of Manufactured Housing refers to the Borrower’s sale or trade-in of another Manufactured House that is not considered real estate to an independent third party.

**Tri-Merged Credit Report (TRMCR)**

TRMCR refers to a credit report that contains the data from all three credit repositories into one report.

**Trust Income**

Trust Income refers to income that is regularly distributed to a Borrower from a trust.

**Under Construction**

Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy (CO) or equivalent.

**Uniform Residential Appraisal Report (URAR)**

The URAR is the standard appraisal reporting form available to all lenders. Fannie Mae and Freddie Mac URAR forms are acceptable.

**Vacation Home**

Vacation Home refers to a dwelling used primarily for recreational purposes and enjoyment and that is not a principal or Secondary Residence.

## APPENDIX 4.0 – ACRONYMS

**ADP Codes** – Automated Data Processing Codes  
**AHP** – Affordable Housing Program  
**AMC** – Appraisal Management Company  
**ARM** – Adjustable Rate Mortgage  
**AUS** – Automated Underwriting System  
**AVM** – Automated Valuation Model  
**AWEA** – American Wind Energy Association  
**BPS** – Basis Points  
**CAIVRS** – [Credit Alert Verification Reporting System](#)  
**CFPB** – [Consumer Financial Protection Bureau](#)  
**CFR** – Code of Federal Regulations  
**CHUMS** – Computerized Homes Underwriting Management System  
**CLTV** – Combined Loan-to-Value  
**CMT** – Constant Maturity Treasury  
**CO** – Certificate of Occupancy  
**CVS** – Certificate of Veteran Status  
**DE** – Direct Endorsement  
**DHHL** – Department of Hawaiian Home Lands  
**DIL** – Deed-in-Lieu  
**DTI** – Debt-to-Income  
**EAD** – Employment Authorization Document  
**ECOA** – Equal Credit Opportunity Act  
**eCB** – Electronic Case Binder  
**EEH** – Energy Efficient Homes  
**EEM** – Energy Efficient Mortgage  
**EIN** – Employer Identification Number  
**E-Sign Act** – Electronic Signatures in Global and National Commerce Act  
**FCRA** – Fair Credit Reporting Act  
**FEMA** – Federal Emergency Management Agency  
**FHA** – Federal Housing Administration  
**FHAC** – [Federal Housing Administration Connection](#)  
**FHAC-B2G** – FHA Connection – Business to Government  
**FHLB** – Federal Home Loan Bank  
**FICA** – Federal Insurance Contributions Act  
**GFE** – Good Faith Estimate  
**HECM** – Home Equity Conversion Mortgage  
**HERR** – Home Energy Rating Report  
**HERS** – Home Energy Rating System  
**HOA** – Homeowners’ Association  
**HOC** – Homeownership Center  
**HOPE** – Homeownership and Opportunity for People Everywhere  
**HUD** – U.S. Department of Housing and Urban Development  
**IBTS** – Institute for Building Technology and Safety (IBTS)  
**IEC** – International Electrotechnical Commission

**IECC** – International Energy Conservation Code  
**IRA** – Individual Retirement Account  
**IRS** – Internal Revenue Service  
**LDP** – Limited Denial of Participation  
**LES** – Leave and Earnings Statement  
**LI** – Lender Insurance  
**LIBOR** – London Interbank Offered Rate  
**LOMA** – Letter of Map Amendment  
**LOMR** – Letter of Map Revision  
**LTV** – Loan-to-Value  
**MDCS** – Minimum Decision Credit Score  
**MIC** – Mortgage Insurance Certificate  
**MIP** – Mortgage Insurance Premium  
**MMIF** – Mutual Mortgage Insurance Fund  
**MPR** – Minimum Property Requirements  
**MPS** – Minimum Property Standards  
**MRI** – Minimum Required Investment  
**NFIP** – National Flood Insurance Program  
**NMLS** – Nationwide Mortgage Licensing System and Registry  
**NOR** – Notice of Return  
**NPMA** – National Pest Management Association  
**NRTL** – Nationally Recognized Testing Laboratory  
**NTMCR** – Non-Traditional Mortgage Credit Report  
**P&L** – Profit and Loss  
**PDMA** – Presidentially-Declared Major Disaster Area  
**PFGMH** – Permanent Foundations Guide for Manufactured Housing  
**PHA** – Public Housing Agency  
**PIN** – Personal Identification Number  
**PITI** – Principal, Interest, Taxes, and Insurance  
**POA** – Power of Attorney  
**POC** – Paid Outside Closing  
**PTI** – Total Mortgage Payment to Effective Income Ratio  
**REO** – Real Estate Owned  
**RESPA** – Real Estate Settlement Procedures Act  
**RMCR** – Residential Mortgage Credit Report  
**SAM** – [System for Award Management](#)  
**SBA** – Small Business Administration  
**SF** – Single Family  
**SFHA** – Special Flood Hazard Area  
**SPPA** – Solar Power Purchase Agreement  
**SSA** – Social Security Administration  
**SSI** – Supplemental Security Income  
**SSN** – Social Security Number  
**SWCC** – Small Wind Certification Council  
**TILA** – Truth in Lending Act  
**TIN** – Tax Identification Number

**TOTAL** – Technology Open To Approved Lenders  
**TPO** – Third-Party Originator  
**TRMCR** – Tri-Merged Credit Report  
**UETA** – Uniform Electronic Transactions Act  
**UFMIP** – Upfront Mortgage Insurance Premium  
**URL** – Uniform Resource Locator  
**URLA** – Uniform Residential Loan Application  
**URAR** – Uniform Residential Appraisal Report  
**USCIS** – U.S. Citizenship and Immigration Services  
**USDA** – United States Department of Agriculture  
**USPAP** – [Uniform Standards of Professional Appraisal Practice](#)  
**VA** – Department of Veterans Affairs  
**VOD** – Verification of Deposit  
**VOE** – Verification of Employment